Reading Karl Polanyi for the Twenty-First Century

Market Economy as a Political Project

Edited by
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Kaan Ağartan

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Foreword

Karl Polanyi occupies an interesting, unusual position within the field of political economy and related subjects: he was close to Marxism without being conventionally Marxist (hence emphasizing markets rather than capital and class); he was close to ethical socialist literature in his critique of capitalism, yet provided a more empirical and historical interpretation of the phenomenon rather than an elaboration of normative arguments; and, in drawing upon economic anthropology in ways which provided novel perspectives on capitalism, he helped both to counter mainstream economic theory's naturalization of market society and to provide economic sociology with some key concepts. Having a vantage point that took in a vast variety of forms of economic organization across time and space, Polanyi could appeal to more specialized scholars in several disciplines, and to both Marxists and Social Democrats. Thus, while his work differed from all of these subjects it was close enough to speak to all of them. In particular, it enabled him to develop his distinctive critique of the rise of fictitious commodities and the idea of the self-regulating market, a critique that has enjoyed a second coming in response to the neoliberal project of recent decades. With the treatment of markets as the optimal or default form of social organization and the penetration of a market logic ever deeper into institutions and social life—and on an increasingly global scale—it has become more important to understand, evaluate, and update Polanyi's critique of market society. Accordingly, this valuable collection includes analyses of the extraordinary growth of financial capital, the neoliberal assault on the welfare state, the (re)commodification of labor in developing countries, and the treatment of knowledge as a fictitious commodity with the development of intellectual property rights in a supposedly emerging "knowledge-based economy," and the implications for human well-being and social institutions.

I have heard *The Great Transformation* described as a "good bad book"—good because of the lasting significance of its conclusions or lessons, bad because it does not set out the arguments for its conclusions in a clear and systematic manner, but "argues" mainly by repeating bold assertions and only gesturing toward the evidence and arguments that might support them, so that it is difficult to use it in teaching. Some of the key elements, such as the "society" that reacts to the extension of the market, are specified only in broad-brush terms that beg questions about their definition. These qualities have, of course, helped to provide Polanyi scholars with plenty of work. Thus, for example, Polanyi's use of the metaphor of embeddedness is tantalizingly limited and vague, and while he argues that the "social calamity" produced by the self-regulating market "is primarily a cultural not an economic phenomenon"—a distinctive and interesting conclusion, surely—he surprisingly does not elaborate what kind of cultural damage it causes, other than some kind of "disintegration." In the latter respect, we can find much more exhaustive and analytical critiques of markets and market society in political philosophy and in the work of ethical socialists like Hobson, Tawney, Ruskin, and a host of contemporary critics. On the other hand, unlike these more normative theorists, Polanyi provides a compelling, comprehensive, theoretically informed narrative of the historical tendencies of market societies through concepts such as "the double movement." If at times eloquence gets the better of analysis, the key concepts and conclusions have proved enormously fruitful: it is a "grand narrative" in the best sense. In practice, the double movement is a complex process involving diverse agents, and can take innumerable forms with much internal conflict within each side, and important unintended consequences; some agents may be consciously promoting or combating the extension of commodification, others may have more limited horizons, and as some of the papers in this book demonstrate, many agents act in ways that have contradictory effects.

Every time I go back to *The Great Transformation,* I am struck by something that is often overlooked by followers—that it is not merely a theory but a passionate critique of the tendencies of capitalism, albeit, again, one that is somewhat vague about precisely what is problematic about them. There is a danger that the selective use of his ideas in economic sociology—especially the kind that confuses neutrality with objectivity—may reduce it to a bland acknowledgement of "embeddedness" and the way in which economic practices involve social relations, norms, and customs, and require institutionalization, hence depoliticizing his critique and ignoring its ethical force. It is therefore especially welcome to have a book such as this, which emphasizes the political implications of his work, dealing both with the power and the effects on human well-being, the latter making the ethical aspect of those implications clear.

Instead of diluting or preserving Polanyi, the contributors to this book help concentrate and develop his project, doing so critically rather than through reverential exegesis. They assess its usefulness in interpreting contemporary developments, amending and supplementing it where they see fit to do so, and exploring their political significance. In consequence, this is not only a volume on Polanyi, but also a new set of critical analyses of our contemporary political economy.

Andrew Sayer
Lancaster, March 2007

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Acknowledgments

The themes pursued in this book originate from the *Tenth International Karl Polanyi Conference* "Protecting Society and Nature From Commodity Fiction," October 14–16, 2005, held at Boğaziçi University, Istanbul. Most of the chapters gathered in the book are selected from the papers presented at this conference and they all benefit from the stimulating intellectual atmosphere created by the participants. We owe special thanks to Kari Polanyi-Levitt for her opening address, and Giovanni Arrighi for his keynote speech. We are grateful to all the research affiliates of the Boğaziçi University Social Policy Forum who have contributed to the organization of the conference, and to Ayşe Soysal, the rector of the university, for her invaluable contribution to the success of the event by her warm support and appreciation. We also wish to thank the Karl Polanyi Institute of Concordia University, and especially, its director, Marguerite Mendell.

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Introduction

Ayşe Buğra

During the last three decades, the post–Second World War international order has been challenged by a series of developments through which the market economy, with its self-regulating character taken for granted, has begun to be perceived as a spontaneous process that comes into being when artificial barriers in the form of state intervention are eliminated. In a parallel vein, the possibility of shaping the economy in conformity with social objectives by the exercise of political will has been restricted by the logic of the market.

The political environment that has thus emerged is far from being a stable one. It is hardly possible to deny the significance of the problems that appear in the form of financial crises, massive socioeconomic insecurity implying the risk of poverty and social exclusion for hundreds of millions of people throughout the world, increasing danger of environmental disasters, as well as the growing evidence on the subordination of the pursuit of scientific knowledge to corporate interest. Political tensions generated by the challenges that the self-regulating market presents to the life and livelihood of people have crucial significance for peaceful coexistence in individual societies and at an international level. Yet, a coherent analytical framework to evaluate and to understand them is still lacking.

This book reflects the belief that compared to competing theoretical traditions, the contribution of Karl Polanyi has a greater potential to give meaning to and tackle the realities of our time. However, the objective of the book is not limited to the analysis of the current world order through a Polanyian perspective. It also aims to present a theoretical inquiry into the work of a writer who is now considered to be one of the most prominent thinkers of the twentieth century.

The subordination of human society to the logic of the market in a way to undermine political will is the central problem with which Polanyi deals by putting the nineteenth-century market economy in a comparative historical perspective with the aid of the findings of anthropological research on primitive and ancient economies. While his work on economic anthropology has

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an important place in the formalist-substantivist debate, Polanyi was not simply an academic figure but a scholar with a political agenda, a non-Marxist socialist deeply concerned with the basis of individual freedom in a complex society. With their at-times conflicting interpretations of his ideas, all the contributions to this book highlight the political nature of Polanyi's work. This is a common thread that links the different chapters of the book together in a message that brings the political to the fore in an age where the neoliberal understanding of the market as a spontaneous order prevails.

Polanyi and the Market Economy as a Political Project

Polanyi forcefully argued that the market economy is not a spontaneous or natural phenomenon, but a "political project" realized through institutional changes whereby land, labor, and money appear as commodities. What is explored in this book is the contemporary dynamics of this commodification process. Through this exploration, the book does something that has not been done before by including knowledge in the list of what Polanyi calls "fictitious commodities" along with land, labor, and money. Such an attempt calls for a reappraisal of Polanyi's approach in a theoretical framework that could accommodate the realities of the "knowledge economy" since commodification of knowledge now appears as a more crucial element of productive order than the other "fictitious commodities" analyzed by Polanyi.

Polanyi's analysis of commodity fiction is crucial to the development of the concept of "embeddedness," which is the centerpiece of his theoretical contribution. According to him, in all human societies, production and distribution are ensured by certain principles of socioeconomic integration, including redistribution, reciprocity, as well as exchange. Redistribution operates through the institutional pattern of "centricity" characteristic of the state. Reciprocity defines socially obligatory gift giving, and finds its expression in "symmetrical" relationships that are characteristic of kinship and friendship. The institutional pattern of exchange is the market, and markets can be found in many different societies through history. There is, however, something exceptional about exchange that distinguishes it from other principles. As Polanyi argues, the latter are merely "traits" and do not create institutions designed for one function only. Kinship and friendship groups characterized by symmetrical, socially obligatory gift-giving relations exist prior to their economic function. So does the state that undertakes redistributive action through the pattern of centricity. Yet the market pattern creates a specifically economic institution with no other social purpose and significance. "Ultimately," wrote Polanyi,

> that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no

> less than the running of the society as an adjunct to the market. Instead of the 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.[1]

The result in question is manifested, first and foremost, in the most crucial aspect of the institutional setting of a market economy: the conceptualization of labor, land, and money as commodities. The commodity description of these elements of industry, none of which is produced for sale, is entirely fictitious, but this fiction enables the organization of the markets for labor, land, and money as central components of a market society. According to Polanyi, such an economic organization could not be sustained, because "to allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed even of the amount and use of purchasing power, would result in the demolition of society."[2]

In Polanyi's work, the subordination of human society to the logic of the market in a way to undermine political will appears to be the natural outcome of an economic order organized on the basis of commodity fiction. Yet, he also underlines that this economic order did not come into being spontaneously, but was instituted through legislative action. At the same time, the devastating impact on society of the commodification of land, labor, and money triggered a widespread reaction that extended beyond class divisions and across different societies, calling for protective legislation to remove these fictitious commodities outside the orbit of the market. "For a century," wrote Polanyi, "the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking its expansion in definite directions. Vital though such a countermovement was for the protection of society, in the last analysis it was incompatible with the self-regulation of the market, and thus with the market system itself."[3]

Protective legislation came in many forms, including social legislation and factory laws, agrarian tariffs, and land laws as well as the central bank involvement in regulating the supply of money, which, together, impaired the self-regulation of the market economy. "Since society was made to conform to the needs of the market mechanisms," Polanyi wrote, "imperfections in the functioning of that mechanism created cumulative strains in the body social."[4] The collapse of the nineteenth-century civilization came as a result of these cumulative strains.

"Nineteenth century civilization has collapsed," is the opening sentence of *The Great Transformation.* In the last chapter of the book Polanyi wrote, "After a century of blind 'improvement' man is restoring his 'habitation.'"[5] This restoration work involved, first and foremost, putting an end to the institutional separation of politics and the economy through an active involvement of the state in the material conditions of life and livelihood. Welfare state practices and diverse experiments in development planning and in the socialist economy all formed part of the same endeavor shaped by the society-specific characteristics of the countries in which they appeared. It was the socially and politically shaped diversity and not the alleged universality of the motive of gain that dominated these attempts at reembedding the economy in society.

Yet the attempts in question were hardly long lasting. Since the 1970s, a series of policies directed at the disembedding of the economy from society have challenged the post–Second World War economic order and seriously transformed it. Through these recent developments, a new fictitious commodity has been added to Polanyi's original list, with the novel significance of TRIPS (Trade-Related Intellectual Property Rights) transforming the conditions under which scientific activity is pursued and its products are used. The themes pursued in the present book emerge in the context of this return of the market economy.

Polanyi Revisited in the Contemporary World Order

Any attempt to bring a Polanyian perspective to the analysis of contemporary world order needs to address the methodological rigor and historical relevance of the concept of embeddedness. This seems to be all the more necessary given the criticisms directed at the concept by several prominent writers. For example, D. North and M. Granovetter have argued, in different ways, that Polanyi had exaggerated both the level of embeddedness in nonmarket economies and the extent of disembeddedness in the modern market economy. According to these writers, market exchange was important in the former and non-economic relations, such as personal relations of trust, continued to play an important role in the latter.[6] In a different vein, Fred Block has introduced the notion of an "always embedded market economy" by resting his case on Polanyi's account of the "double movement," where both the expansion of the market and the attempts to counter its harmful effects on the society involve a good dose of intervention. Polanyi's argument is thus used, along with the contemporary survival of social mechanisms that limit the full commodification of economic activity, to argue that the economy is always embedded in society.[7]

The contributions to this book bring an answer to such criticisms by shifting the focus onto the notion of disembeddedness that, for Polanyi, was less a sociological reality than a political project realized through institutional changes introduced by legislative action and legitimated through an ideological offensive, where liberal economic theory assumes a crucial role. This is precisely what makes Polanyi's work useful to the analyses of the recent return of the market economy through "the outburst of legislation" and "the enormous increase in the administrative functions of the state," which serve, as in the nineteenth century, to bring the fictitious commodities into the orbit of the market. In this regard, this book aims to present an investigation of the analytical content of the Polanyian concepts of disembeddedness, fictitious commodities, and double movement, and to explore the ways in which these concepts could be applied to, or remain inadequate for, the analysis of economic, social, and political challenges that currently result from similar historical processes in different societies.

Outline of the Book

The first of the four sections of the book, "Reflections on Disembeddedness: Welfare State and Beyond," consists of three chapters. These chapters analyze the transition from the post–Second World War international order to the current neoliberal age as the outcome of a political project realized through a series of attempts to make the society subservient to the individualistic logic of market exchange, which, at the same time, shape the nature and the chances of success of alternative social projects for the future.

In the first chapter, Manfred Bienefeld writes that the welfare state, as the ultimate expression of the capitalist golden age in the period 1948–1973, "showed that the logic of capital could be reconciled with the human need for security and leisure, and with the social need for stability and equity." He thus argues that there is a difference between the capitalism of this particular period and the contemporary global capitalism that has emerged during the last three decades through a systematic dismantling of the states' capacities to govern and regulate the economy in accordance with politically and socially defined objectives and priorities. He discusses the devastating human and environmental outcomes of these recent developments, and deals with the crises resulting from the commodification of money, in particular revisiting Polanyi's argument that the self-regulating market economy would eventually prove to be incompatible with the logic of productive organization itself. As to the prospects for the future, Bienefeld is not very optimistic about the way double movement operates today and is not at all sure that a countermovement would eventually emerge to contain the market and put an end to its ravages on society and nature.

In the second chapter, Pat Devine presents a thorough discussion of the distributional conflicts that have led to the collapse of welfare-state Keynesianism and to the advent of the present social order characterized by the overwhelming dominance of the neoliberal agenda in Britain. The chapter argues that Thatcherism presented a conscious attempt to change the social democratic agenda and to replace it with the common sense of the neoliberal age. It is also argued that in the process of disembedding the economy from society, New Labour has played a crucial role by adapting and consolidating the free-market strategy and successfully introducing market principles into the heart of the welfare state, thus seeking to create the ideological basis of the new social consensus. Devine's discussion of the British path to the self-regulating market economy ends with a call to resistance movements to form a new "historic bloc" to be articulated around a radical democratic agenda for civil society, the state, and the economy.

The last chapter of the section by Hannes Lacher differs from the two previous ones in its interpretation of the post–Second World War welfare capitalism. According to Lacher, what characterizes the postwar environment is the "continuation of the dialectic of liberalization and protectionism," rather than a great transformation. Lacher seeks to derive a number of criteria for "embedded markets" from Polanyi's writing and argues that none of these criteria were fulfilled by the postwar system of welfare capitalism. Although postwar societies were not based on laissez-faire notions of political and economic organization, Lacher suggests that those changes that did occur fell far short (not just in degree, but by their very nature) of the qualitative changes Polanyi envisaged in *The Great Transformation.* He concludes that the widespread equation of welfare capitalism with Polanyi's notion of societies with reembedded economies has led critical social theorists to embrace as "Polanyian" a type of society to which Polanyi himself, Lacher claims, was radically opposed.

The second section on "Commodity Fiction in Contemporary Market Economies (1): Work Today" also deals with some of the questions pursued in the first section by exploring, in particular, the current attempts to establish a self-regulating market economy through legislative changes that aim to recommodify labor. In the first chapter of this section, Guy Standing presents an in-depth methodological assessment of Polanyi's approach to labor as a fictitious commodity to assess the role of social policy in shaping life and livelihood in modern capitalist societies. In this context, he develops a theoretical model that incorporates different elements that make up a person's social income, with the historical changes in their relative significance determining the degree of commodification of labor. With the aid of this model, he explores (a) the nature of decommodification of labor that was brought about by welfare-state arrangements in the post–Second World War period, (b) the regulatory processes that define the contemporary trends toward recommodification of labor, and (c) what the double movement could now involve if it were to lead to a new type of decommodification that would be truly liberating. According to Standing, the post–Second World War decommodification based on "industrial citizenship" was a "fictitious" one since it operated through nonwage benefits designed to bind the workers to the employer or the state. He argues that the current recommodification of labor ushered in an age of insecurity with a devastating impact on social and industrial life. However, the prospects for a more viable future should look beyond the past mechanisms of fictitious decommodification and seek ways of expanding the realm of real freedom where work, in its distinction from labor, would be considered in its relationship to the ideas of autonomy and artisanship.

In the following chapter, José Luis Rey Pérez discusses the problematic existence of the right to work in many international legal texts in the face of economic circumstances that result in high unemployment rates. He does this by making categorical distinctions between the "right to work," "freedom to work," and "labor rights," and by further extending the discussion on the "right to work." For Rey, the right to work should be broadened and asserted as a means for social integration and social insertion. In his conclusion, he states that the most effective way to make the "right to work" a reality is neither direct job creation nor minimum insertion incomes, but basic income schemes that would guarantee the recognition of all the members of society, even if the labor market cannot function properly.

The third section, "Commodity Fiction in Contemporary Market Economies (2): Knowledge Today," extends the same inquiry in a wider theoretical field with greater possibilities of taking Polanyian analysis forward through a critical reappraisal. In the three chapters of this section, Polanyi's discussion of fictitious commodities is applied, for the first time, to scientific knowledge. This introduces an original perspective both to the Polanyian analysis and to the ongoing debate on the significance of Intellectual Property Rights in defining the nature of contemporary capitalism and the role it assigns to the scientific community.

In the first chapter of this section, "Knowledge as a Fictitious Commodity: Insights and Limits of a Polanyian Analysis," Bob Jessop offers a thorough rereading of Polanyi and introduces the notions of "fictive capital," "noncommodities," and "quasicommodities" into the original formulation on fictitious commodities. He then situates knowledge in this expanded framework of analysis and proceeds to explore the mechanisms of commodifying knowledge with the contradictions and dilemmas that they present in the contemporary knowledge economy. Jessop subsequently applies the lessons from this conceptual inquiry back to labor, land, and money, and raises wider theoretical questions concerning the nature of the capitalist economy.

The contradictions of the capitalist-knowledge economy are further explored in the next chapter on "Commercialization of Science in a Neoliberal World" by Gürol Irzık. Irzık argues that the new forms of relations between universities and private companies that are characteristic of the neoliberal age have certainly given impetus to scientific research, but they also have consequences that are drastic and alarming: unprecedented conflicts of interests, scientists' loss of control over their research, undermining of the ethos of science, and the social utility of scientific research. The chapter ends with some suggestions about how these threats could be addressed.

In the final chapter of this section, Virginia Brown-Keyder situates the discussion on TRIPS in the political economy of international relations. She argues that intellectual property has replaced land and factory ownership as the primary vehicle of wealth accumulation in today's world. She also draws attention to the fact that the significance of this form of property is especially important for the United States, "the world's remaining superpower," with software, biotechnology, and entertainment as its last export items left. The interface between U.S. foreign policy and the new intellectual property laws imposed on the rest of the world thus appears as an important aspect of the trends toward commodification of knowledge. Against the background formed by these trends, the chapter presents an overview of the widespread opposition to intellectual property laws that is becoming increasingly vocal and powerful. Brown-Keyder's chapter thus ends with an optimistic note about a genuine countermovement that has the potential to turn the tide in perhaps one of the most significant areas where the neoliberal project of disembedding the economy from society manifests itself.

What are the prospects for viable forms of countermovement to emerge and to be successful in resisting the current trends toward the commodification of social existence? This question, which is raised in different ways in all the contributions to the book, is central to the chapters in the fourth section. The four chapters in this section present analyses of different "Patterns of Resistance and Adaptation" to the processes of disembedding in very diverse geographical areas that include Europe, East Asia, and Brazil.

Ayşe Buğra examines the regulating framework and the ideological atmosphere of contemporary capitalism, which has, as one of its central components, the emphasis placed on civic initiatives engaged in complex private-public partnerships in supporting "good governance." She argues that this emphasis forms part of the attempts to make market economy compatible with human society without changing the reality of an unprecedented commodification of life and livelihood. She questions the limits and political implications of these attempts by revisiting Polanyi's contribution in its contemporary relevance. According to her, Polanyi's analysis, which rests upon the role historically played by distinct principles of socioeconomic integration in determining the "place of the economy in society" and hence the "coordinates of the livelihood of man," might have certain limitations in the current global context where the frontiers between the institutional domains in which these principles operate have become fluid and ambiguous. Yet, she discusses Polanyi's work, especially his ideas on the basis of "freedom in a complex society," as a forceful source of insights for a political appraisal of the contemporary regime of governance.

In the second chapter of this section, Frederic C. Deyo and Kaan Ağartan discuss the diverse experiences of market-oriented economic reform and restructuring in the economies of the "Asian Tigers" during the last two decades, focusing mainly on policies most directly related to and impacting on Asian labor systems in Thailand, South Korea, and China. By pointing to the social and institutional tensions associated with the market reforms that ultimately threaten the livelihood and economic security of workers, the authors draw parallels from Polanyi's account of the outcomes of market liberalization in nineteenth-century England. Their chapter demonstrates that apart from the political opposition from below that has an impact on the reform agendas, emphasis should also be put on the institutional limits that threaten the interests and shape the strategies of economic and political actors at national, regional, and global levels. Thus, they conclude, political conflict and the play of interests experienced by various social groups and classes should largely be understood both as *manifestations* of underlying institutional tensions and as the political contests through which these tensions are managed and resolved.

On the basis of an empirical study on several interest associations representing Small and Medium-sized Enterprises (SMEs) at the European Union level, Kevin Young arrives at the conclusion that SMEs, perceived as weak social entities that could be expected to resist the expansion of self-regulating markets, are, on the contrary, fighting for an intensification of neoliberal restructuring as their political-economic strategy to cope with their situation of intensified competition. Young argues that this disposition comes not from a purely economistic calculus, but from the particular social organization of many small firms that metabolize both the strains of competition and the burdens of regulation in a particular way that can be understood through a Polanyian conception of the economy as an instituted process. Young presents this case to raise a series of questions concerning its implications for a Polanyian analysis of the ways in which institutional tensions translate into political action.

While Kevin Young explores a case where "the weak don't fight for protection but for market society," Maria Alejandra Caporale Madi and José Ricardo Barbosa Gonçalves draw attention to the possibility of confusing the two movements in opposite directions that form the double movement, whereby the market expands while at the same time it is checked by the forces of resistance. Madi and Gonçalves' chapter presents an overview of the commodification of credit as an important aspect of the recent processes that have transformed the developmentalist Brazilian state into a neoliberal one. In this context, the idea of "corporate social responsibility" is promoted as an important mechanism of social protection in an otherwise market-dominated society. One of the areas in which the mechanism is supposed to be effective is the credit policy of financial institutions, which are expected to extend loans to small borrowers with limited chances of access to credit through regular channels. Madi and Gonçalves discuss how this strategy remains ineffective in combating social exclusion, but effectively contributes to the increasing commercialization of social relations by drawing people into the cash nexus as consumers.

The book ends with a conclusion that highlights the lessons from this reappraisal of Polanyi's ideas directed at a thorough examination of the political atmosphere of the contemporary market economy. It is our hope that the book will serve its purpose to demystify the liberal perception of the market economy as a spontaneous, natural order.

Notes

1. Karl Polanyi, *The Great Transformation* (Boston, MA: Beacon Press, 1944), 57.
2. Ibid., 73.
3. Ibid., 130.
4. Ibid., 201.
5. Ibid., 249.
6. Douglas North, "Non-Market Forms of Economic Organization: The Challenge of Karl Polanyi," *Journal of European Economic History* 6 (1977): 703–716; and Marc Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *The American Journal of Sociology* 91 (1985): 481–510.
7. F. Block, "Karl Polanyi and the Writing of *The Great Transformation,*" *Theory and Society* 32 (2003): 275–306.

Part I

Reflections on Disembeddedness: Welfare State and Beyond

1

Suppressing the Double Movement to Secure the Dictatorship of Finance

Manfred Bienefeld

Karl Polanyi's vision of the human predicament remains extraordinarily relevant as we face the challenges of the twenty-first century. With the dream of the self-regulating market once again deeply entrenched in the public mind, and with the power of market forces being increasingly enshrined in international law, there is growing evidence to remind us of Polanyi's warning that the pursuit of this impossible dream can only end in disaster. Because land, labor, and money can never be pure commodities, their increasingly direct subjection to market forces is imposing enormous costs on people, on the environment, and on societies, at the same time as growing economic contradictions and imbalances threaten the internal coherence of the global economic system. But, although the need for change becomes increasingly apparent, the forces of opposition are divided and lacking in focus. And so it is natural, and appropriate, for those who deplore the relentless and remorseless empowerment of markets to see Karl Polanyi's concept of the "double movement" as a source of hope and inspiration.

But it is important to remember that the "double movement" was no *panacea*. Indeed, Polanyi took great pains to remind us that in reimposing effective social control over their economies, societies must ultimately choose between either the fascist, or the socialist, principle for dealing with the fundamental and inevitable conflict between an individual's need and desire for freedom, and a modern, complex society's need to define the framework and the parameters within which economic activity must be embedded and organized. And today, as in the past, the rich and powerful will tend to prefer the fascist solution because it promises to allow them to

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defend their power and their privileges more effectively. Which means that those who would espouse a democratic socialist solution will always face a more difficult struggle. But that is the struggle that must be won if the dream of a peaceful, humane, and ecologically viable world is ever to be realized. And so the "double movement" turns out to be, both a promise and a threat. It promises to put an end to the destructive empowerment of markets, but it threatens to do so by fascist means.

However, the "double movement" is not only uncertain in terms of its outcome, it is also uncertain in terms of its timing. Polanyi does not read history teleologically. He tells us that, historically, certain contradictions have tended toward certain resolutions, but that the speed with which they have done so has never been preordained, nor has the nature of their resolution. Resolutions can be delayed and they can take novel forms, if the problems and the circumstances have changed. In short, Polanyi does not provide us with answers. He provides us with a profound reading of history to the middle of the twentieth century and then challenges us to examine his arguments and conclusions in light of the more recent historical record. That is the spirit in which this chapter seeks to examine the neoliberal revolution, looking in particular at the possibility that the deeper entrenchment and institutionalization of a transformed international financial system gives grounds for believing that in this new world, the double movement may be significantly delayed and even further skewed against a socialist resolution.

The argument that emerges by the end is a sobering one, in that the answers to both of the above questions must be: "Yes, to a degree." Yes, the system has become more flexible and resilient. And yes, a resolution on socialist principles has become more difficult. But the argument does not lead to the defeatist conclusion that the struggle for a democratic socialist, or social democratic, resolution is therefore no longer important, or defensible. However, the forms and the objectives of that struggle will undoubtedly have to evolve with our changing understanding of the obstacles to be overcome and the objectives to be espoused.

The Common Ground

Since this chapter ultimately focuses on some important changes in the global capitalist system, it is important to begin by emphasizing that the essence has not changed. Indeed, in broad outline, its evolution over the past 50 years has reflected and validated the proposition that lies at the heart of Polanyi's analysis of capitalism, namely that, beyond a certain point, the excessively unconstrained, or disembedded, operation of market forces will become fundamentally destructive, of human beings, of nature, and ultimately even of capitalist economic rationality itself.

Indeed, by the year 2005, it became increasingly clear that the global economy's trajectory was fundamentally flawed and increasingly destructive. And those negative trends were likely to accelerate as the last pockets of resistance to neoliberalism were being "mopped up," first in East Asia in the wake of the 1998 financial crisis; then in Japan and Germany, where recent elections have "finally" opened the door to a radical dismantling of their capacity to govern their markets in accordance with deeply rooted national values and priorities; and imminently in China and France, where the forces to achieve a similar result are strengthening by the day.

Labor

In terms of human outcomes, the results are powerful and clear. For the vast majority of people, life is becoming more difficult, more uncertain, and more insecure as the rights of labor are rolled back systematically in the developing world, while increasingly precarious forms of informal sector employment become the norm in large parts of the developing world. And especially if one disregards the experience of those countries that have—or that had until recently—managed to retain a significant capacity to manage their economies—South Korea, Taiwan, Japan, Germany, China—global income inequality is rising sharply; global inequality of wealth has reached almost inconceivable, and probably unprecedented, levels; poverty is rising relatively, and in many parts of the world, absolutely; conditions at work are deteriorating; and where they existed, most social support networks are eroding, often rapidly. Taken together, this is creating a world in which it is ever harder for people to find the security needed to sustain long-term commitments to families and communities, or to develop skills and build a career within a context in which one's contribution at work can be reasonably, and fairly, evaluated, recognized, and rewarded. The results are ultimately reflected in the statistics on birth rates, on suicide, and above all, on stress. Though direct causal relationships are not easy to establish when dealing with such complex phenomena, there would appear to be growing evidence that stress, and especially workplace-related stress and depression, are becoming ever more serious problems.

These human outcomes are especially poignant when they are compared against the high hopes once attached to the market economy's promise of productivity growth based on rapid and sustained technological change. Today it is hard for people to appreciate the almost unanimous enthusiasm with which experts and lay people alike looked forward to the "leisure society" in the 1960s. When the rubber workers of Akron, Ohio, negotiated the first four-day working week in 1964, there was widespread agreement that this would soon become the standard. After all, so the thinking went, workers would soon be able to satisfy their material needs so well that they would choose to take an increasing share of the future gains in productivity in the form of leisure. As a result, shorter working days and weeks, longer holidays, and earlier retirement were all deemed natural, even inevitable, in this world. And yet, although the productivity growth did occur, the human consequences have been dramatically different, especially in those parts of the world—the United States and the UK—in which market forces were disembedded earliest and most radically. Indeed, in the United States, not only are real wages for manufacturing workers lower today than they were in 1973, but such workers are also working more hours in more stressful and more insecure jobs, and with less social protection and poorer social services. Although certain details of this picture may be contested, the stark contrast between the reality and the dream should remind us of Polanyi's warning that market forces, left unchecked, will tend to reduce human beings merely to their "labor power."

And the fact that there are some parts of the world where these processes have been attenuated, or even largely absent, does not invalidate this conclusion. The fact is that in most of these cases, such alternative outcomes were possible because market forces remained sufficiently embedded to allow for such different outcomes. But in almost every case, the capacity of these exceptions to resist has been weakening in response to international capital's persistent demand for the removal of such "irresponsible" growth- and profit-inhibiting policies. In fact, Germany's resistance is collapsing as this chapter is being written. With Schroeder's SPD having already thrown in its lot with Blair's crusade for a more flexible labor market in Europe, his party is now being forced into a coalition under the leadership of Angela Merkel, who is being widely hailed as Germany's Margaret Thatcher. Meanwhile, Japan's recent election has opened the door to the rapid empowerment of market forces in that country, while a Sarkozy presidency in France, which looks increasingly likely, would lead to the same outcome in that country.

Perhaps the most striking reminder of neoliberalism's problematic implications for labor were embedded in an Organisation for Economic Co-operation and Development (OECD) report that was written soon after South Korea's accession to full membership of this "club of the developed countries." To the consternation of those who still believe that development is an important policy objective largely because it implies that working people can expect to be relatively well paid and well treated at work in such a society, this OECD report, after welcoming South Korea to the club, immediately went on to explain that as a member it would now have to change many of its existing policies, especially those dealing with labor, as real wages were now far too high, as was the degree of protection against arbitrary dismissal.

Finally, there are some countries where conditions of labor have improved during the neoliberal era, and not because strong states, backed by strong trade unions and/or strong and vocal civil society organizations, were able to protect labor to a degree from the full force of competition in increasingly deregulated markets. These exceptions, of which Ireland is currently the best example, have managed to take advantage of favorable circumstances that have allowed them to attract enough foreign capital to absorb a large part of their labor force in increasingly skilled jobs that currently command reasonably good wages. But the fact that this has been possible, for a period of time in a few relatively small countries does not undermine the argument, or negate the fact that this has not been the experience of labor in most countries, not even in the United States, widely portrayed as the strongest and most successful economy.

Nature

When we look at the environment, recent experience also confirms Polanyi's fear that excessively disembedded market forces pose a threat to nature because they tend to treat it largely as a commodity. Numerous recent international reports reflecting an overwhelming weight of expert scientific opinion have attested to the fact that the neoliberal era has seen further deterioration in an already problematic trend. These reports warn that in a number of critical areas, the earth's carrying capacity is being sorely tested, and in ways that raise the threat of potentially very costly, discontinuous shifts in climate, in ocean currents, or in resource availability. And behind these reports stands an increasingly deregulated world in which fierce competitive pressures are encouraging and allowing actors ranging from debt-distressed governments to "aggressive hedge funds seeking higher leveraged returns" to maximize the production, and/or export of raw timber and seafood from the oceans of the world.

Of course, here too the precise nature of some of the causal relationships remains contested, and there is no doubt that the relationships between man and nature are so complex that solutions would be difficult to find even if there were greater scope for attenuating, or managing, market forces in this sphere. But that does not alter the fact that market forces, as such, will tend to take a relatively short view. This is especially true in a world in which debt burdens, and other economic contradictions, are allowed to accumulate to dangerously high levels, creating situations in which actors are forced to make economic decisions under duress, which generally means that those decisions have to be made with a particularly narrow, economistic focus.

None of this means that market forces cannot also be used to positive purpose in the environment. Given the nature of complex societies, price policy undoubtedly has a role to play in shaping both production and consumption in a society. This should serve as a reminder that the problem is not market forces as such, but the framework within which those forces are allowed to act. But the excessive empowerment of market forces, which has been the hallmark of the neoliberal revolution, has created a situation in which corporate interests have been able to exert increasing influence over environment policy, at the same time as the regulatory and enforcement capabilities of states have been allowed to atrophy. And that is the problem that needs to be addressed by some future "double movement." It is the tragedy of the commons, writ large.

In some respects, the environmental issues may turn out to be the most difficult to resolve, in part because many are inherently international to a degree that the other two are not. Which means that in this sphere, not only do societies have to reimpose social control over markets, but they also have to do so in a coordinated and collective manner. And this clearly intensifies the challenge. It may be significant to note in this context that some corporations have recently called for binding environmental regulation on the grounds that in its absence, competitive pressures do not allow them to exercise the restraint that they know to be needed.

Before leaving the environmental issue behind, it is necessary to call attention to one final, extremely important issue, linking it to the excessive deregulation of markets, namely the forces determining aggregate consumption levels in societies around the world. Ultimately, the reconciliation of human activity with the earth's carrying capacity—especially if we allow for the growth occurring in China and India and in some other parts of the developing world—must find some way of persuading, even allowing, people in the developed world to do what the dream of the leisure society had hoped they would do, namely move to a life style focused on leisure so that people work less at the same time as consumption patterns shift towards less material intensive services and non market activities. And even though neoliberals will complain about state's telling people what is best for them, there can be no doubt that this essential transformation will require the leadership of states acting in the long term interests of their citizens because we can be sure that this transformation will not be brought about by market forces, or under by corporate leadership. And yet it must happen. Which is precisely the point of Polanyi's stark reminder that individual freedom must be reconciled with collective needs in modern, complex societies. And for that we must indeed choose between fascism, in which solutions are imposed by stridently collectivist, xenophobic states, or some version of democratic socialism, or social democracy, in which markets continue to function, but within democratically determined boundaries.

Money

Finally, in the sphere of money, as in the other two spheres, there is much that has not changed. Here too, the fundamental contradictions of excessively liberalized markets have manifested themselves in ways that are similar in many respects to those described so graphically by Polanyi writing about the 1920s and the 1930s. Once again, the control of money has slipped effectively out of the hands of public authorities, leaving them to adjust as best they can to the often chaotic and irrational movement of speculative finance around the world. Once again, exchange rates have become weapons of economic warfare. Once again, unmanageable debt mountains are being created on many fronts simultaneously, weighing down the present with the often wildly unrealistic futures dreamed up by speculators as they make their bets. Once again, those debts have become the hammers that are used to crush demands for social improvement on the anvil of fiscal responsibility. Once again, growth rates are stagnating, public finances are in disarray, balance of payments imbalances are growing, while social and political tensions are rising as people protest against the claim that there is no alternative to this new reality, that the instability, and the excesses, and the vast misallocation of resources must be accepted as being in the public interest.

In short, there are many reasons for saying that Polanyi's analysis still applies, more or less as is. The neoliberal drive to liberalize markets has clearly created the conditions for a "double movement" and there are many signs of growing opposition, some with socialist, or social democratic leanings, especially in Latin America, others with clear fascist leanings, as in the United States, and in the former East Asian newly industrializing countries. And such an interpretation would not be wrong, but it would be incomplete. For that we need to delve more deeply into some of the significant changes that have occurred over the past 50 years, changes that have undoubtedly altered the nature of the material and the political conditions in which today's "double movements" are emerging. The next section will examine some of these changes, while the final section will consider their potential implications for our understanding of the problem and for our efforts as citizens to participate in the "double movements" of the future.

Critical Changes in Global Capitalism?

It is tempting to begin by saying that the changes that have occurred in global capitalism are changes in degree, not changes in kind. But this would imply that there was always a clear distinction between these two concepts, whereas in truth the boundary between them is always blurred and ambiguous. Capitalism does have an essential inner logic, but it is also a constructed system, and this means that the logic will unfold in ways that are shaped by the nature of those constructions. Water runs downhill, but the course of the river will be shaped by the contours and the geology of the land, as well as by the existence of man-made barriers and diversions, though the latter may undergo radical change under extraordinary circumstances.

Nothing illustrates this point more forcefully than the extraordinary difference between the social and human impact of the managed capitalism of the "Golden Age," extending roughly from 1948 to 1973, and that of the neoliberal capitalism that has taken its place over the past 30 years. During the Golden Age, not only was growth faster and productive investment higher, but human and social progress was sustained and positive as the benefits of rising productivity were more equally shared between capital, labor, and other social interests.[1] In essence, the welfare state was the ultimate expression of this form of global capitalism, and it showed that the logic of capital could be reconciled with the human need for security and leisure and with the social need for stability and equity.

From a Polanyian perspective, the contrast between these two capitalist eras strongly supports the proposition that more embedded markets can yield dramatically different social and human outcomes than relatively disembedded ones. By implication the problem of capitalism is thus seen to be a relative problem, not an "either-or" problem. The nature of capitalism matters, because it changes human, social, and environmental outcomes. And that must ultimately be our main concern.

Put simply, the fundamental structural difference between the "Golden Era" and the neoliberal models of global capitalism lay in the fact that in the former model, capital had an address. This means that, in essence, the legal, financial, and political structures of the day forced capital to operate within a context in which the key variables determining the ultimate distribution of economic benefits—interest rates, wage rates, and exchange rates—were largely determined at the national level through some form of tripartite negotiation between capital, labor, and the state. And, although the forms varied, as did the outcomes to a degree, this overall structure ensured that in all countries these distributional issues tended to be resolved more equitably and more predictably than before. And this not only supported social harmony and political stability, but also ensured higher levels of investment and growth.[2] And the key "constructed" features of this global system, which ensured that capital would "have an address" to the degree needed to produce such outcomes, were the two most basic features of the early Bretton Woods model, namely, the existence of relatively fixed, managed exchange rates and the practical availability of national capital controls to curb short-term, speculative movements of capital.[3]

Moreover, at this time nation states developed risk averse financial regulatory structures developed in response to the turmoil of the 1920s and

1930s, which featured firewalls between various parts of the financial market, strict banking regulations designed to regulate the ability of banks to create credit and to take risks, and strong central banks that allowed national moneys to be relatively closely managed and controlled. Perhaps the most striking indication of the importance and effectiveness of these regulatory structures is reflected in the fact that between 1948 and 1973, a rather turbulent international era in many respects, there was not a single "major banking crises," as defined by the World Bank, whereas the early stages of the neoliberal era, from 1974 to 1992, have witnessed no fewer than 69 such crises, each imposing heavy costs and burdens on their respective societies.[4]

Unfortunately, the neoliberal revolution has reconstructed global capitalism in ways that have reproduced most of the basic features of an excessively unregulated capitalism, creating a situation that would have horrified the main architects of the Bretton Woods agreement who had learned enough from history to understand that market forces make wonderful servants, but terrible masters. And the results of this renewed attempt to realize the dream of the self-regulating market have validated their fears, as well as Polanyi's historic vision. Indeed, in many respects markets are now more extensively disembedded than ever before in history, so that, although it is true to say that the world has now re-created the basic conditions of the 1920s, which eventually led to the depression of the 1930s and then the war, and which fuelled the "double movement" analyzed in Polanyi's *Great Transformation,* there are also important differences in the present situation that could significantly affect the evolution of the "double movements" of the future.

Three kinds of differences are possible. One that could reduce the need for a "double movement" because markets can now yield more acceptable outcomes; and two that could reduce the possibility of a successful "double movement," either because systemic contradictions can be better managed so that financial crises are less likely to turn into political crises, or because it has become easier to inhibit, or suppress, the ability of oppositional forces to achieve the coherence and unity needed to re-embed market forces in politically defined sovereign societies.

The remainder of this chapter will focus only on the latter two of these three possibilities, though it must be acknowledged that progress on the first could potentially obviate the need to discuss the other two. The main rationale is that the preceding discussion is taken to have shown that today's disembedded market outcomes continue to demonstrate the need for a renewed "double movement." Beyond this, the possibility that more streamlined ways of "managing markets in the social interest" might be developed in future is a question that needs to be addressed when considering the nature and scope of any future "double movements."

In addressing these issues, this chapter will focus primarily on obstacles created by changes in a global financial system that plays an increasingly dominant role in shaping the trajectory of market forces. The point of departure of this discussion is the understanding that the Golden Age was made possible by certain financial arrangements that allowed nationally rooted policy processes to manage and channel market forces to a public purpose. And by implication, the growing inability of societies to manage those forces in the public interest, as evidenced in the accumulation of perverse outcomes that would be almost universally condemned in any genuinely democratic evaluation, is deemed to have occurred because the power of credit creation and allocation has increasingly slipped out of the grasp of public authorities whose task it is to represent and to defend the collective interests of society.

As has been noted, the basic reasons why this is deemed to have happened are much the same as they were on previous occasions. Maybe the most concise way to summarize them is to recall Keynes's conclusion that unless the rate of interest is largely nationally determined, no national society would be in a position to pursue its favorite "social experiments," which is to say, to have an independent economic and social policy.

The purpose here is not to review those standard arguments, but to consider those things that can be said to be new, or different, this time around. And here the chapter will focus on the three interrelated differences that have the greatest capacity to alter the trajectories of today's increasingly deregulated markets. These are: the fact that for the first time in history we are dealing with a world economy based on a pure fiat money that can be created almost costlessly without being constrained by any—direct or indirect—link to some commodity like gold; the fact that the operation of those international financial markets is now backed by a set of international institutions to whom most governments have by now ceded a wide range of sovereign powers that require them to enforce increasingly intrusive and binding international rules and agreements, and to adjudicate disputes in accordance with a fundamental commitment to global definitions of economic rationality; and, finally, the fact that today's financial markets have fragmented and interlinked ownership structures and risk profiles across borders, between firms and individuals, and between the future and the present, to an almost unimaginable degree.

Evidently, the mainstream architects of this new world argue that these features and innovations have made the global economy more efficient by making it more flexible and more manageable. Slower growth and increased income inequality are acknowledged, but blamed on the remaining market imperfections, which in the language of Polanyi, is to say that labor, land, and money have not yet been transformed into pure commodities. Similarly, financial crises are widely accepted as being both endemic and extremely costly, but are said to be a necessary evil in a "more efficient" world. And although this argument cannot be taken seriously since it is not compatible with historical records, or even with a neoclassical reading of the evidence,[5] it does raise issues that need to be addressed even from a critical, Polanyian perspective.

The fact that we are now living in a world of pure paper money has had the spectacular consequence that the world is absolutely awash with liquidity, and has been for the past two decades. But like the carbon that is absorbed and contained in the oceans acting as carbon sinks, the bulk of this liquidity is neutralized by being absorbed in the fathomless depths of the world's exploding and proliferating derivatives markets. The growth and scale of these markets literally defies description, but the best estimates tell us that they are now absolutely enormous, and that they have grown especially rapidly ever since the dot.com collapse and the Asian financial crises. And their growth continues to defy reason, or belief. When I prepared for a lecture on this subject at London School of Economics just two years ago, I was astonished to discover that the market for currency derivatives had recently surpassed the one trillion dollar mark for the first time, but as I told the audience then, I was far more astonished by the fact that this market was said to have grown by 58 percent over the preceding six months, and hardly anyone had noticed. But this turns out to be a commonplace today. In the United States, the market for real estate-related derivatives has grown from a very low level to being one of the most important financial markets in the country in the space of a few years, mainly after the dot.com collapse. And now, a new market in "credit derivatives," in which banks and other financial institutions insure themselves against the risk of default, has exploded onto the scene in a similarly spectacular manner.

> The credit derivatives market has expanded rapidly this year as banks, hedge funds and others have increased dramatically their use of these complex financial instruments . . . The total notional value of all credit derivatives contracts reached $12,430 bn. In June 2005, a 48 per cent increase from January and a 128 per cent rise compared with a year earlier . . . Growth in the sector, which barely existed five years ago, highlights the changes under way in the global financial system as banks and investors use those instruments to move risk off their balance sheets and into the hands of other investors, such as hedge funds.[6]

While it is true that some of this activity achieves a beneficial dispersion of risks inevitably incurred in the course of "real" business activities, the scale of these developments far surpasses the levels that might conceivably be justified on such grounds. The rest is essentially speculative activity, often arbitraging the very uncertainty that it helps to create. After all, in the words of one financial reporter writing in 1997 when the Asian crisis was just coming into its own, "for speculators, pandemonium is paradise."[7]

Last year, I asked an official of the Bank of International Settlements, the only credible international financial regulator, whether it was not reasonable to assume that, in a climate where legitimate, regulated financial institutions and mainstream corporations have developed business practices that treat fraudulent behavior as a normal business practice simply guided by standard cost-benefits considerations, the activities of people and institutions dealing in essentially unregulated derivatives markets would regularly transgress any conceivable legal or ethical boundaries. The answer was a simple: "Yes, of course."

And to date all attempts to subject these markets to regulatory scrutiny at an international level have been immediately and aggressively blocked by the U.S. Federal Reserve and the Bank of England. On the most recent occasion, the chairman of the Federal Reserve rejected such demands out of hand, on the grounds that these markets generate vitally important liquidity for the financial markets and could not do the job that they have to do unless they remained free of regulation.

And apart from the activity that provides them with their "cover story," namely, the management of some real economy risks, just what is it that these markets do? The standard answer is that they arbitrage market imperfections, which is to say they take advantage of market imperfections because of their privileged position as highly liquid actors free of almost any regulation. A financial reporter writing for the *Toronto Globe and Mail* in 2002 described one small part of their Canadian activities, as follows:

> It was the sweetest of jobs. Two generations of derivative specialists came to work each day, found new ways for investors to get around Ottawa's ridiculous restrictions on foreign investing, banked sweet fees, and went home. Helping both the institutional and retail crowd get better returns, with less risk, was a great way to make a living. . . . However, this sophisticated and totally legal use of derivatives made a mockery of the federal foreign content limits, while adding needless costs to pension plans and various species of mutual fund.[8]

And that is obviously only the tip of the iceberg. It is not just national laws that are arbitraged in this way. It is also ignorance, weakness, insufficiently aggressive business practices, soft trade union agreements, excessively (read "responsibly") funded pension funds, environmental regulations, and, of course, uncertainty, especially the kind that these markets themselves can help to generate. And no one is immune from the risk of being taken to the cleaners. There is no honor among these thieves. Thus, when Procter & Gamble decided in the early 1990s to put some of their money into derivatives because big money was apparently being made in these markets, they entrusted their money to Bankers Trust who were acknowledged experts in the field. After several years of heavy losses, they brought a lawsuit against Bankers Trust accusing them of failing in their fiduciary duties. The case looked hopeless, until it was discovered that Bankers Trust regularly taped all conversations between their officers and their clients. And when 6,500 tapes were subpoenaed, it turned out that these recordings were regularly started long before the clients arrived, and so the world got a first-hand glimpse of how one staid, reputable financial institution "worked" these markets. And the picture was highly revealing, as reported at length in *Business Week.* Essentially the picture can be summed up in one sentence contained in the court filing that accompanied the tapes: "Fraud was so pervasive … that Bankers Trust employees used the acronym ROF—short for rip-off factor, to describe one method of fleecing clients."[9]

And currently the full weight of this rogue "500 ton gorilla" is being turned on the German version of capitalism. The one that, until recently, resisted the neoliberal tide to a degree. And so Germany's welfare state, the relationship between its banks and its industries, the financing and operation of the famous human resource development programs that produced the highly skilled workers who allowed it to succeed by competing on quality rather than on price for so many years, the conservative funding of many of its employee pension funds, and the right of its trade unions to sit on the boards of its industries, all these are now under fierce attack. In effect, the hedge funds sensed weakness and are now pouncing to arbitrage the rich pickings that will become available as public assets are sold off and as old practices are overturned. And their involvement is likely to turn the possibility of change, into the probability of change as they wield the enormous power inherent in those vast pools of liquidity, which is further multiplied by their ability to use leverage to previously unimagined degrees. One report suggests that hedge funds have recently increased their acquisitions of German shares, to the point where they now "hold as much as 25 per cent of the equity of Germany's largest corporations." Reassuringly, one fund manager is quick to note that "Germany is not being singled out for attack, it's just that the market cycle is right in Germany."[10]

And what does all this mean for Germany? Nothing short of a revolution in its business practices, according to many financial experts, including those who are hoping to get in on the action. In the words of Gillian Tett, writing in the *Financial Times:*

> In recent years a significant chunk of debt has moved out of the hands of traditional players such as banks and pension funds to institutions such as hedge funds . . . The implications of this shift are still not very visible to the wider public, largely because Europe has not been through an industry-wide

> restructuring cycle for several years and hedge funds hate publicity. However, recent restructurings . . . have moved out of the control of traditional banks. And . . . this is having significant implications for investors, regulators and companies [not to speak of working people—MAB] ... To Anglo-Saxon bankers, this shift is thoroughly welcome, if overdue. What these changes are effectively doing is injecting more capital market discipline into Europe's corporate world—and removing the mollycoddling that many firms have traditionally received from friendly banks ... However, to many European politicians or company executives, particularly in France and Germany, the sight of aggressive hedge funds taking stakes in companies triggers great concern. "There is a perception that this is an attack on the way European business has traditionally been done," admits one hedge fund player.[11]

The final piece of the puzzle is provided by recent studies that have demonstrated rather persuasively that the main U.S. financial markets are now regularly manipulated by the authorities in the United States in order to avert crises, or sudden downturns, at critical, or inopportune moments.[12] Certainly, if confirmed, this would help to explain why the U.S. economy has been able to function so relatively smoothly despite a national savings rates that has recently fallen to zero, record levels of consumer debt and clearly unsustainable external and internal (public sector) deficits.

The picture that emerges is one of a US based international financial system with global reach that has indeed become disembedded from societal oversight to a spectacular degree and is driving the neoliberal agenda with increasing effectiveness and ferocity. And while that system is most assuredly generating the kinds of destructive and contradictory outcomes that fuel discontent and that could provide the basis for a future "double movement," it is also true that this system has acquired a remarkable capacity to remain internally untroubled by the crises that it regularly visits upon working people and on real world economies. Certainly their ability to weather the collapse of the dot.com bubble with such apparent ease is reason to be impressed, given that in many respects the bubble surpassed that of 1929 by a considerable margin.

Herein lies the explanation of the system's remarkable resilience in recent decades. Despite its continuing and unquestionable tendency to generate major financial crises, endemic instability and growing social and human insecurity, it has managed to prevent these dislocations from undermining or even challenging its internal coherence or its dominance. Indeed those crises have generally made people and communities even more dependent on the credit that this system is always willing and able to create, and then to dispense in the wake of the crises that it has created. But history shows that the opportunity for a "double movements" to alter the course of history generally arises only when crises have undermined an existing system's capacity to function and when the resulting conflicts have created a vacuum in which a new world can be created by people willing to learn the lessons of history—for a time.

To conclude this part of the discussion, there would appear to be little doubt that despite the evident and growing need for a new "double movement" to reverse the trajectory of neoliberalism, the drive to empower market forces to the point where they can operate outside of any effective social or democratic political oversight has continued for far longer than many would have guessed and than many more would have hoped. Although financial crises have occurred frequently, and at great cost, they have not led to significant reversals in that perverse project. Indeed, the Asian financial crisis almost certainly allowed the financial markets of East Asia to be liberalized far more rapidly and thoroughly than had been possible prior to that crisis. Moreover, there is reason to believe that the continued empowerment of those disembedded market forces may well continue for some time yet, until a break occurs that will be deep and costly enough to allow for a historic reversal of this project.

Although this global pyramid scheme will collapse one day it will probably do so at a cost that will leave little room for celebration when it happens. Certainly the scale of the current imbalances is so large, the debt mountains so enormous, and the environmental and political problems so drastic that serious crises and dislocations are surely inevitable. And not very long from now. But the capacity of the current system to absorb such shocks without losing its internal coherence to a point where it would become seriously vulnerable is also clearly unprecedented.

Political Implications

Predicting a major crisis, and trying to present it as an opportunity, has always been a bad marketing strategy for progressive analysts and activists. The fact that it is not a strategy chosen by preference, but one dictated by circumstance, does not make that problem any easier. And the problem becomes all but insurmountable when we are faced with an analysis that tells us that such a crisis, if it comes, will probably lead to fascism in some countries and could include depression and even war. At that point it is important to be clear that we, as citizens and as analysts, must work tirelessly to avert such crises and to struggle for our own potentially "impossible dream," namely, the dream of enabling a "double movement" to succeed without the world first having to be brought to its knees in a desperately deep and protracted political and economic crisis. If this sounds voluntarist and naïve, then we must live with these epithets, because the alternatives are too terrible to contemplate.

And the first thing we must do is to keep alive the knowledge that another world is possible. A world that is not only more efficient, in every sense of that word, but that is also more humane and more desirable in every way. A world in which the word “freedom” can once again take on a truly positive meaning for all citizens, not only for those lucky enough to be creaming off the surplus others have created. And in keeping alive that knowledge, there is no better place to start than Karl Polanyi’s “big picture” of the history of capitalism.

The second thing we must do is to be tireless and relentless in exposing the arguments of those who claim that history and evidence support the claims that they make on behalf of today’s deregulated markets. And here some progress is undoubtedly being made, helped in part by the fact that the evidence is so relentlessly unfavorable for the neoliberal argument, and by the fact that some leading figures from “the other side” have lent their support to an alternative vision.

The next thing we must do is to take seriously Fred Block’s recent warning that an undue emphasis on the systemic nature of the global capitalist threat can serve to disempower people[13] and play into the hands of those who would peddle the mantra that “there is no alternative” to neoliberalism. The danger with emphasizing the systemic nature of the problem is that it can create the impression that nothing is possible, until everything is possible; that nothing can be done, until the center has been overthrown, which is clearly a recipe for paralysis. Which is why it is so important to couch the systemic analysis, which is essential, within a context that also emphasizes the constructed nature of capitalism and the fact that capitalism’s outcomes do depend on the way in which it is constructed.

Beyond that, the struggle must proceed at every level: slowing or halting the progress of neoliberalism at every turn: opposing the privatization of water; opposing the expanded introduction of market principles into areas of public service, where there is no evidence, or even theory, to justify such changes; opposing the extension of international laws made by unaccountable agencies into national jurisdictions; opposing the continued centralization of business ownership, specially in the media, and supporting responsible public broadcasting services.

But, ultimately, special attention must be paid to the need to bring money back under the control of public authorities; to end the privatization of credit creation; to take the right of, and the very considerable profit from, seignorage, out of the hands of the private banks and into the hands of government where it belongs; and to free societies once again to “make their favorite, democratically determined social experiments, by re-creating financial systems that are regulated in the public interest and whose success is evaluated as it should be, not by their growth and profitability, but by their ability to support and finance rapid and equitable real economic growth at minimal costs. By that standard the Anglo-Saxon financial systems have been grotesquely inefficient. Indeed, in the United States, the share of all profits earned by the financial sector has risen from 7 percent in 1948 to around 40 percent. But while the world of finance was expanding its power and profit so dramatically, real economic growth was anemic, the country's manufacturing base was sharply eroded, the earnings of working people stagnated or decline, while income inequality, poverty, insecurity and indebtedness grew dramatically.[14]

Maybe it is time to remind neoliberals that their hero, Adam Smith, took the view that financial services should be treated as an administrative expense and should, therefore, be *subtracted* from the wealth of the nation. That would make for a good basis for discussion and help to provide an opening on which to build. Currently, the financial system does not serve the long term interests of many productive sectors well and this may provide a basis on which to build a broad coalition that could ultimately begin the task of turning the world back on its feet.

Although it has become a cliché, it is nevertheless true that we do need to struggle to try to recapture the essential features of the early Bretton Woods system as it was agreed in 1944. That agreement placed strong emphasis on the permanent need for national capital controls, and on fixed and managed exchange rates, because its main architects were centrally concerned with creating an international financial system that would promote trade between economies at full employment, because they believed that this was the only way to ensure the stability of such a system, and to ensure that it would work to the benefit of people in sovereign democratic societies. Indeed, Henry Morgenthau, then the secretary of the U.S. Treasury, summed up the enterprise by saying that the central object of those negotiations was the desire to prevent the international economy ever again falling into the clutches of the international speculator. And for a generation that was achieved, with highly beneficial results. But we have fallen a long way from there, and it is time to claw our way back. If the task looks onerous, the costs of not doing so are far greater still.

Notes

1. While the record on global inequality was less encouraging, it is clear in retrospect that this period was also a relatively positive one for most of the developing world, compared to its experience over the next 30 years. At the same time, it must be said that the record on the environment was rather problematic, but this can be partly explained by the fact that the scale of the threat was not yet so clearly recognized. However, it is probably also true that the Golden Age's focus on national sovereignty was better suited to deal with the problems of economic growth, stability, and income distribution, than it

was to deal with environmental problems that always had a more international dimension.

2. Unfortunately this "model" has come to be known as the "Fordist model," which implies that it was somehow particular to a particular Fordist (i.e., assembly-line) model of mass production. And even more unhelpfully, this claim was then translated into a claim that this model was no longer sustainable because the mass-production technology on which it had depended was "exhausted" and could therefore no longer generate the productivity increases on which this model was critically dependent. Unfortunately this "analysis" played directly into the hands of the neoliberals in accepting the need for a radical break with that "exhausted model." The truth is that the model was always a politically constructed model that depended on the structural features of the global economy and it was these that had to be defended on political grounds. And, although it is true that the weakening of the industrial working class that was associated with the move to more flexible production based on smaller plants could be expected to affect the relative power of labor in that political struggle, this effect was much smaller than that which resulted from the liberalization of international capital flows, which literally cut the ground out from under labor's feet and effectively undermined the possibility of serious tripartite negotiations since from here on in, capital did not have to abide by any such national agreements.
3. This model was based on the Keynesian understanding that free movements of international capital were incompatible with the policy autonomy needed by national governments to keep their economies on a full employment growth path. From this perspective, capital controls are essential, key features of any international system that is compatible with the minimum necessary level of national policy autonomy. Ironically, some years later Robert Mundell was widely hailed for suggesting that all countries faced an impossible "trilemma", in that they all had an overriding need for three things—i.e., stable exchange rates, an independent monetary policy, and the free flow of international capital—but they could only ever have two of these, with the third then having to be left to be determined by the market as a dependent variable. In essence this was nothing other than an ideologically twisted restatement of the Keynesian argument, the twist consisting of the claim that the free flow of international capital was an overriding policy objective for every country, on a par with their desire for stable exchange rates and an independent monetary policy. Of course now that the world has returned to free international capital flows it turns out that in the presence of these, countries can have neither stable exchange rates, nor an independent monetary policy, just as Keynes would have suggested.
4. This "count" stems from a World Bank study done in the early 1990s and discussed extensively by Joseph Stiglitz in his 1998 Annual WIDER lecture in Helsinki.
5. A growing number of leading neoclassical economists—including Krugman, Bhagwati, Sachs, Stiglitz, Lance Taylor among others—have added their voice to the expanding chorus of those declaring that there is no significant, or persuasive evidence to support the claim that financial liberalization yields economic benefits even in the narrowest neoclassical sense.

6. Richard Beales, Jennifer Hughes, and Gillian Tett, “Credit Derivatives Market More than Doubles in a Year,” *Financial Times,* 29 September 2005, 17.
7. Brian Milner, “For Speculators, Pandemonium is Paradise,” *Toronto Globe and Mail,* 29 October 1997, B1.
8. Andrew Willis, “Derivatives—Banks Lose on Budget’s Foreign Investing Changes,” *Toronto Globe and Mail,* 25 February 2005.
9. Holland, Himmelstein, and Schiller, “Cover Story: The Bankers,” *Business Week,* 16 October 1995, 106–11.
10. Jenkins and Milne, “Hedge Funds Hold a Quarter of Germany’s Blue-Chips,” *Financial Times,* 2 September 2005, 21.
11. Gillian Tett, “Who Owns Your Loan? Why Europe’s Businesses Will Face Surprises if Trouble Hits,” *Financial Times,* 29 July 2005, 11.
12. The evidence was first presented and discussed in a paper by Robert Bell “The Invisible Hand (of the U.S. Government) in Financial Markets” which appeared on the website financialsense.com on 23 April 2005 (see www.financialsense.com/editorials/reality/2005/0403.html). The thesis has since been endorsed and corroborated in a report issued by senior staffers of Sprott Investments, one of Canada’s most respected and successful investment houses.
13. Fred Block “Deconstructing Capitalism as a System,” paper prepared for the international symposium on *Approaches to Varieties of Capitalism,* University of Manchester, March 1999.
14. While the level of household debt remained around 20 percent of after-tax income from 1900 to 1925, it then rose rapidly, to peak at 40 percent in 1929, just prior to the crash and the onset of the depression. Thereafter it fell back to about 20 percent by 1940, and then began a steady rise, which took it above 100 percent shortly before the year 2000, from where it has risen further since. *Left Business Observer* No. 97, May 2001 (edited by Doug Henwood).

2

The 1970s and After: The Political Economy of Inflation and the Crisis of Social Democracy*

Pat Devine

The 1970s was the decade in which the Left lost its historical role as the standard bearer of freedom and progress, the role it had proudly possessed since the French Revolution. It was the decade in which the dynamic for necessary change was hegemonized by the New Right. This is why the 1970s are so crucial for an understanding of the present situation and the discussion of how to transcend the dominant neoliberal ideology that is in danger of becoming the common sense of the new millennium.

Yet there exists widespread historical amnesia in relation to the political economy of the second half of the last century. This chapter is thus an exercise in historical retrieval. It sets out the conditions that made the post-1945 Keynesian social-democratic welfare state possible; analyzes the crisis of social democracy that developed around the great inflation of the 1970s and the attempts to contain it; characterizes the historic achievement of the Thatcherite New Right as the destruction of the historic bloc of social forces on which the post-1945 consensus depended; and identifies the historic mission of New Labour as the completion of the process of consolidating neoliberal ideology as the new common sense of the age, a legacy that may be inherited by the Cameron Conservatives. The chapter

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ends by suggesting that an awareness of this history is necessary if the Left is to form a new historic bloc articulated around a radical democratic agenda for civil society, the state, and the economy based on ecological sustainability and social justice.

The analysis that follows has been influenced by the insights of both Polanyi and Gramsci. Polanyi argued that the movement leading to the creation of a capitalist, free market economy in nineteenth-century Britain undermined the conditions for capitalism's continued existence, thus calling forth a countermovement through which society reacted to protect itself. Gramsci argued that in developed capitalist countries the hegemony of capital in any historical conjuncture depends on a balance of coercion and consent, in which the decisive social forces in the society are organized into a historic bloc held together by the ideological cement of the common sense of the age. The social-democratic welfare state that was created after the Second World War can be interpreted as being the high point of Polanyi's countermovement, in which society succeeded in effectively protecting itself from the worst ravages of the free market. The balance of social forces that made this welfare state possible can be interpreted as the historic bloc that emerged from the interwar period and the war itself.

However, the imposition of checks on capital's laws of motion causes the system to seize up, thus producing an organic crisis and the disintegration of the previous historic bloc. The way in which this organic crisis is resolved then determines which social class is hegemonic in the new historic bloc that is created. Within this framework, the 1970s can be seen as a decade of organic crisis, a decade of struggle between the radical Left and the radical Right over the future direction of society. In the event, capitalist hegemony was reestablished by the victory of the radical Right, which ushered in the neoliberal era of deregulation and privatization and the project of building a new historic bloc and creating a new common sense of the age. However, the reassertion of the supremacy of the capitalist market almost immediately called forth new movements of resistance that could be thought of as the beginning of a second Polanyian countermovement, although this time, if so far only embryonically, on a global scale corresponding to the present stage of global capitalism.[1]

The Postwar Settlement, the Long Boom, the Inevitable Crisis

The mass unemployment and fascism of the interwar period, culminating in the Second World War, gave rise to the postwar settlement and the creation of the Keynesian social-democratic welfare state, which cemented a new historic bloc reflecting the changed balance of social forces in the world. Much of the Right had supported fascism and was discredited. The Soviet Union had borne the brunt of the war on the Allied side and emerged from it economically weakened but militarily, politically, and morally strengthened. It was soon to be joined by Eastern Europe and China to constitute a global alternative to capitalism. Communist and Social Democratic parties in Western Europe also emerged from the war greatly strengthened—this was, in continental Europe, because of their participation in the resistance; in Britain, because the Labour Party was the beneficiary of the impetus behind the implicit social contract that had underpinned the war effort.[2]

Welfare-state Keynesianism took the form of a postwar consensus around the maintenance of full employment, the creation of the major pillars of the welfare state (health, education, social services, social security, and pensions), and the nationalization of industries essential to forming the infrastructure for an efficient capitalism (public utilities, energy, transport, and communications). The only contentious issue dividing the major political parties in Britain was the nationalization of the iron and steel industry in 1951, which was subsequently denationalized by the Conservatives in 1953 and then renationalized by Labour in 1967. Apart from this, although there were differences on less central issues, on all the major issues there was broad cross-party agreement.

The 1944 Bretton Woods Conference established a new world order, to be operated by the International Monetary Fund (IMF) and the World Bank. This consisted of a fixed exchange rate regime, together with a mechanism for adjusting balance of payments disequilibria when they arose. However, Keynes's proposal that the burden of adjustment should fall equally on surplus and deficit countries was rejected by the United States. What emerged instead was an asymmetric system in which the burden fell entirely on the deficit countries, which reflected the economic dominance and interests of the United States at the time. Like domestic welfare-state Keynesianism, the Bretton Woods system thus contained the seeds of its own collapse.

The postwar consensus emerging from the Second World War continued in the 1950s and the first half of the 1960s, the period of the long boom, or "the golden age," immortalized in Macmillan's words "You've never had it so good." Macmillan was right. The 1950s saw a fundamental transformation of working-class life in Britain and elsewhere, as full employment and mass production created the basis for mass consumption. Full employment also created the conditions for the end of deference and the gradual development of rising aspirations on the part of the working class. British capitalism during this period was able to satisfy the key components of the postwar historic bloc—capital, labor, and the political classes. However, by the second half of the 1960s, problems were developing.[3]

The recovery of Germany and Japan, and their faster growth rates, together with the process of decolonization and the end of Empire, led to intensifying international competition. Domestically, the prolonged period of full employment had changed the balance of forces between capital and labor in the labor market. At the same time, the balance of power between the ex-colonies and the industrialized capitalist countries had changed, partly due to political independence, partly because of the impact of rapid growth on the demand for primary commodities. The result was an intensification of distributional conflict and an acceleration in the rate of inflation. In Britain, the weakest of the major capitalist economies, this was associated with a deepening balance of payments problem, which gave rise to the well-known phenomena of stop-go policies and stagflation.

As British capitalism ceased to be able to satisfy the key components of the postwar historic bloc, a period of social and political crisis developed. The first response was an attempt at modernization, started under the Conservative government and continued by Labour when it assumed office in 1964. There were three main strands to this modernization strategy: industrial policy, with the National Plan and the Industrial Reorganization Corporation; industrial relations reform, with the Donovan Commission and In Place of Strife; and various attempts at Prices and Incomes Policy. In order to carry legitimacy and have a chance of success, these policies were in the main implemented through tripartite bodies, notably the National Economic Development Council, representing the major components of the historic bloc—the Confederation of British Industries, the Trades Union Congress, and the government.

In the event, the attempt at modernization in Britain failed, for two main reasons. The economic policy foundations of the social-democratic Keynesian welfare state were macroeconomic management, to maintain full employment and deal with the deepening balance of payments problem, and state provision of an efficient infrastructure. This provided the context for the operation of the economy at the micro level by private capital in pursuit of profit. Efficiency at the micro level was to be achieved by free competition between capitalists in factor and product markets and free collective bargaining between capital and labor in the labor market. Industrial policy in Britain failed because of the arm's-length relationship between the government and capital, which meant that policy had to proceed with the consent of capital. The government was unwilling or unable to adopt policies with teeth. Industrial relations reform and incomes policies failed because of the resistance of labor to any encroachment on free collective bargaining. This stemmed from the economism of the labor movement, with its preoccupation with wages and conditions and its refusal to accept any responsibility for economic performance. It was this double failure of the modernization strategy that ushered in the crisis of social democracy in Britain.

The Conflict Theory of Inflation

The crisis made itself felt primarily in the accelerating rate of inflation (which by the summer of 1975 had reached an annual rate of 25 percent), but also in an associated profits' squeeze.[4] As Marx had long ago argued, the capitalist mode of production has its own inherent logic, its own law of motion, and central to that historically has been the trade cycle—the cycle of boom and slump, with its regular re-creation of mass unemployment, the industrial reserve army of labor. For Marx, mass unemployment was not some form of market failure but was functional for capitalism, as a means of keeping the working class in a subordinate position. Kalecki had already pointed out in 1943 that prolonged full employment would be a problem for capitalism, in that it would change the balance of power in the labor market and create inflationary pressure as workers pushed up money wages, and so it proved to be.[5] The effective suspension of the trade cycle meant that the regular creation of mass unemployment as a means of disciplining the working class, in the labor market and in the workplace, ceased to occur, and inflation gradually gathered pace. In the debates on the Left in the 1970s around the policies to be adopted in response to the crisis of social democracy, the causes of inflation, and hence the appropriate policies to deal with it, were hotly disputed. It was in this context that the conflict theory of inflation was developed, in opposition to the dominant monetarist theories that were becoming the conventional wisdom not only on the Right but also on the Left.

The essential structure of the conflict theory of inflation is as follows. The Keynesian social-democratic welfare state created and sought to manage a situation in which there were the following dynamics: (i) in conditions of full employment workers could not be prevented from seeking real-wage increases in excess of productivity growth; (ii) in a capitalist economy this objective could only be pursued by seeking to increase money wages; (iii) in oligopolistic markets capitalists were not prevented by competition from increasing money prices in order to maintain profits; and (iv) the state, in order to maintain full employment, increased the money supply to accommodate the higher wages and prices in order to allow the full-employment level of output to continue to be sold at the higher prices. However, since total claims on output continued to exceed full-employment output, the wage-price spiral was not halted, but rather gradually accelerated.

In addition to this basic dynamic, which was more or less present in all the industrialized capitalist countries, albeit with significant variations, two other factors also made themselves felt in some countries, particularly in Britain. First, both workers and capitalists made demands on the state, which required extra state expenditure, but resisted paying for it through higher taxes. Workers sought improvements in the welfare-state services, the collective part of their real wage, while capitalists sought improvements in infrastructure and subsidies. Thus, as well as demands for increases in private consumption, workers sought increases in collective consumption, while capitalists sought increases in collective investment, as well as in private investment and their private consumption. However, neither workers nor capitalists were prepared to accept that increased state expenditure had to be financed, either by increased taxation, which they resisted, or by increases in the money supply, which is what happened. The wage-price spiral became a wage-public expenditure-price-tax spiral.

The second additional factor at work resulted from the changed balance of power between the ex-colonial countries and the metropolitan capitalist countries. As continuous economic growth caused demand for primary commodities to outstrip supply, the primary commodity-producing countries could not be prevented from increasing their prices and shifting the terms of trade in their favor, thus increasing the real price of their commodities. This resulted in an increase in import prices in the metropolitan capitalist countries, which meant that there was less real income available for domestic use, thus exacerbating the conflict over the distribution of full-employment real national income. The wage-public expenditure-price-tax spiral now included increasing import prices as well as domestic prices. The most dramatic example of this process was, of course, the succession of oil price increases in the 1970s.[6]

Given the dominance of monetarist theories of inflation, it is important to realize that the money supply did undoubtedly increase during this period. However, this increase was not the underlying cause of the great inflation of the 1970s. The increase in the money supply was itself a consequence of the struggle between capital and labor over the division of full-employment output. In the context of that struggle, in which workers increased money wages in order to obtain a larger share of output, and capitalists increased prices in order to prevent this, full-employment output could only be bought at the higher prices if the money supply was increased. The increase in the money supply was thus a necessary outcome of the commitment to full employment. Only when that commitment had been abandoned at the end of the 1970s did it become possible to seek to contain the money supply. A restrictive policy toward the money supply is merely a means of disciplining labor through the acceptance of mass unemployment if workers do not restrain their demands for a larger, or in some circumstances even the same, share of real output. The Bundesbank's overriding objective of controlling inflation, subsequently imposed on the European Central Bank, and New Labour's decision to give the Bank of England "independence" in pursuit of a government-imposed low inflation target both followed from the political decision that inflation was more of a problem than unemployment. If unemployment was the only way of disciplining the workforce, so be it. Of course, for this policy to be possible a fundamental change in the postwar balance of forces was necessary. It is the achievement of this that has been the historic mission of the New Right's neoliberalism since the late 1970s.[7]

The 1970s: The End of Social Democracy

By 1970 the basis of the postwar consensus had gone. Capitalism had begun to seize up as the Keynesian welfare state, with its full employment, rising aspirations, and the ability of the labor movement to pursue them, increasingly closed off the sources of renewal within the capitalist mode of production—the scrapping of the least efficient capital equipment during a slump and the reduction of wages as a result of mass unemployment. At the same time, the recovery of Germany and Japan and the dynamic of capitalist development were producing an increasingly integrated global economy, with the consequence that competition between capitals was intensifying, and by 1973 the Bretton Woods system of fixed exchange rates had collapsed. In this historical conjuncture, two alternative post–social democracy trajectories presented themselves: a move in the direction of economic democracy, building on the gains of the long boom, as a transitional stage toward socialism; or a move toward neoliberalism, reversing the post-1945 gains.

The radical alternative economic strategy developed in the 1970s was an attempt to provide a framework for the former. It recognized that inflation, in the conditions of post-1945 capitalism, was the result of distributional conflict between classes and groups sufficiently powerful that they could not be prevented from claiming a larger share of real output, necessarily at the expense of other classes or groups, but were not powerful enough to impose their claims on others. It argued for the acceptance of prices and incomes policies in order to control inflation, but on conditions. If workers were to accept real income increases that remained in line with productivity increases, two things were necessary. First, the initial distribution between wages and profits had to be agreed—it could not be assumed that the existing distribution was acceptable as a starting point. Second, since real-wage increases would then depend on productivity increases, labor had to be involved in the decisions that determined the rate of increase of productivity—decisions about investment and innovation. Thus, the corollary of accepting prices and incomes policies was encroachment on managerial prerogatives by moving toward industrial democracy, planning agreements, and eventually increased social ownership.[8]

This radical strategy was opposed not only by capital and its representatives, but also by an unholy alliance of the Right in the Labour Party and trade unions on the one hand, and on the other, the old Left steeped in economistic laborism. The Communist Party and Labour militants successfully used their influence in the trade union and shop stewards' movements to defend free collective bargaining and oppose incomes policies. The result was the acceleration of inflation to its high point of 25 percent in the summer of 1975. There was, of course, a minority Left presence in the Labour government of the time, most notably Tony Benn at the Ministry of Technology, which advocated aspects of the alternative strategy, in particular planning agreements. However, the Left, including supporters of the radical alternative economic strategy, still thought primarily in terms of the national economy, advocating import and exchange controls to contain the balance of payments problem and opposing the European Common Market. If there was a single moment symbolizing the defeat of the Left's bid for power and the end of any prospect, however slight, of the radical alternative economic strategy being adopted, it was the failure of the "No" campaign in the 1975 referendum on whether Britain should stay in the Common Market, which was rapidly followed by Benn's demotion.

Of course, the prospect of the radical alternative economic strategy ever having been adopted was indeed slight. For this to have happened, the organized labor movement would have had to have developed a Gramscian hegemonic consciousness and strategy for the creation of a new historic bloc around a project of national democratic renewal and advance. A progressive hegemonic consciousness would have been one that aspired to the leadership of the society as a whole, rising above the defensive consciousness and sectional interests of the working class under capitalism and taking a view of how policies to meet the pressing needs of all the social classes and groups in the new conjuncture could be articulated around a transformatory project and discourse. It was precisely this that the economism of the trade unions and the reformist formation of the Labour Party precluded.

The outcome was that the second alternative post–social democracy trajectory, the turn to neoliberalism, was all that remained. After the symbolic defeat of the Left in the 1975 referendum, militant laborism continued to resist this solution, culminating in the 1978/9 "winter of discontent," but to no avail. The Labour government abandoned the commitment to full employment and replaced it with the control of inflation as the priority economic objective. Unemployment started to rise. The scene was set for the 1980s era of full-blown neoliberal Thatcherism that decisively destroyed militant laborism and fundamentally reversed the shift in the balance of forces in favor of labor that had emerged from the Second World War.

The Dark Ages: The 1980s and 1990s

Although most closely associated with the Thatcher era, neoliberalism did not suddenly emerge from nowhere. Thatcherism had been prepared for over a long period by a growing number of right-wing think tanks influenced above all by the work of Friedrich Hayek and, notably in the early years, the Institute of Economic Affairs. This ideological offensive focused around the two principal components of Hayek's thought: the danger to freedom posed by discretionary state activity, and the role of markets as the institution best suited to guaranteeing individual freedom. This was a radical Right alternative vision to the paternalism of the post–Second World War social-democratic welfare state. It had an increasing resonance with people's rising aspirations for more control over their lives, and for more responsive services from the welfare state and the nationalized utilities, as real incomes rose and memories of the interwar period faded. However, it sought to articulate these aspirations within a hegemonic neoliberal individualism, rather than realize them through a turn to radical economic, social, and political democracy.[9]

In the 1970s and early 1980s British politics could be seen as being characterized by two main dimensions—Left-Right and radical-conservative. The postwar social-democratic consensus was between the conservative Left and Right. The crisis of social democracy meant that this consensus was no longer viable. Radical change was required. The radical alternative economic strategy was the attempt of a minority on the Left to respond to this challenge and hegemonize people's rising aspirations within a Left perspective by articulating them in a society-wide project of deepening democracy. As we have seen, this attempt was opposed by the conservative Labour Right and the equally conservative economistic militant Left. Of course, the radical alternative economic strategy had its weaknesses: a residual statism and productivism; insufficient awareness of the issues raised by the new social movements—feminist, antiracist, and environmental; and an overly narrow focus on the national economy. Nevertheless, it was a heroic effort, and its failure left the field wide open for the neoliberal radical Right.[10]

The first half of the 1980s saw the effective destruction of militant laborism, culminating in the defeat of the last great miners' strike of 1984–85. Anti–trade union legislation transformed the character of the trade union movement from a defender of workers' interests in the labor market and the workplace into a provider of personal services to its members. Trade union membership fell dramatically, partly as a result of the new legislation, but also because of the process of deindustrialization under way, which affected disproportionately the more densely unionized industries. Unemployment, which had averaged 3.8 percent during the 1970s—already double the rate of the 1960s—rose to an average of 9.6 percent in the 1980s. Correspondingly, inflation, which had averaged 13.9 percent in the 1970s, fell to an average of 6.4 percent in the 1980s.[11] Incomes policies having failed in the 1970s, the 1980s saw the recreation of mass unemployment as a means of disciplining labor. This was also central to creating the conditions for the process of replacing collective consciousness and solidarity with an individual consciousness in which people think of themselves primarily as individual workers and consumers, not as citizens.

In addition to policies that directly changed the balance of forces in society, there were also policies to provide incentives to embrace the emerging, new, individualistic common sense of the age. Although privatization through capital market flotations and top-management buyouts transferred public property to the private sector at knockdown prices, resulting in scandalous capital gains, it also sought to create the illusion of a people's capitalism by significantly increasing the proportion of the population that owned shares. Of course, this occurred at the same time as the concentration of share ownership in the largest holdings continued to increase, but it nevertheless had an ideological effect. Similarly, the introduction of the right of tenants to buy their council houses also contributed to the ideology of a property-owning democracy.

It took a long time to roll back the historic gains of labor that underlay the postwar consensus and the era of social democracy, and even today there are significant differences in the extent to which this has occurred in different countries. In Britain it was not until the early 1990s that the changed balance of forces and the lowering of expectations, with a corresponding reduction in the rate of inflation, were consolidated. By the mid-1990s the inflation rate had fallen from the 1980s average of 6.4 percent to between 2 percent and 3 percent, and it has remained at this level ever since. Unemployment fell from an average of 9.6 percent in the 1980s to an average of 7.9 percent in the 1990s and has been around 5 percent since 2001, without this resulting in an increase in inflation.

This last period of relatively low unemployment and low inflation shows that it is a mistake to argue, as some have suggested, that there is an inverse relation between unemployment and inflation, irrespective of the period concerned. This relationship did hold during the long boom in the era of social democracy, although the variations were small. However, the changed balance of forces in the new era of neoliberalism, and the associated lowering of aspirations, means that the relationship no longer holds, although it is worth remembering that unemployment at around 5 percent is still significantly higher than the 1960s average of 1.7 percent and the 1970s average of 3.8 percent. This is a salutary reminder of the power of ideology, which, when it becomes widely accepted, acts as a material force in society, shaping behavior and setting limits to what is thought possible.

Of course, the mass unemployment that reemerged in Britain during the 1980s and the first half of the 1990s, and still persists today in much of continental Europe, was not the only new factor contributing to the changed balance of forces underpinning neoliberalism. Three other major developments have to be taken into account. First, there has been a big increase in global competition. The ability of capitalists to increase prices in the face of rising wages and import prices is heavily dependent on the degree of competition between them. The process of globalization, encouraged by the national governments of the leading capitalist countries and animated by the multinationals, has to a large extent undermined the old oligopolistic relationship between capitals within the national economy, and this has greatly increased the intensity of competition worldwide. Second, the change in the balance of power brought about by decolonization has been undermined by the neoliberal policies imposed on the third world by the IMF, the World Bank, and the World Trade Organization (WTO), although there are now signs of growing opposition to the new U.S. imperialism. Finally, the reemergence of mass unemployment and the dominance of U.S.-driven policies of privatization and deregulation were at least in part made possible by the weakening and then collapse of the Soviet Union and its allies, which left the United States as the sole superpower for the time being and capitalism as the only game in town.

The Role of New Labour: A Future for Social Democracy?

The 1980s was the decade in which the historic bloc underpinning the postwar consensus was decisively destroyed, but this process was not without its costs, and this resulted in growing opposition. The increasing unpopularity of Thatcher with the electorate culminated in the Conservative Party palace coup in 1990 that replaced her with John Major. However, despite his subsequent unexpected 1992 election victory, Major can be seen as a transitional figure and, by 1997, after 18 years of Tory rule, the country had had enough. What can be said about the role of New Labour in the new context? To what extent can it be seen as providing a renewed impetus to social democracy?

Even though New Labour assumed office as the principal beneficiary of a partial rejection of policies associated with neoliberalism, it was from the start fully committed to the neoliberal agenda that Thatcherism had gone a long way to making the new common sense of the age. Far from seeking to overturn this new common sense, New Labour embarked on an altogether different project. While Thatcherism had destroyed the old historic bloc and created the basis for a new neoliberal era, it had not yet succeeded in creating a new historic bloc in which neoliberal principles and policies became the generally accepted ideological cement holding it together. This was to become the historic mission of New Labour.[12]

Economically, New Labour has pursued a relentless neoliberal free market strategy, seeking to create and consolidate a corporate, business-friendly, domestic and global environment. However, it is in relation to the welfare state that the distinctive character of New Labour's neoliberalism is apparent. After the initial period in which it accepted the public-expenditure plans of the Conservatives, New Labour has significantly increased public expenditure, but on strict conditions, conditions it has sought to impose through an unremitting centralization of power, the proliferation of unaccountable charitable or not-for-profit agencies, and the sidelining of local government.

The organizing principle of the "modernizing reforms" on which New Labour has insisted as the price for increased public expenditure has been the transformation of the public sector from being operated on the basis of public service to being operated on the basis of market principles and "value for money." It is premised on the ideology that the private sector and business people are more efficient than the public sector and public servants. Patients, students, passengers, clients, and citizens have been redefined as consumers. Public servants have been replaced by business people, managers of marketized state and nonstate agencies, and social entrepreneurs. The ideological rationale behind these changes has been the desire to end the power of bureaucracy and vested professional interests, transfer power from producers to consumers, and give people control over their lives by providing choice. This was started by Thatcherism but has been generalized and universalized by New Labour and given a material basis by the increased public expenditure.

Freedom from the paternalistic "nanny state"—that is, assuming personal responsibility for one's own life through the exercise of market choice—has also been the smokescreen under which the role of the state has been transformed from that of collective provision and solidarity on behalf of society as a whole, of people as citizens, into that of "helping people to help themselves." Policies to encourage those not working back into the labor force have resulted in some reduction in poverty, especially child poverty. However, this has coexisted with an increase in inequality, as corporate directors have also helped themselves, irrespective of corporate success, to massive bonuses, capital gains, and golden handshakes. What remains of the citizen-based solidaristic principle is confined to the provision of a safety net for those who cannot be brought to fend for themselves. Thus, New Labour is consciously creating a two-tier system, in which those who can, look after themselves, and those who can't, or won't, receive charity provided by a reluctant and disapproving state.

Despite the continuing resistance to New Labour's strategy of economic neoliberalism and the neoliberal marketization of the state, it would be a mistake to underestimate the potential attractiveness of aspects of this strategy. The statism, paternalism, social engineering, inefficiency, and prioritization of producer over consumer interests associated with reformist social democracy all proved increasingly unpopular. The operation of representative democracy, with voters asked to choose a government at periodic intervals and then let it get on with deciding policy and implementing it, in the period of consensus when the outcome made less and less difference, led to disillusionment with the political process and falling turnout at elections. People sensed that radical change was needed. As already stated in the beginning of this chapter, the reason why the 1970s are so crucial for an understanding of the present situation is that this was the decade in which the dynamic for necessary change was hegemonized by the neoliberal agenda. This does not mean that change was not necessary. The alternative to New Labour's neoliberal marketization of all aspects of life cannot be a return to Old Labour's paternalistic social democracy. It must instead be a move toward radical democratization.

The New Millennium: Insights from the Political Economy of the Past

Politics in the New Millennium is characterized by the overwhelming dominance of the neoliberal agenda. There are, as always, movements of resistance and dreams of another world being possible. The Polanyian countermovement is under way. However, until a forward-looking project of radical democratic renewal and reconstruction is developed, these movements will not become a coherent force, a force that could be sustained in the long run, for fundamental change. The situation confronting the planet could hardly be more threatening—global capitalism is proving increasingly incompatible with social justice, ecological sustainability, and the rule of law, nationally and internationally. The principal insight to be drawn from the political economy of the 1970s and after is the need for a historical perspective and a hegemonic strategy. As we have seen, Thatcherism did not emerge from nowhere. Unlike New Labour, it did not seek to adapt to and consolidate an existing agenda. It was carefully prepared for and represented a conscious attempt to change the agenda, to alter the common sense of the age. It was an immensely successful hegemonic strategy.

Policies are, of course, essential, but they are not enough. They need to be shaped in relation to the social forces existing and developing in society with a view to reconfiguring them in a transformatory way, so that these forces come together to form a new historic bloc articulated around a radical democratic agenda for civil society, the state, and the economy. The organizing principles of such a bloc might be democratization, not marketization; citizens, not consumers; solidarity, not selfishness; participation, not alienation; ecological sustainability and social justice, not ecological degradation and increasing inequality. There is no shortage of social forces, overlapping and intersecting, that might potentially come together to constitute such a new historic bloc. What is missing, however, in this age of public historical amnesia, is a collective consciousness of the lessons to be drawn from the past half-century and the confidence that with strategic vision another world really is possible.[13]

A hegemonic strategy for today must be based on radical participatory democracy. Disenchantment with conventional representative politics coexists with endless examples of people seeking control over their lives in relation to issues that affect them directly or that they care passionately about. Movements against environmental degradation and for a better quality of life are to be found among the poor of the third world as much as among the more affluent in the industrialized world.[14] It is increasingly evident that global ecological sustainability and global social justice are necessary conditions for each other—and equally evident that neither is possible within a global capitalist system that generates inequality and is driven by a dynamic of continuous economic expansion. The changes required to achieve a better quality of life for all are so great that they can only be realized through a participatory process seeking negotiated consensus. The development of a hegemonic strategy around this perspective requires the coming together of the Left and green movements, the two social forces with an interest in the profound transformations that are necessary.

Notes

1. For a discussion of the relationship between Polanyi and Gramsci, see M. Burawoy, "For a Sociological Marxism: The Complementary Convergence of Antonio Gramsci and Karl Polanyi," *Politics and Society* 31, no. 2 (2003): 193–261.
2. For a detailed analysis of the basis of the postwar settlement, see P. Addison, *The Road to 1945: British Politics and the Second World War* (London: Cape, 1975).
3. For an analysis of the postwar "golden age," see A. Glyn, A. Hughes, A. Lipietz, and A. Singh, "The Rise and Fall of the Golden Age," in *The Golden Age of Capitalism,* ed. S. Marglin and J. Schor (Oxford: Clarendon, 1990).
4. On the profits' squeeze, see A. Glyn and R. Sutcliffe, *British Capitalism, Workers and the Profit Squeeze* (Harmondsworth: Penguin, 1972).

5. M. Kalecki, "Political Aspects of Full Employment," *Political Quarterly* 14, no. 4 (1943): 322–31.
6. For a fuller discussion of the conflict theory of inflation, see P. Devine, "Inflation and Marxist Theory," *Marxism Today* (March 1974): 70–92, and P. Devine, "The 'Conflict Theory of Inflation' Revisited," in *Political Economy and the New Capitalism,* ed. J. Toporowski (London: Routledge, 2000); and also R. Burdekin and P. Burkett, *Distributional Conflict and Inflation: Theoretical and Historical Perspectives* (Basingstoke: Macmillan, 1996).
7. The lower rates of growth associated with higher unemployment also had the incidental effect of weakening the demand for primary commodities, thus shifting the terms of trade against the commodity-producing countries.
8. On the alternative economic strategy, see S. Aaronovitch, *The Road from Thatcherism: The Alternative Economic Strategy* (London: Lawrence & Wishart, 1981).
9. For an analysis of the politics of Thatcherism, see A. Gamble, *The Free Economy and the Strong State: The Politics of Thatcherism* (Basingstoke: Macmillan, 1988).
10. For a discussion of the strategy's weaknesses, see S. Aaronovitch, "The Alternative Economic Strategy: Goodbye to All That?" *Marxism Today* 30, no. 2 (1986): 20–6.
11. All figures in this article are taken from the European Commission, *European Economy: Annual Report for 2004* (Brussels: Directorate-General for Economic and Financial Affairs, 2004).
12. See S. Hall, "New Labour's Double-Shuffle," *Soundings* (November 2003).
13. For a survey of Left policies since the 1970s, see N. Thompson, *Left in the Wilderness: The Political Economy of British Democratic Socialism since 1979,* (Chesham: Acumen, 2002).
14. See J. Martinez-Alier, *The Environmentalism of the Poor—A Study of Ecological Conflicts and Valuation* (Northampton, MA: Edward Elgar, 2002).

3

The Slight Transformation: Contesting the Legacy of Karl Polanyi

Hannes Lacher

Introduction

The postwar reconstruction of domestic and international orders ushered in a new political economy of capitalism. It entailed a far-reaching reorganization of social relations and economic institutions and accorded to the state an important role in the management of the economy. Many of the institutions of classical liberalism were displaced by interventionist mechanisms. The welfare state consolidated and extended multifarious forms of protection accorded to labor. A new level of labor-market regulation and public provisioning transformed the conditions under which people worked and lived, leading to higher incomes for large groups of society, and creating a higher degree of security for them both in the workplace and beyond. International institutions were created to facilitate the regulatory functions that these welfare states had assumed, supported by a conducive exchange-rate regime and restrictions on capital mobility.

Capitalism, therefore, underwent an important transformation both of its institutions and its logics of accumulation and social contestation. But none of these changes should be understood as even the partial fulfillment of Karl Polanyi's vision of an economy that was "re-embedded" in society.[1] Indeed, I will argue that *the great transformation anticipated by Polanyi never happened.* What occurred in the postwar period, significant as it was, cannot be conceptualized in terms of a shift from disembedded to reembedded markets if we take Polanyi's own criteria for such a transformation seriously. In what follows, I will seek to reconstruct these criteria based on

A. Buğra et al., *Reading Karl Polanyi for the Twenty-First Century*

Polanyi's account of the emergence of market economy and market society. This task will be preceded by a reconsideration of exactly what Polanyi expected for the post-war period and of his initial reaction to the emergence of what has since come to be called "embedded liberalism."

By 1945, Polanyi realized that the reembedding of the market, which he considered all but inevitable during the writing of *The Great Transformation,* was not a foregone conclusion. He began to recognize that it faced radical opposition from the United States, where the New Deal had not been able to dislodge the commitment to the liberal market utopia. "The New Deal may well prove the starting point of an independent—American—solution of the problem of an industrial society, and a real way out of the social impasse that destroyed the major part of Europe. That time, however, has not yet come."[2] In the end, the New Deal became the basis for such an independent solution—one very different from the solution Polanyi imagined. Rather than a further radicalization of the New Deal that Polanyi considered necessary, the basis for this internationalization became a retrenched and severely curtailed form of New Deal politics. As a radically universalizing program of global capitalist reconstruction, it swept away the movement toward democratic socialism and regional planning that for Polanyi were to be (and for some time had seemed able to become) the twin foundations of the new great transformation.

Ironically, it is this triumph of a reconstructed, non–laissez-faire form of liberalism over the principles Polanyi championed, that has since come to be associated, even identified with Polanyi's great transformation. I will argue that this was the consequence of a misunderstanding of the concept of embeddedness, and the failure to recognize its qualitative, indeed ontological, distinction from the category of protectionism or "self-protection."

Resurrecting the Market: Capitalist Universalism and U.S. Hegemony

Taking stock of the global situation just before the end of the war, Polanyi in a little-known article titled "Universal Capitalism or Regional Planning?" reaffirmed his basic claim that liberal capitalism has collapsed. Domestically, he considered the "chances of democratic socialism" both within the heartlands of capitalism and in the Soviet Union as "greatly improved." Internationally, Polanyi diagnosed the emergence of a "new permanent pattern of world affairs," which he describes as one of "regional systems co-existing side by side."[3] What distinguished these new types of societies, from the UK to the USSR, was that they were inherently national or regional as they were all based on some form of planning rather than the universalism of world market integration.

Despite this optimistic description, the tenor of Polanyi's article is pessimistic. The reason is to be found in the document that laid the basis for the post-1945 international economic system: the Atlantic Charter—the foundational document, as it were, of post-war "embedded liberalism." Uncertain about how seriously its commitment to the reestablishment of a liberal world economy was to be taken, Polanyi nevertheless felt compelled to warn: "If the Atlantic Charter really committed us to restore free markets where they have disappeared, we might thereby be opening the door to the reintroduction of a crazy nationalism into regions from which it has disappeared."[4] If UK remained committed to this document, it would not only be likely to eschew cooperation with Russia, but engage on a path of action that would ultimately destroy the basis for interregional cooperation between planned economies. Faced with the prospect of (democratic) socialism, British elites, "contrary to national interest, . . . might attempt to restore universal capitalism, instead of striking out boldly on the paths of regional planning."[5]

The impetus for such a return to the market would not, however, come primarily from within UK. It was the United States that represented a principle completely opposed to the regional planning: "The US fits into one pattern, that of nineteenth century society, while all other powers, including Britain herself belong to another, which is in course of transition to a new form."[6] This argument rests on what appears to be a fundamental reevaluation of the New Deal since the writing of *The Great Transformation.* Rather than linking the New Deal with the general move toward "'re-embedding" and planning, Polanyi now had become much more cautious: "Americans almost unanimously identify their way of life with private enterprise and business competition—though not altogether with classical *laissez-faire*. . . . The Great Depression of the early thirties left this predilection unimpaired, and merely dimmed the aura of adulation which surrounded *laissez-faire* economics."[7]

This shift in Polanyi's understanding of the New Deal may reflect a recognition that the New Deal itself was undergoing a fundamental transformation during the war years. In his outstanding study of the *War Against the New Deal: World War II and American Democracy,* Brian Waddell shows that the initial New Deal welfare state was conceived by its supporters as an encompassing solution to the problems of accumulation and governance persistent in U.S. society, as a project of late nation building that involved the democratization of the public sphere along with a breaching of the sacrosanct character of the private realm of economic decision making in order to integrate a conflict-ridden society. Yet the New Deal coalition was fought to a standstill by conservative forces in the state and industry, and important reforms were blocked and even partially rolled back. This stalemate was finally resolved during the war. It involved not a return to the antistatist laissez-faire economic policy and institutional structure favored by most business leaders and entrepreneurs, but a shift to a "limited Keynesian role for the national state."[8]

This state was, as Polanyi no doubt recognized by 1945, "qualitatively different from the welfare and regulatory state undergoing construction during the New Deal."[9] The crisis of U.S. society was resolved not so much through a welfare state rooted in the New Deal, but through a national security state that built up its capacity to intervene internationally while containing domestic interventionism. Foreign interventionism in support of a program of capitalist universalism was crucial as postwar economic stabilization and growth was to be secured not through further expanding domestic rights and entitlements, but through world market expansion and integration.[10] Far from an internationalization of the strong regulatory framework of the initial New Deal, therefore, the U.S.-led construction of international political and economic order was informed by a global strategy that sought to displace the New Deal from the center of governance at home, while disseminating the mechanisms of "soft" liberal interventions abroad. The institutions of global governance, meanwhile, were built around the same corporate-friendly form of Keynesianism that represented the defeat of the New Deal at home.

Polanyi grounded the exceptionalism of the United States in the continuing belief of "Americans" in liberal (but not necessarily laissez-faire) capitalism rather than in the shifting balance of social forces, yet he had by 1945 come to the conclusion that the United States was seeking to resurrect the market utopia, including the gold standard. "The United States has remained the home of liberal capitalism and is powerful enough to pursue alone the Utopian line of policy involved in such a fateful dispensation."[11] Dismissing as "mere quibble" the objection that a return to the pre-1914 gold standard was impossible, Polanyi asserted: "The *old* standard is, of course, as dead as a doornail; and no one will dream of resuscitating it . . . But, unfortunately, what America is striving for is not the mere shadow or the empty name, but the substance of the gold standard."[12] For Polanyi, the ultimate point of this strategy—which by this time had become codified in the form of the dollar-gold standard in the Bretton Woods agreement of July 1944—was the battle against regional planning, and thus against society's control over the market. But, as, Charles Maier points out, between 1944 and 1947, "The emphasis on free convertibility of currencies and stable exchange rates, as stipulated in the Bretton Woods agreements and aid to Britain, were designed, in part, to limit London's capacity to organize a separate trading bloc."[13] UK succumbed, as Polanyi had feared it would, to constant U.S. pressure to liberalize its trade and currency regimes.

The U.S. postwar strategy was ultimately geared, then, to turning the world back from the brink of the great transformation envisaged by Polanyi. Regional planning and democratic socialism—the twin hopes on which Polanyi grounded his notion of a great transformation—were dead soon after the war. Bretton Woods signified the comprehensive defeat of

Polanyi's hopes, not their realization. In many countries, elements of the regulatory frameworks of the 1930s and early 1940s survived (which in themselves were far from fulfilling the criteria for a reembedding of the economy), but they too, became subordinate elements within market-based frameworks. In Polanyian terms, therefore, the postwar changes that *did* take place can only be considered a "slight transformation."

The Meaning of "Embeddedness"

If postwar societies were clearly no longer based on the classical notion of economic laissez-faire, they were even less instances of "societies with markets" in the sense that mercantilist France or imperial China were. More than ever, and more radically than ever, these societies had the market as their "fount and matrix." We begin to grasp better why this order was far removed from Polanyi's hopes and expectations when we set out what he meant by social embeddedness and disembedding. The initial disembedding of the economy was the content of the first great transformation, which, starting with the Industrial Revolution, gave rise to the market economy. What was the nature of this transformation that Polanyi characterizes in terms of a radical break with all past history? In *The Great Transformation* we find a number of interlinked aspects of the "dis-embedded" market system, which by inversion can serve as criteria for our analysis of the postwar system in terms of "embeddedness."

The centrality of the profit motive

All societies have to secure their material reproduction through the interaction of men and women with nature. In most historical societies, however, the production and distribution of goods through which individuals, and society as a whole, sustain themselves were not governed by specifically economic motives. Instead of the calculation of expected profits, political, religious, or cultural motives regulated both production and distribution in these societies.[14] In this sense, these "economies" did not form self-referential systems of action based on a distinctive economic form of rationality. The economy, then, was "submerged" in the general structures of society.

The radical break with this form of organizing the reproductive relationship between humanity and nature came, according to Polanyi, in the early nineteenth century, in response to the requirements of the machine age. "All types of societies are limited by economic factors. Nineteenth century civilization alone was economic in a different and distinctive sense, for it chose to base itself on a motive only rarely acknowledged as valid in the history of human societies, . . . namely, gain."[15] For classical political economy and neoclassical economics, the profit motive was a given, deduced from human nature or the structure of competition. For Polanyi, by contrast, the question is how such a specifically economic interest came into existence. He argues that this requires a political act that deprives men and women from the very possibility of producing for their subsistence by withdrawing state and communal protection from them, forcing them to sell their labor, and deregulating the sale of land and the use of money. It is in this way that *the* market comes into existence, whose logic and dynamic is fundamentally distinct from premodern product markets.

The great transformation of the early nineteenth century thus put the profit motive at the center of society's interaction with nature. "The transformation implies a change in the motive of action on the part of the members of society: for the motive of subsistence that of gain must be substituted. All transactions are turned into money transactions, and these in turn require that a medium of exchange be introduced into every articulation of industrial life. All incomes must derive from the sale of something or other."[16] This emergent centrality of the profit motive was not a mere shift in "mentalities." It was the result of a fundamental transformation in the very structure of society that forced people to pursue profitable economic enterprise or earn wages if they wanted to survive and maintain their social position. The principle that now, under such structural conditions, guides the interaction between individual men and women with nature for their reproduction is therefore one that is distinctively "economic."[17] The act and process of material reproduction is no longer socially determined in terms of the values it is governed by, but derives its impetus from within itself: the constantly increased production of economic values is itself the overriding goal of "man's interaction with nature." Critically, for society at large, this means that the calculation of profitability now inserts itself between society and its ability to secure the conditions of its reproduction.

The question here is whether the postwar period can be described in any meaningful sense in terms of the abolition of the profit motive as the guiding principle of economic action. Nothing could be further from the reality of postwar embedded liberalism.[18] This order was built precisely on the reassertion of private rights over investments based on calculations of expected profits that postwar states guaranteed in return for some protection and limited welfare gains for core workers. The essence of the Fordist bargain, according to Maier, was "the increasing satisfaction of material wants in return for a restoration of industrial authority."[19] Contrast this with Polanyi's assertion that the "motives of human individuals are only exceptionally determined by the needs of material want-satisfaction. That nineteenth century society was organized on the assumption that such a motivation could be made universal was a peculiarity of the age."[20] In this respect, too, the postwar system represented a continuation of nineteenth-century-market society.

It is crucial here that we remind ourselves of the central thrust of Polanyi's historico-cultural anthropology: again and again he reminds us that the problem of the market system was not exploitation and low wages (a *problematique* that informs both the Marxist and the social-democratic political projects) but the degradation of social relations, the destruction of the substance of humanity and its natural environment.[21] The crucial failing of market society was not, according to Polanyi, that labor was exploited, but that the carriers of commodified labor were now adjuncts to the market. "To separate labor from other activities of life and to subject it to the laws of the market was to annihilate all forms of organic existence and to replace them with a different type of organization, an atomistic and individualistic one."[22] No longer able to develop their full humanity, because market society insisted on treating individuals as commodities rather than human beings with a plethora of values, interests, and non-marketable capabilities, human relations were bound to undergo degradation. Thus, for Polanyi, "a social calamity is primarily a cultural not an economic phenomenon. . . . Not economic exploitation, as so often assumed, but the disintegration of the cultural environment of the victim is then the cause of the degradation."[23]

Polanyi, we have to recognize at this point, does not fit the various political-economic frameworks for which he has been claimed. His concern was emphatically not with the question of "who gets what, when, and how" that underpins contemporary political economy, economic sociology, and institutional economics, nor was his political project that of facilitating higher incomes, purchasing power, macroeconomic stability (within the context of a market system), and creating a mass consumer society. Nor does the postwar order conform to the criteria of embeddedness that we can derive from the foregoing discussions. The materialism that Polanyi so deplored, which resulted from the centrality of the profit motive, became, with Fordist mass production/consumption, more deeply inscribed into this order than in any of the preceding periods of liberal capitalism. The new forms of mass consumerist integration, far from overcoming individualism and atomism, further entrenched them. Crucial to this was the reconstitution of workers and citizens as consumers, the creation of an individualistic common sense, and the acceptance of capitalist social institutions as limits to the social imagination.[24]

The dehumanizing dimensions of Fordism were, unsurprisingly, not least among the reasons for the student revolts of 1967–1968. If Polanyi is correct, then, in insisting that the "true criticism of market society is . . . that its economy was based on self-interest,"[25] this criticism clearly continues to apply to the postwar order of embedded liberalism. Put differently, if the defining move in the creation of market society was the shift from subsistence to profit, then the new great transformation, while not entailing a return to agrarian societies, would clearly have to entail the displacement of the profit motive from its central position within the economic sphere itself, and within society at large. Nothing of the kind happened after 1945.

The commodification of land, labor, and money

The prevalence of the profit motive in nineteenth-century civilization (and beyond) was, according to Polanyi, itself the consequence of the commodification of land, labor, and money. This process led to a uniquely materialist society, but economic and material forces cannot account for this historical turn. Economizing behavior, inasmuch as it existed, could not produce the cumulative effect of a price-setting market, as the "social patterns" of premodern societies did not allow for this. How then did that historical rupture occur? Identifying the central elements of Polanyi's argument will allow us to derive further criteria for our evaluation as to whether a second great transformation took place after 1945.

The crucial step, according to Polanyi, came with the Industrial Revolution, which required that all inputs for industrial production be for sale in order to make possible the large-scale investments that were now required. In response to this, UK adopted, in the first third of the nineteenth century, a liberal economic and social policy that promoted the full commodification of labor, along with the lifting of restrictions on the use of land and money. With this transformation, subsistence could no longer be a dominant motive of material life. Those without their means of subsistence must now work for wages under conditions that, initially at least, allowed few restrictions on the terms of the use of labor. The capacity for work had been commodified, and the ability of any individual to secure their livelihood had become subject to their ability to compete for employment in the labor market. Those who now controlled the land and tools, by contrast, found themselves in a situation where they were able to pursue the profitable combination of the various "factors of production" in the production of goods for sale, but they also found themselves forced to produce profitably in order to secure their incomes in competition with other suppliers of goods.

Thus, the emergence of nineteenth-century civilization and the elevation of the profit motive to the center of economic organization were not simply the products of an ideological shift toward laissez-faire. Moreover, the self-regulation of this market that is constituted by the very act of commodifying land, labor, and money was not a mere liberal illusion or ideology that would disappear once people stopped believing in it. The commodification of productive "inputs" established the market as an institution that would impose its imperatives on society even when few took the liberal creed seriously anymore. Both the profit motive and the self-regulating market were grounded in a transformation of the very nature of social organization that amounted to a historical rupture that separates market society from all other societies. It is on this order of magnitude, too, that Polanyi formulates his expectation of a new great transformation:

> The market system will no longer be self-regulating, even in principle, *since it will no longer comprise labor, land, and money.* To take labor out of the market means a transformation as radical as was the establishment of the competitive market. The wage contract ceases to be a private contract except on subordinate and accessory points. Not only the conditions in the factory, hours of work, and modalities of contract, but the basic wage itself, are determined outside the market. . . . To remove the land from the market is synonymous with the incorporation of land with definite institutions such as the homestead, the co-operative, the factory . . . However widespread individual ownership of farms will continue to be, contracts in respect to land tenure need deal with accessories only, since the essentials are removed from the market. The same applies to staple foods and organic raw materials, since the fixing of prices in respect to them is not left to the market. . . . The nature of property, of course, undergoes a deep change in consequence of such measures since there is *no longer any need to allow incomes from the title of property to grow without bounds, merely in order to ensure employment, production, and the use of resources in society.*[26]

Now who could claim that such a form of social restructuring, even approximately, actually did take place after World War II? To be sure, factory conditions or hours of work were shaped through state intervention (as they had been ever since the 1840s). But labor was most decidedly not taken out of the market and wages largely determined within the market; contracts remained private far beyond "subordinate" points; land remained under private control, and its use, like industry, subject to private profit maximization strategies. Prices for most staple food products and raw materials remained market prices, except for some (mostly temporary) exceptions. And property: as we have seen, the nature of the postwar compromise, which can now be recognized for its very different social content than Polanyi expected, was precisely the reassertion of private control over productive property and investment decisions. In fact, the postwar "politics of productivity" are premised precisely on the idea that "incomes from the title of property" had to be allowed to grow without bounds in order to ensure full employment and investment.

The welfare state, such as it was, always remained dependent on and circumscribed by its ability to foster the profitability of private investments.

Even though some scholars of the welfare state, such as Esping-Andersen, argue that the essence of social policy in the welfare state was the "relative de-commodification" of labor (a concept Esping-Andersen distinguishes from "de-proletarization," which was precisely what Polanyi had in mind), they also make it quite clear that this system remained premised on the market.[27] The welfare state supplemented the market system in a way that accepted the market as the primary institution of material reproduction, whose growth (which presupposed the reasonable expectation of private profits from private investment decisions) made it possible to finance limited alternative forms of income. Nonmarket incomes thus remained conditional on the expansion of the market system and the realization of private gain. And while some, finally, have suggested that the restrictions on capital mobility under the Bretton Woods regime have contributed to a "nationalization" of money, it also has to be noted that the role of the "cash nexus" in postwar societies increased.[28] Again, clearly the forms of state intervention that the welfare state entailed are incompatible with the notion of laissez-faire economics. But then, as we will see below, Polanyi never claimed that laissez-faire was the essence of the market system.

The self-regulating market

Welfare capitalism is often misunderstood as a system of *societies with markets* (rather than *market societies*). This is based on the application of Polanyi's dictum that after the new great transformation, markets will no longer be self-regulating. But we have already seen that, for Polanyi, the mainspring of self-regulation was the commodification of land, labor, and money, something that clearly did not disappear after 1945. Could it be, then, that Polanyi meant something very different by economic self-regulation than the absence of state intervention?

Polanyi defines the market economy as "an economic system controlled, regulated and directed by markets alone; order in the production and distribution of goods is entrusted to this self-regulating principle."[29] There is no doubt that the postwar economies were *not* controlled, regulated, and directed by markets alone. States played an important role in economic regulation, sometimes even assuming a degree of direction and control over the market. And yet the market remained self-regulating *in principle* even while its functioning was *impaired* because the underlying commodification of labor, land, and money, which is constitutive of the market economy, was not brought to an end. Clearly, this claim, more than any other, will be regarded with exasperation by most self-professed Polanyians. We need, therefore, delve more deeply into the question of what it means for an economy to be regulated by the market—and what would be entailed in a regulation of the economy by some other mechanism, such as redistribution.

It is necessary here to remind ourselves what self-regulation, at its core, means for Polanyi: the existence of a motive of economic action that is itself economic in nature in that it has as its aim the increase in a person's possession of goods.[30] If this is present, it gives rise to a "separate and distinct institution based on economic motives."[31] But how else could the economy, that is, humanity's reproductive relationship with nature, be organized? According to Polanyi, this will then take one of three forms of behavior, each of which cannot be understood as "economic," as they are all guided by primary concerns other than the accumulation of goods itself. These principles are reciprocity, redistribution, and householding, to which the market system adds exchange (or "truck, barter, and trade"). The question, then, is which of these behavioral principles will prevail in any particular historical society. As Polanyi points out, "Principles such as these cannot become effective unless existing institutional patterns lend themselves to their application. Reciprocity and redistribution are able to ensure the working of an economic system without the help of written records and elaborate administration only because the organization of these societies in question meets the requirements of such a solution with the help of patterns such as *symmetry* and *centricity.*"[32] The institutional pattern that corresponds to the principle of exchange is the market, while autarky corresponds to householding.[33]

This distinction between *social patterns* and *principles of economic behavior* is crucial to the interpretation of Polanyi's argument on the nature of the first and second great transformations. They allow us to understand why such trade as existed in the mercantilist period did not, and could not, lead to a market economy with its commodification of labor, land, and money.[34] For such trade took place within an institutional pattern of centricity that allowed trade only an ancillary part, and prevented the pursuit of profit from gaining hold over the material reproduction of society. The social pattern of a society is constitutive of the nature and role of economic organization in a society. Its corresponding economic principle will integrate the economy if it is dominant, yet the other principles will be present in a subordinate position. Thus, in an economy based on centricity, it will (or should) be redistribution that organizes and integrates the economic process. Some exchange will occur, yet its meaning and dynamic will be different than in a society based on the market pattern.[35]

Problems arise, however, if there is a disjuncture between the pattern of a society and its dominant behavioral principle. This is the case, more than anywhere else, in market societies, for "the principle of barter is not on a strict parity with the three other principles. The market pattern, with which it is associated, is more specific than either symmetry, centricity or autarchy—which, in contrast to the market pattern are mere 'traits,' and do not create institutions designed for one function only."[36] The market pattern demands a much more exclusive role of exchange as its form of economic behavior and integration than is the case in the relationship between other patterns and their corresponding principles. It can tolerate other modes of allocation such as redistribution and reciprocity only within severe limits. For the market pattern, uniquely, gives rise to a distinct institution, the market.

> Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it 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 . . . For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in a such a manner as to allow that system to function according to its own laws.[37]

The point which Polanyi is making here is critical: once the market system is established through the commodification of labor, land, and money, the state and society will have to accept the sway of market forces and avoid interference with the market in such a way that its price-setting functions would be rendered dysfunctional. This, for Polanyi, was not just an ideological assertion of the separation of political and economic sphere that could be disregarded without negative consequences. For although it was an ideological belief in the benefits of the market that had first given rise to these processes of commodification, once this transformation of the structure of society, of the basic social relations of humanity, had taken place, the material reproduction of society and the livelihood of its members was now existentially dependent on it. Thus, the "commodity fiction," a fiction that had nevertheless become very real, "handed over the fate of man and nature to the play of an automaton running in its own grooves and governed by its own laws."[38]

Clearly, in the end, we have to conclude that markets after 1945 were not entirely self-regulating in the strict sense invoked by Polanyi. Depending on which of Polanyi's various specifications of self-regulation we choose, the postwar order will appear as less rather than more closely aligned with "self-regulation." For instance, though prices remained central to the functioning of these markets, states were very much involved in the management of supply and demand. For most workers in the West, survival was no longer immediately threatened, though their ability to supply themselves with the "necessities of life" remained very much dependent on the market. The Fordist culture of mass consumption, rooted in the postwar "politics of productivity," now underpinned the persistence and elevation of the materialism that for Polanyi was the ultimate form of societal degradation.

The postwar order, therefore, deviates quite significantly from the demands of a pure market model. And yet, it has even less to do with a society in which the economy has been resubmerged in the social in Polanyi's equally restrictive sense. Consider Polanyi's requirements for a "society with market" in the postwar context: In the final pages of *The Great Transformation,* he notes that despite the end of the commodity fiction he envisaged, "the end of market society means in no way the absence of markets. These continue, in various fashions, to ensure the freedom of the consumer, to indicate the shifting of demand, to influence producer's income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of economic self-regulation."[39]

The crucial difference of these markets, that which would make them once again part of the fabric of society rather than the masters of social life, was to be their limitation to *product* markets. Prices for products could remain subject to supply and demand (as they had been in premodern periods of history), yet the sine qua non for this system, if it was to achieve the reembedding of the market, was that prices for labor, land, and money would have to be fixed outside of the market.[40] The market will no longer be self-regulating, not because of government intervention—which, as Polanyi shows throughout his book, accompanied the liberalizing trend of nineteenth-century civilization from its outset—but because it "will no longer comprise labor, land, and capital. To take labor out of the market means a transformation as radical as was the establishment of the competitive labor market."[41]

Thus the fact that the market is now subject to all sorts of intervention, regulation, and management does not do away with self-regulation as long as labor, in particular, remains commodified and the profit motive continues to underlie economic action. In no conceivable way can we understand the markets of welfare capitalism as simply "instruments of accountancy." The market system thus remained in place after 1945, though its self-regulation was "impaired." This, of course, was not a new situation: impaired markets had been the result of protectionism since the 1870s. In this sense, the postwar period remains characterized by the duality of liberalization and protectionism that Polanyi sees as characteristic of the period from 1870 to 1930. But such protectionism has, both before and after World War II, to be distinguished strictly from reembedding. The difference here is a qualitative, even an ontological one, rather than one of graduation.

The conclusion to be drawn here is not that postwar capitalism was halfway between the market system and embeddedness, but that it continued, in Polanyian terms, the dialectic of liberalization and protectionism; it lead to relatively far-reaching forms of protection, but without in any way moving society across the chasm that separates protectionism within a market system to the abolishment of the market system as such.[42] Such a conclusion, clearly, is not very satisfactory; the postwar transformation, while far from "great" can hardly be grasped properly as "slight," or as a mere variation of the preceding dualism of liberalization and protectionism. In the end, we have to ask whether Polanyi's analysis can provide the conceptual and historical tools that would allow us to appreciate the historical significance of welfare/managerial capitalism—or whether we have to turn elsewhere in order to understand the character of U.S. hegemony and the historically new combination with social and international protection and state intervention.

Conclusions

In the final analysis, the postwar political economy, as Maier points out, was built on ideas that "all stressed that by enhancing productive efficiency, whether through scientific management, business planning, industrial cooperation, or corporatist groupings, American society could transcend the class conflicts that arose from scarcity."[43] By 1947, Polanyi seems to have recognized this revival of the market utopia; continuing the theme of his 1945 article, Polanyi makes one last attempt to bring home the obsoleteness of the restored market mentality: "Some believe in elites and aristocracies, in managerialism and the corporation. They feel that the whole of society should be more intimately adjusted to the economic system, which they would wish to maintain unchanged. This is the ideal of the Brave New World . . . Others, on the contrary, believe that in a truly democratic society, the problem of industry would resolve itself through the planned intervention of the producers and consumers themselves."[44] But managerialism triumphed. What an irony it is that we (and "critical" social theorists in particular) have come to embrace as the fulfillment of Polanyi's vision the very social order against which he warned so insistently!

Notes

The author would like to thank Julian Germann for his assistance in the completion of this chapter.

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2. Karl Polanyi, "Universal Capitalism or Regional Planning?" *London Quarterly of World Affairs* 10, no. 3 (1945): 87.
3. Ibid.
4. Ibid., 89.
5. Ibid., 91.
6. Ibid., 86.
7. Ibid., 87.
8. Brian Waddell, *The War Against the New Deal: World War II and American Democracy* (DeKalb, IL: Northern Illinois University Press, 2001), 138; cf. Alain Brinkley, "The New Deal and the Idea of the State," in *The Rise and Fall of the New Deal, 1930–1980,* ed. Steve Fraser and Gary Gerstle (Princeton, NJ: Princeton University Press, 1989), 85–121.
9. Waddell, *War Against the New Deal,* 163.
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12. Ibid., 90.
13. Charles S. Maier, "The Politics of Productivity: Foundations of American International Economic Policy after World War II," *International Organization* 31, no. 4 (1977): 631.
14. Karl Polanyi, *The Great Transformation* (Boston, MA: Beacon Press, 1957), 46; cf. Karl Polanyi, "Our Obsolete Market Mentality," in *Primitive, Archaic and Modern Economies: Essays of Karl Polanyi,* ed. G. Dalton (Garden City, NY: Double Day, 1968), 59–77 (originally published in *Commentary* 3, no. 2, 1947).
15. Polanyi, *Great Transformation,* 30.
16. Ibid., 42.
17. Polanyi, "Our Obsolete Market Mentality," 64; James Ronald Stanfield, *The Economic Thought of Karl Polanyi: Lives and Livelihood* (London: Macmillan, 1986), 58–60.
18. Brinkley, "New Deal and the Idea of the State," 110.
19. Charles Maier, *In Search of Stability: Explanations in Historical Political Economy* (Cambridge: Cambridge University Press, 1987), 184.
20. Polanyi, *Great Transformation,* 153.
21. Ibid., 73.
22. Ibid., 163.
23. Ibid.,157.
24. Mark Rupert, *Producing Hegemony: The Politics of Mass Production and American Global Power* (New York: Cambridge University Press, 1995), 60, 102.
25. Polanyi, *Great Transformation,* 249.
26. Ibid., 251–2; emphasis added.
27. Gosta Esping-Andersen, *The Three Worlds of Welfare Capitalism* (Princeton, NJ: Princeton University Press, 1990).
28. For a more detailed discussion, see Hannes Lacher, "Embedded Liberalism, Disembedded Markets: Reconceptualising the Pax Americana," *New Political Economy* 4, no. 3 (1999): 343–60.
29. Polanyi, *Great Transformation,* 68.
30. Ibid., 46.
31. Ibid., 47.

32. Ibid., 48.
33. Ibid., 47–55; Karl Polanyi, *The Livelihood of Man* (New York: Academic Press, 1977); for a more systematic exposition, see Hannes Lacher, "The Politics of the Market: Re-reading Karl Polanyi," *Global Society* 13, no. 3 (1999): 313–26.
34. Polanyi, *Great Transformation,* 61.
35. Ibid., 56.
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37. Ibid., 57.
38. Polanyi, "Our Obsolete Market Mentality."
39. Polanyi, *Great Transformation,* 252.
40. Ibid.
41. Ibid., 251.
42. On this, see Lacher, "Embedded Liberalism, Disembedded Markets."
43. Maier, "Politics of Productivity," 613.
44. Polanyi, "Our Obsolete Market Mentality," 76.

Part II

Commodity Fiction in Contemporary Market Economies (1): Work Today

4

Labor Recommodification in the Global Transformation

Guy Standing

Introduction

The twentieth century saw the rise and fall of *industrial citizenship*. The essence of the "embedding" phase of that transformation was the advance of labor-based entitlements, which was a *type* of labor decommodification.[1] In the last quarter of the century, those entitlements were eroded almost everywhere, marking the demise of industrial citizenship.

Just as Polanyi understood that the nineteenth-century drift to "laissez-faire" was planned, so too has been the current era of "neoliberalism," the attempt to create a market society on a global scale. Polanyi thought it was impossible to maintain a "self-regulating market economy" because it would annihilate "the human and natural substance of society." This does not mean that powerful interests will cease to try to create such "a stark utopia."[2] But a key claim in his work is that when the state moves in that direction, there will be a countermovement, as the excesses of a market society induce reactions by the state to reembed the economy in society.

The current era is one of disembeddedness, in which a global hegemonic culture is threatening civilization. It involves financialization, standardization of consumption, loss of several forms of identity essential for civilizing existence, and convergence of production techniques and economic and social policies.[3] This chapter is about the looming crises induced by these changes, to which labor recommodification is central. Reversing that will be the twenty-first-century political challenge, the task for the reembedding phase of the new transformation. To

A. Buğra et al., *Reading Karl Polanyi for the Twenty-First Century*

understand what is required, we must reconsider two of Polanyi's ideas—labor commodification and fictitious commodity.

Work, Labor and Fictitious Decommodification

In any analysis of labor commodification, one must make two distinctions, between *work* and *labor* and between *labor* and *labor power.*

Most commentators ignore the first distinction. But not all work is labor, while not all labor is productive activity. By not making a distinction, one loses all sense of work that is not labor; it disappears. This is what happened in twentieth-century labor statistics. The work done by more people for more time than any other, namely *care work,* became invisible.[4]

An error of progressives in the twentieth century, in pursuing industrial citizenship as the social-democratic agenda, was to make *labor* the focus of social protection, regulation and redistribution. If you worked for wages, you built up entitlements to sick leave, maternity leave, disability benefits, and a pension. If not, you picked up the crumbs. The goal became to put as many people as possible into "jobs." The performance of labor was placed on a pedestal—to be protected, idealized, remunerated, dignified. Plaintive voices, such as Hannah Arendt's, were ignored as the juggernaut of *laborism* swept forward. It was a jobholder society that was built in this embedding part of the great transformation.

By contrast with labor, self-chosen *work* is done for its use value. And work done because a person wishes to do it, in pursuit of self-chosen goals of development and satisfaction, is surely the essence of decommodification. In the notes at the end of his book, Polanyi highlighted differences between work and labor, without making a distinction between the types of activity. And he cited his generation's anthropological sages to support his view on what motivated work in primitive societies—not profit or economic gain, but a mix of *reciprocity, joy, competitiveness* and *approbation.*[5]

Another aspect of work is that in performing it the person has *agency,* a sense of self-determination and autonomy. By contrast, to a large extent, a worker required to perform *labor* lacks agency. He does what he is told, or tries to do so, or tries to avoid what he is supposed to do.

Polanyi understood that to create a market society the state had to separate the performance of labor from other activities of life.[6] This was served by "the principle of freedom of contract," which meant the liquidation of "non-contractual organizations of kinship, neighborhood, profession, and creed." But such organizations are needed to ensure a context in which *work* can thrive in real freedom. Commodification—turning work into labor—entails the destruction of institutions of social protection, as well as displacement of *status* by *contract.*

Now consider the distinction between *labor* and *labor power.* Polanyi used labor sometimes to describe the activity, and sometimes to describe the person being pushed around. Although some Marxists might wish to use the terms the other way round, it seems sensible to use labor to refer to the activity of expending time, energy, effort and skill in the labor market, while labor power should refer to the bundles of competencies and capabilities of an individual. Theoretically, either labor or labor power, or both, could be commodified. A slave is commodified in both senses; a proletarian continues to own his labor power. In that sense, Polanyi was right to dismiss Adam Smith's claim that man had a predilection to labor.

Commodification is always a matter of degree. Labor is more commodified when people labor primarily for *instrumental reasons* and do so in *economic insecurity.* For instance, whereas a migrant may be highly commodified, laboring for daily or hourly wages, without a contract, and with no benefits, somebody in long-term salaried employment would be less so. But even then, the salaried "company man," locking himself into quasipermanent employment because it becomes too expensive to leave his "career" job, is partially commodified.

To assist in the historical analysis of commodification, it is useful to consider the concept of *social income.* In any but the most primitive society, every individual has some source of income, or dies.[7] The total may be inadequate or grotesquely large, but nobody has nothing. There are various sources, and the composition determines not just the level but also the overall security of a person's income.[8]

Basically, although many of them may be nonexistent, any individual in any society has up to six sources of income, which together constitute the person's social income. This may be defined as follows:

$$SI = SP + W + CB + EB + SB + PB$$

where SI is the individual's total social income; SP is self-production (whether self-consumed, bartered, or sold); W is the money wage or income from work; CB is the value of benefits provided by the family, kin or local community; EB is the amount of benefits provided by the enterprise in which the person might be working; SB is the value of state benefits, in terms of insurance or other transfers, including *subsidies* paid to workers or through firms to them, and the value of social services; and PB is private income, gained through investment, including private social protection.

The relevance of the composition of SI is that it indicates the degree to which a person is subject to market forces. In an era of decommodification, W shrinks as a share of SI, whereas in one of (re)commodification it grows. One would also expect that in the former those elements of SI that were relatively secure, as a result of institutional interventions, would be eroded, whereas those that were insecure and conditional on the performance of labor would grow in relative terms.

The struggle over the composition of SI is central to any transformation, which involves a struggle between economic forces and society's need to reproduce. Polanyi's story was about the birth of industrial capitalism, which saw the spread of market mechanisms and the associated insecurities. Living through the horrors of fascism and state socialism, he envisaged the welfare state as the means of preventing market mechanisms from becoming socially destructive.

As a *national* labor market emerged, the state reacted by modifying society's *institutions* so that the economy did not self-destruct. In other words, as labor commodification developed, measures were implemented to purge the market of the worst excesses. Although one can trace the beginning of decommodification to the late nineteenth century, with factory acts in the UK, with Bismarck's efforts to tie the middle class to the Prussian state, and with experiments in social insurance, it advanced most in the 1940s, 1950s, and 1960s, when variants of the welfare state were constructed.

The era of welfare-state capitalism, or *statutory regulation,* involved the decommodification of *male* labor and the advance of industrial citizenship, that is, a system of entitlements based on the norm of industrial labor (the activity). But it was not real decommodification, for workers were made *more* dependent on the performance of labor for their welfare and social status.[9] The decommodification was fictitious because what appeared to be *rights* (and what were called rights) were only *entitlements,* that is, conditional on a certain range of experiences and behavior. If you labored, you had "cradle-to-grave" benefits and access to social services—or "from womb to tomb." If not, trouble. The Swedes were the first to develop the "workfare state"; social democrats have turned a blind eye to that awkward fact.

What should be called *fictitious decommodification* was a global trend, although in industrializing countries there was also commodification.[10] The defining feature of the decommodification was that the state and capital weakened the link between the performance of labor and the monetary wage.[11] They tried to make labor something it could never be, a *fictitious commodity.* It was "bought," but the price, the wage, was not a reflection of the service provided or the cost to the employer. The demonetizations weakened the *incentive* to labor and distorted the market mechanisms needed for efficient resource allocation. But the labor-based welfare state paradoxically made people more dependent on being in a labor status or on the willingness to perform labor. It was a strategy to bring about Hannah Arendt's worst fear, the "jobholder society."[12]

If decommodification is defined as "non-reliance" on market mechanisms, then in both welfare-state capitalism and state socialism there was a move in that direction in the 1950s and 1960s, with a "withering of the wage" and a shift to enterprise and state benefits and services.[13] But there was still proletarianization, locking people into dependency on full-time, stable wage labor.[14] If you, as worker, were *committed* and *loyal* to the enterprise, and to your union, you would receive your labor entitlements, including a defined-benefit pension, medical leave, and labor reproduction benefits (maternity leave, child benefits, etc.). It was a sort of decommodification, but it was not real freedom.

In brief, the era of fictitious decommodification was characterized by a system of statutory regulation that gave security to those who performed labor (and their "dependents"); a system of redistribution based on fiscal policy, unionization and collective bargaining to keep wage differentials in check; and a contributions-based system of social protection. Echoing Polanyi's use of the term, it was a Fool's Paradise, not a Golden Age.[15] As the process went from one twist of labor decommodification to the next, incentives to labor dried up, markets became distorted, subsidies became absurd, more of the jobs were in the public sector, more women stopped being "secondary workers" (making the fiction of full employment less credible), labor market rigidities multiplied, and social tensions became chronic. It could not last.

Recommodifying Labor: Dismantling the Social Income

Polanyi was referring to the nineteenth century when he wrote: "All along the line, human society had become an accessory of the economic system."[16] This statement could just as easily refer to the present. The next part of the new transformation is still with us, albeit running into a double movement, as progressive instincts begin to articulate an agenda opposed to commodification. Essentially, for the past quarter of a century, as financial capital has gained hegemony, its *agency power* and *structural power* (to use terms borrowed from Ian Gough[17]) have been rolling back the fictitious decommodification of the middle decades of the twentieth century, and have been shifting the distribution of SI, primarily from SB and EB to W.

A feature of this transformation is the erosion of state and enterprise benefits, and the services that grew alongside them. There has been *explicit* and *implicit disentitlement,* the first through legislative changes that have weakened or taken them away, the second through more people being in statuses in which such benefits and services are not available (and never were). The result is a growing dependence on money wages.

Not all groups have experienced recommodification to the same extent. Some have experienced different *forms* of it.[18] In considering this, it is more important to trace the changing composition and design of transfers and services, rather than *total* spending.[19] Some observers have seen a feature of recommodification as a reduction in state benefit levels and the *minimum wage,* as well as new fiscal policies.[20] That overlooks the essence of commodification, which is the performance of labor being a function of a market price, in which case the minimum wage could *rise* as part of recommodification. It is no coincidence that the UK's New Labour government rushed in a national minimum wage for the first time.

Another source of recommodification has been the liberalization of *social services,* involving commercialization, a transfer of costs from the state and employers to the users, and privatization of provision. This has imposed additional costs on workers and taken away a large implicit part of their remuneration.

Labor power commodification has also been strengthened by workers' loss of many forms of labor-related security. As economic liberalization spread in the 1980s, many commentators predicted that wage employment—particularly "stable" jobs—would decline, at least in industrialized countries. This "end of work" thesis became popular at a time of rising unemployment, particularly in Europe but also elsewhere, following the abandonment of Keynesian demand management and the adoption of supply-side economics. Some attributed the unemployment to a "technological revolution," some to high labor costs, some to "Eurosclerosis"—rigid labor markets that deterred investment and job creation. It was predicted that the number of jobs would shrink and that labor markets would become more flexible, with precarious jobs multiplying while stable, protected employment shrunk.

As unemployment rose, it was clear we were witnessing recommodification rather than a "disappearance" of labor.[21] The "end of work" view erred in presuming that the labor process would not adjust to the economic system, imagining that closed-economy welfare states would not become open economies in response to global pressures. In an open economy system, if labor costs are relatively high in some countries, employers and their agents will take steps to cut labor costs, which means they will roll back benefits and the securities hitherto provided as part of the SI, as well as threatening to move if workers do not accede.

This is what has happened. There have been retreats for workers' SI everywhere, with affluent countries cutting benefits and real wages in desperate attempts to be competitive with low-income countries. It would be wrong to depict this as "a race to the bottom," but an image of "reverse gear" would be accurate. And political opportunists have used the rhetoric of "competitiveness" as justification for the greater inequality and insecurity that such cuts generate.

Although one cannot do justice to all the changes contributing to labor recommodification, it is worth highlighting the main mechanisms, recalling that to embed the economy in society requires systems of regulation, social protection and redistribution that limit the inequalities and insecurities that would otherwise become socially explosive.

The emerging global system of labor regulation

The recommodification era is *not* one of labor market deregulation. On the contrary, more new regulations have been passed than at any time in human history. What has happened is that legislative reform has eroded industrial citizenship entitlements and turned regulations from what were predominantly protective and pro-collective to more pro-individualistic and promotional. There has not been and will not be labor market deregulation.

The most discussed reform has been the roll back of employment protection security. Social Democrats and trade unionists have fought this, and then acquiesced. But strong employment security is both divisive and a source of labor power commodification. It can create a gilded cage, a fear of moving to try what one might wish to do. It is also an inegalitarian form of security, since it is always a privilege of a minority, mainly civil servants and the "labor aristocracy." For most workers throughout history, there has been no employment security, as Polanyi understood.[22] While it suited the system, employment security grew. Now, globally it has gone into reverse, through legislation, concession bargaining and the commercialization and privatization of public services—long the bastion of labor security.

The most powerful reregulation has been the curbing of collective voice, "taming the unions." Governments and international financial agencies have eroded the right to strike and freedom of association, repeating what was done in the 1920s and 1930s as a way of lowering real wages and boosting jobs.[23] They have been so successful that some financial agencies that had led the campaign to limit their alleged powers have modified their tune, arguing that what is needed is stronger *governance*.[24] They woke up to the fact that, without bodies to represent workers' interests, those representing capital become excessively arrogant and opportunistic, feeling they can flaunt their unchecked power and pay themselves what they want. Curbing workers' bargaining strength led to the sickness of Enron, which collapsed, impoverishing thousands just after being named one of the USA's "ten best employers."

Weaker voice has also contributed to the regrowth of labor subcontracting and casualization, which has fueled the growth of labor market inequalities, even though some inequalities have been limited by laws to curb some forms of discrimination.[25]

Weaker national voice reflects the emerging *global* labor market. One form of inequality intensified by the reregulation and weaker voice is that associated with international migration. Workers finding themselves in more "open" labor markets, mostly in manual jobs, lose to those in other occupations or sectors not so far subject to migrant entry. By contrast, professional bodies—many strengthened by legislation or licenses—can control entry to many upper-income occupations. This has driven down service job wages, further increasing inequality because services are made cheaper for the middle class.

Two other regulatory developments are contributing to recommodification. Almost unanalyzed, the world is being subject to the privatization of regulation. A few Credit Rating Agencies (CRAs) are able to dictate what governments and companies can and cannot do. If they decide a corporation's labor practices are not what they wish, they can downgrade its credit rating. This can lead to a crash in the share value of the firm, prompting it to think again. The same is happening to governments.[26] If a CRA decides that a country is not doing enough to make its country's labor market more "flexible" it can downgrade the status of the government's bonds, and cause a currency slide, or the reverse.[27] This private, unaccountable regulatory power is growing, and is in the service of recommodification.

Second, we are witnessing a *contractualization* of economic life. This is not just a matter of more people having written contracts. Contractual obligations are tightening, imposing more measurable criteria, reducing the scope for autonomy and self-interpretation of functions and responsibilities, increasing the auditing of allocative decisions, et cetera. This will strengthen the power of those who can dictate what goes into contracts and what is excluded.

Reregulation of labor relations has also had a powerful indirect effect on recommodification. In changing behavior, it is not just the expectation that one must perform labor that matters; it is the fear and insecurities associated with it. Thus, if workers *feel* secure, they will be less commodified than if they are in fear of displacement or of losing part of their earnings, or if they are exposed to unsafe or stressful working conditions.

It is this atmosphere of insecurity that is vital for recommodification, not just that more people are expected to participate in the labor market. Commodification comes from *insecure* participation in the labor market. When someone calls for increased commodification, as Esping-Andersen has done, he is unwittingly calling for more labor insecurity. That is not real freedom, nor is it an egalitarian road to take.

Commodification by social inclusion

If the direction of regulations is clear, it is hard to exaggerate the extent to which social protection systems have been "reformed" in the interest of recommodification. Those who talk about preserving the European "social model" seem to have been sleeping. For the past 30 years, governments everywhere have been chipping away at the "welfare state." In some countries, it is already not too fanciful to call the new model "the workfare state," and in others social-policy dumping is moving in that direction, as governments rationalize making access to state benefits more difficult and lowering their value.

Changes in the economic system and class structure are inducing politicians to curb state-based social protection and to make it more market-friendly. Just as in Polanyi's transformation the need for *national* systems led to the collapse of *local* systems, now international pressures are putting national systems under strain. Labor recommodification is accelerated by social-policy dumping. Labor has been put back into trade. The cry is: Go to where labor costs are lowest. That does not mean where wages are lowest, since productivity as well as price determines labor cost. But as state and enterprise benefits (SB and EB) had become a large share of SI, pressure to become "competitive" has led to cuts in both. Often, cuts in SB and EB are offset partially by rises in money wages, concealing a cut in SI.

Private insurance is filling the gap for the more fortunate. But because of the growth of systemic risk and economic uncertainty, and of the number of people seen as uninsurable risk categories, as well as a rising inability to pay for insurance, many people are living on the edge of impoverishment, alongside many who have been plunged into it by an accident that wiped out their savings or put them into chronic debt. Enter the *discretionary state,* in which local bureaucrats are able to decide whom to support and whom not to support. Enter the trend to *globalized philanthropy.* Whereas in the last era of disembeddedness, when landlords and entrepreneurs acted as occasional safety valves by indulging in displays of help to the poor, the modern equivalent is a veritable industry, with rich benefactors deciding which groups of economically insecure deserve their bounty and which do not. And reforms to social protection systems are pushing more people to rely on charity, sending many into the hands of religious bodies and social quacks.

State systems are under strain. Recalling the most typical changes should suffice for our purposes. Universal *health-care* insurance and nationalized universal health services are fading. By 2005, 48 million people in the United States were not covered by health insurance, several million more than five years earlier. This partly reflects the desire by employers to cut labor costs, so that more workers are being excluded from coverage. The share of workers covered by job-related health insurance has fallen to 60 percent. The United States is not alone. More Europeans are losing health-care benefits. In Germany, the number without medical insurance rose to over 300,000 in 2004, from 188,000 a year earlier.[28] In Eastern Europe, the decline in coverage has been catastrophic.[29] Everywhere, health-care privatization is involving rising costs to the "user" and greater inequality, in terms of access and costs.

While health care is becoming more commercialized, it is the erosion of *pensions* that has received most attention. Defined-benefit state and occupational pensions are withering. The erosion of "Pay As You Go" pensions is cutting the value of SB in workers' SI, and reflects the decline of intergenerational social solidarity and reciprocity. Privatized individual accounts are becoming close to the norm.

What is happening to *unemployment benefits* has attracted insufficient attention. For the early Social Democrats, such benefits were a means of decommodification, enabling those losing jobs to retain dignity, to search for alternative jobs in modest comfort. As an insurance benefit, they were paid to those hit by misfortune, corresponding to contributions made over years, providing a predictable transfer if needed. But these days most schemes have become instruments of social engineering. In most countries, someone making a contribution today cannot predict how much he or she would receive if hit by unemployment later or for how long a benefit would be paid. No government seems immune to the desire to tinker with the rules, in ways that make it harder to receive benefits, lower the amount employees could receive, or making receipt dependent on some *behavioral conditionality.*

The state has moved to commodify the unemployed by increasingly sophisticated social engineering in which governments, besides using tax credits to reward and punish certain types of behavior, set the tone for how they expect their agents (employment service workers, case managers, etc.) to achieve social inclusion: by manipulating the attitudes and behavior of those at the bottom of the labor process, the unemployed and marginalized social "misfits." The modern state governs at a distance, giving authority to agents made responsible for molding the behavior of those it wishes to see socially included.[30] The new state commodifiers are expected to see the unemployed as deficient, socially excluded by their failures and failings, to be aided through *case management.* They must be taught how to present themselves for job interviews, how to fill job questionnaires, how to market themselves, how to adhere to time schedules, and so on.[31] They have to be taught to be *active citizens.*

So-called *activation policies* are a mix of psychological pressures and financial penalties, so one may think of the trend as putting the unemployed into a state of "unemployed-in-labor." They are being commodified, tailored to the needs of the labor process, and as a trained threat to those in jobs who might be recalcitrant or resist labor intensification. This is the modern form of the reserve army function. The case managers of commercialized employment services are the drill sergeants of recommodification. But they must battle with their own demons, for it is psychologically costly to manipulate, cajole, penalize and massage their fellows.

Almost everywhere, there have been increases in expenditure on so-called active labor market policy, intended to raise labor force participation, particularly of youth. This has occurred not only in "social democratic" welfare states, contrary to Esping-Andersen's claim, but in all types. Similarly, in all types, not just so-called conservative regimes, more of the care burden has been transferred onto the family and local communities. And all types have seen *reregulation* (not deregulation) of labor markets, privatization of social services and marketization of risks, not just "liberal regimes." The pace may differ, but the direction is the same.

Active labor market policy merges into *workfare,* a classic commodifying mechanism, now entrenched in many countries, including the United States, UK, Australia, Austria, the Netherlands and Denmark.[32] In France and elsewhere, the *revenue minimum d'insertion* and similar schemes are intended to activate the unemployed, but create a new form of dependency.[33] Most recently, Germany's "Hartz IV" reform has increased commodification in one of the few countries that had resisted the trend. Activation is central to recommodification, all over the world.

Finally, paternalists and "neoliberals" attempt to manipulate public minds with words and phrases intended to convey a benign image while promoting social control. Activation policies are dressed up as an extension of the notion of *contract,* enshrining individualization and *social responsibility.* There is also a trend of playing up "the positive." Those who are restructuring welfare states are seeking assiduously, at vast financial cost, to alter the public sense of *morality,* what is and is not right behavior.[34] At present, countervailing pressures are weak. That is unlikely to last.

Redistribution for commodification

If there was modest reduction in income inequality in the era of statutory regulation, mainly from progressive direct taxation, in the disruptive phase of the ongoing transformation, income inequality has been worsened by fiscal policy, conveniently rationalized as tax competitiveness.

The main story is well known. Direct tax rates have been cut, and tax incidence has been shifted from capital to labor. Meanwhile, the erosion of universal and labor-based entitlements has cut workers' SI, lowering their standard of living and making them less well off relative to the recipients of capital income. Those in jobs have had net incomes cut via shifts from employer to employee contributions for entitlement to benefits such as pensions and health care.

However, a less well-documented source of increased inequality is the growth and shifting incidence of state *subsidies.* Although Polanyi understood their role, their use by the state is an aspect of today's recommodification that deserves more attention. Tax credits, which are often subsidies to capital, allowing sub-subsistence wages or giving supplements to profits, are part of modern social engineering.

In this regard, the recommodification era can be compared with the early nineteenth-century period in England known for its famous feature, the Speenhamland Law of 1795. Polanyi made it central to his analysis. Speenhamland introduced a wage *subsidy* for rural laborers based on the cost of bread, intended to provide a subsistence income irrespective of earnings, a "right to live." Although it hindered the emergence of a full labor market, it lowered tensions associated with the economic disruption. Actually a subsidy to employers, while keeping wages down, it is relevant to what is happening now. The subsidy was combined with measures to curb workers' bargaining strength. The Anti-Combination Laws, retained for much longer than Speenhamland, prevented workers from taking union action. The combination of the subsidy and denial of collective voice guaranteed "subsistence," but blocked laborers from gaining any more than that. Speenhamland was part of a two-pronged strategy, to give a bare subsistence while making sure workers did not gain any more than that.

When the Poor Law moved to commodify labor more fully, making laborers dependent on money wages, it led to such suffering that it induced the state to act for "the self-protection of society,"[35] through protective factory acts and social legislation, and acceptance of unions and corrective political movements.

What is the modern equivalent? The story starts in the 1950s and 1960s, with the advance in industrial citizenship. By cutting the wage share of SI and by boosting enterprise and state benefits, rigidities multiplied, putting a brake on economic and productivity growth. But it is the *wage* that is the decisive stimulant to the supply of *effort* and *skill* among those required to supply labor. If the EB and SB become large because they are the entitlements of *being employed,* why should workers try to labor more than they can "get away with"?

Pursuit of more flexible labor markets since the 1980s, aided by *concession bargaining,* led to lower social incomes and more wage differentiation. Enterprise benefits have been taken away, cut in value or made harder to obtain, aided by permissive legislation.[36] Preoccupying corporate boardrooms are *legacy costs,* or "postemployment benefits" and other past promises. These have become a threat to corporations, such as GM and Ford, and have dragged down the U.S. steel industry and major U.S. airlines.[37] Employers are desperate to offload those costs and are prepared to be ruthless. For workers, the fact that money wages may rise cannot conceal the greater insecurity and lower standard of living.

Unprotected by collective bargaining, many workers, in the United States and elsewhere, have found that their wages are scarcely able to pay for a modest subsistence standard of living. In response, the state has turned to subsidies. Governments have used *employment subsidies,* which are mainly transfers to capital, and like all subsidies are conducive to inefficiency, while being regressive. The U.S. Earned Income Tax Credit (EITC) became the world's biggest labor subsidy scheme as well as the country's biggest transfer. It allows low-productivity firms to pay sub-subsistence wages, since the wage is topped up by a tax credit. Other countries have followed, adopting "in-work" transfers, not only allowing capital to employ "cheap labor" but also weakening the bargaining power of others not receiving such benefits. Subsidies are a lever of recommodification.

The EITC and its variants are commodifying subsidies to capital. While they distort labor markets and are inefficient antipoverty devices, their role as a lever of recommodification is immense. They have become huge all over the world.[38] But unlike the era of statutory regulation, when subsidies tended to reduce the cost of living for workers and their families and communities, now corporations are the main beneficiaries, through tax credits, tax holidays and a host of corporate subsidies.

Their role in boosting inequality does not stop there. Some high-earning workers also benefit from tax and savings credits, touted as a means of inducing more people to save for retirement. Among new schemes are tax advantages for those opening "health savings accounts," via "risk assessment tests." A Third Wayist wheeze consists of schemes to encourage workers to enter capital markets. There are gestures of capital grants, such as "baby bonds" in the UK. While they may encourage commitment to a *market society,* they scarcely provide general income security or redistribution.[39]

In sum, fiscal policy has become more regressive, and an engine for recommodification. Whereas in the last phase of embeddedness, capital bore the risks and insecurity, while workers surrendered any claim to management in return for labor-based security, in the new disembedded phase, capital has gained more of the income and security, while workers have had less of the income and more insecurity. This means inequality has grown more than can be seen from conventional statistics.

Dismantling barriers to commodification

The state, through its agencies, can be a barrier to commodification; on balance it has become its promoter. But there are three other barriers that should be reconsidered—the family, the educational system and occupations, each of which has provided relationships that historically have limited the power of market forces.

In recent decades, the tightness of family units has been loosened, primarily in developing countries, with rural-urban migration accompanying the emergence of labor markets. What characterizes the global transformation is the scale of the *internationalized family*, with chains of kinship and labor relationships stretching from villages in developing countries to laboring in some rich country on the other side of the world, with remittances flowing in all directions. The family in such circumstances cannot be a barrier to commodification.

Historically, the essence of the family as a barrier to market pressures has been that it generates a network of reciprocities. In preindustrial and developing countries, the extended family has amounted to a form of *social insurance,* based on contributions when one can make them and dependency when one cannot. Even in working-class urban areas in industrialized countries, communities have consisted of a web of interlinked families, with relatives scattered across numerous households. The result has been a family-based community, reproducing a rough system of social solidarity.

In industrialized countries, and to some extent in developing countries, the twentieth-century welfare state complemented these family-based communities, because it formalized the principle of social insurance, with contributions being roughly matched by contingency demands. But as family structures have loosened and as labor markets have become more flexible, both the formal and informal systems of social insurance have come unstuck.

A flaw was the shift from labor-based entitlements to a needs-based support system—focusing on *poverty relief*. This erodes family-based solidarity and contributes to working-class resentment of minorities and immigrants, perceived as recipients of state benefits without having paid their contributions. This has fueled xenophobia and social tensions.[40]

The family is a locus of activities that defy easy categorization as work or leisure. Work in the family is part gift, part a component of a chain of reciprocities binding it together, part a reflection of a nest of oppression and patriarchy. Sociologists have painted the family as transformed by modernization, moving from nonmarket centers of socialization to nuclear units focusing mainly on procreation. This idealized the change, since in the era of proletarianization, the working-class family had little capacity to do socialization functions.

Nevertheless, there were barriers to commodification of domestic work in the welfare state, as universal and family benefits, coupled with non-commercial public services, enabled working-class families to support unpaid domestic work. Meanwhile, women's labor force participation rose and its nature changed, making it more like that of men (who found theirs was becoming like women's, i.e., precarious).

For much of the twentieth century, even in rich countries the working class had little capacity to perform many domestic activities. But the embedding phase of Polanyi's transformation was one in which welfare policies allowed an enrichment of family life. That has been whittled away, amid encroachment by the market into the domestic sphere. As public benefits and services have waned, families have been susceptible to pressures to buy services that could replace forms of domestic work.

Commercialization of quasi-domestic services is invasive. New firms, and desperate individuals, are offering packaged paid services for activities that the idealized family was traditionally expected to provide. The market is not only converting domestic work into *emotional labor* but is generating more activities, since in the past much work portrayed as the desirable norm was not done at all. An idealized commercialized norm is being created, whereas only an imagined norm existed in the past.

As emotional labor has characterized more commercialized services, sold through advertising and pressure, it is narrowing the sphere of work while extending that of labor, which erodes the family's capacity to be a barrier to commodification. Inter-generational reciprocities will be more fragile. There is less scope for domestic work to be an antidote to the tendencies of labor, giving a balancing perspective on lifestyle. Focused on labor, more are likely to suffer from burnout and other disorders, after bringing "work-to-home" and "home-to-work."

The growth of emotional labor has involved an influx of commercial criteria for assessing domestic work. In the United States, some executives are provided with training courses and evaluation reports on how to manage their family life efficiently, so as to fit better with the demands of employment. The evaluation of their performance as parent and spouse is based on workplace programs. The outsourcing of functions is part of personal commodification. It can disrupt the family's capacity to reproduce itself and even contribute to a declining capacity of modern society to reproduce itself. Although commodification may "free" women from domestic chores, weakening patriarchal structures, it generates other forms of tyranny, while leading to the *postindustrial model* of delayed childbearing.[41]

Restructuring of the family should weaken men's patriarchal role as guardians of morality and as disciplinary forces over labor. But the disruptive anomic behavior of young men, lumpenized without role models to emulate, will be left increasingly to the state to overcome.

A second barrier to commodification throughout history has been the educational community, which has fostered subversive thinking. Yet nothing so ill becomes this era as the mass commodification of "learning." This reflects the fact that in the post-1945 years, the laborist orientation triumphed over traditions stemming from the crafts and the romantic tradition of the nineteenth century.

The work of intellectuals is becoming *intellectual labor.* Universities and colleges have become centers of "professional academics," that is, little more than wage workers, laboring to produce a product, primarily certified potential wage workers eager or resigned to go forth as good members of the salariat.

Academic commodification will not become complete. But the philistines are at the gate. In the UK, and elsewhere, they are assessed by measurable, standardized "targets," lured to compete individually and collectively (via "league tables" of interfaculty and interuniversity "performance" indicators). They are losing control over their work to "administrators," who let loose on them an army of "auditors" and "assessors." And postmodernist reasoning is used as a tool of instrumentalism.[42] If there is no such thing as "truth," everything is "relative" and can be judged on its appeal to the emotions, artificial targets, and the whims of fashion and commercial "funding." The response may be cynical manipulation to create outputs. But this is passive resistance, not a decommodifying strategy.

Academics have shown the required Pavlovian tendency. They compete to sell "research proposals" to "donors," and blithely seek appealing "buzzwords." Some protest, but the flesh is weak. Those who commodify themselves best receive "tenure" and "promotion"—classic tools of commodification—and are rewarded financially and in status, becoming part of a "labor meritocracy." Those who refuse to play by the rules are likely to disappear, labeled as "misfits" or dismissed as not "team players" or "out of tune." The act of being *critical*—the essence of creative and scientific work throughout history—is regarded as endangering the "project" or "center."

Commercialization of tertiary "education" has increased the *control* exercised by outsiders over scientific and cultural communities, reducing the *autonomy* and increasing the emphasis on market rewards.[43] The poor academic is a failure, the rich a source of adulation, cited reverentially, feted with awards, invited to speak at numerous venues for suitably large fees and given consultancy contracts by fancy institutions. The *celebrity academic* is a creature of our time, a parody of the agonizing intellectual more characteristic of Enlightenment eras.

One should not romanticize the intellectual; the commodifying tendency has always been there. But one must understand the crisis in order to consider what is required to overcome it. Polanyi would have treated the "fictitious" commodification of intellectuals as one of the horrors of the triumph of financial capital.

Education is imagined as a liberating experience. We revere the "renaissance" spirit. Yet the mass consumption of schooling and the narrowing of tertiary education to the dictates of "human capital" have coincided with skepticism about the desirability of knowledge for its own sake or for the search for "truth." Increasingly, knowledge is perceived not as the search for truth but as the search for *relevance.*

Changes in educational systems are helping in the recommodification of labor power. For example, if the state provides free schooling and subsidized college and university education, young people emerge as embryonic citizens. Once education becomes little more than commercialized preparation for the job market, they emerge as partially commodified youths, with designated "human capital" value, and probably with debts from student loans that will act as a powerful disciplining device for years.

Globalization has produced the global university, driven by for-profit commercial companies with huge networks. The largest U.S. university is the for-profit University of Phoenix, with over 280,000 students in 239 campuses. Others are expanding, along with thousands of "corporate universities" run by multinationals. They are changing the character of learning, once thought to have been the domain of the state. They are set on emptying universities of political, critical thinking.[44]

The trend is linked to the way "higher education" is being funded, increasingly by fees. That leads to more students coming from upper-income and middle-class backgrounds, resulting in lower mobility and more inequality. But the effect is complicated because of the increased use of means testing, by the state and universities. Means testing is always inegalitarian in that, while it may enable a few from low-income families to gain mobility, it puts a squeeze on those just above the income cut off, tipping them into income insecurity and indebtedness.

The third barrier to commodification is the system of occupations, consisting of self-defined craft and professional boundaries, and associations formed to protect and enhance their cultures and interests. Lurches toward a market society are always marked by "advances" in the technical and social division of labor. On this, Polanyi is of limited use, since he displayed little grasp of class or the struggles that ensue during a transformation.[45] But he appreciated how craft guilds, assisted by labor legislation, put a brake on commodification, recognizing that they embedded productive activities in society, preventing workers *"from becoming the objects of commerce."*[46]

He also understood that for commodification, *"non-contractual organizations have to be liquidated."*[47] These include craft guilds and professions, which have had their closed local or national communities, with codes, rules of entry, qualifications, behavioral norms, and ethics. Standing against the market, they become a locus of struggle, with efforts made to empty them of their defensive capabilities and to turn them into managerial instruments for setting standards and for enforcing labor discipline. This makes it hard to interpret the continued existence of a professional body as evidence of its independence or decommodifying capacity.

Compared to the last transformation, what distinguishes the current era is that *class fragmentation* is coupled with a splintering and proletarianization of professions and occupations. Professions are generating specialisms, which set up associations, standards, societies and procedures of their own.

Class fragmentation overlaps with occupational fragmentation. It is about increased heterogeneity, standardization and internal differentiation. There are more occupational titles than ever; there is a tendency toward the international standardization of what constitutes particular occupations.

The key to class-occupational fragmentation is a sense of *detachment* from the formerly decommodifying institutions and systems of regulation, social protection and redistribution. Those in the top three strata—the elite, salariat and proficians—do not see their fortune or status as dependent on social insurance or social solidarity that comes from conforming to the dictates of a large profession or occupational group. They rely on private assets, private investments and their wits, defining themselves as opportunistically as they can. They are thus unlikely to struggle to maintain institutional safeguards that determine standards outside the marketplace.

Without leadership to protect the professional community, the defenses of its independence and culture will be weak. One should not romanticize the defense of privilege. Often the culture of a profession is atavistic, socially reactionary, and repressive. Nevertheless, it does stand against the market society.

Ironically, those in the bottom three strata of modern societies—the flexiworkers, unemployed, and lumpen strata—are also detached from mainstream institutions. They are unlikely to qualify for enterprise benefits or for decent state benefits; they easily fall into the hands of those case managers. If employed, they will be in the lower echelons of any occupational group, without the rental earnings of the dominant minority. They are thus unlikely to struggle to maintain the institutional mechanisms that give the occupation some freedom from commodification.

This detachment, coupled with the global weakness of the core working class, has helped in the unraveling of industrial citizenship. Occupations, notably the professions, have been an underappreciated barrier to commodification. They are communities. No community is an ideal collective consisting of equals indulging in deliberative democratic decision making and sharing knowledge equally. All generate hierarchies, with oppressive inequalities that require resistance. But they do stand for a sense of culture, whereas the market tends to disband all forms of community except those that foster consumption and the reproduction of commodities.

The Horror

So, we must ask what strains will prompt a double movement. Polanyi saw what prompted it last time, in identifying the terrifying effects of robbing people of *"the protective covering of cultural institutions,"* leaving them as *"victims of acute social dislocation."*[48] That could not go on.

The recommodification era has not been a great time for the advance of human freedom and equality. In terms of work, it is marked by labor intensification, job-related stress, loss of control over labor time and dissatisfaction with jobholding.

The evidence of the malaise tumbles at us like a cascade. Increased wealth is associated neither with more "happiness," nor with more economic security.[49] The rich retreat to "gated communities," spending vast amounts on protecting themselves as they enjoy smugly protected fortunes. Meanwhile, millions of people are reduced to a quasi-nomadic existence, without roots. Their numbers are greater than shown by official statistics, due to "illegal" migration. Inequalities multiply, disguised by statistics that ignore the dimensions of social income that are not measured in money.

Spokespersons for this postmodern *nirvana* proclaim the virtues of *meritocracy,* claiming that those who become rich do so because of their superior merit; those who are poor are there because they lack merit. Inequality is not bad *per se,* because the wealthy generate the wealth for the "nation" to share, while the poor must learn to be more meritworthy. The state will help the deserving poor, by assisting them to be more meritworthy, "employable" and "socially integrated."

Advocates for the market society flaunt the virtues of *self-interest,* individualism and the market's alleged capacity to reward *meritocracy.* But a person cannot take responsibility without security and access to resources. In a market society, those who can do better than others gain, and their advantages multiply; winner-takes-all markets lead to losers-lose-all situations. Inequalities become chasms of disadvantage. One horror of the recommodification era is that, to counter growing inequalities and *mass marginalization,* the establishment waxes lyrical over the need to combat *social exclusion,* preaching the need for *social inclusion* and *social integration.*[50]

No EU, OECD or UN report is complete unless devotion to this is pledged. No politician misses an opportunity to say how much he is concerned. The message is that the poor have become *dysfunctional* and socially weak. The state must reintegrate them. There were comparable cries in the nineteenth-century commodification era.

The avowed concern over exclusion helps to rationalize coercion and *mass therapy*. Besides using social policy to make people malleable jobholders—including "house calls" to see they are doing the right thing—subsidized cultural institutions are used to boost social inclusion. Some see this as part of an agenda of "dumbing down" what people are offered, while making them feel "successful."[51]

The social protection system in a market society, unconcerned with social solidarity, is prey to *moralistic capture*. We live in a *moralistic era*, when people are told they must behave in certain ways for their own good and the good of the "community." While preaching freedom and democracy, the forgers of social and economic policy use a moralistic tone. The "religification" accompanying the moralizing produces sanctimonious babbling. Verging on social engineering, it is designed to make us conform as marketable workers and sensible consumers, consuming to excess, but only those goods and services regarded as sensible.

As market forces intensify inequalities and insecurities, the state turns to more constraints to real freedom. Cries of "order" predominate over those of "liberty." In one form, it covers "ending welfare as we know it," "workfare," and behavior-conditional benefits. In its malign form, it includes suspension of habeas corpus, imprisonment without trial, antisocial behavior orders (ASBOs), and "homeland security" measures, all chipping away at hard-won freedoms.

Recommodification involves more labor time, reversing a long trend. In the United States, hours in labor have risen and holidays have been restricted. Americans have an average holiday entitlement of 16 days a year, and take only 14.[52] Working-age adults are spending less time sleeping, rising earlier for prelabor shopping, exercise, studying or childcare.[53] Stretch that day! In Western Europe, a month of holidays is still regarded as normal. Italians take 42 days, the French 37, Germans 35, and the British 28. There is resistance, but protections are being whittled away, so that the Good Worker learns to forgo "rights" so as to ingratiate or out-compete those who do take them. In short, Europeans are intensifying their labor to match their global counterparts.

An aspect of intensification yet to attract policy angst is the cost. If people are treated as commodities, they behave as such. In adopting an instrumental ethic of "jobholding," they become passive, opportunistic and less productive than they could be. In response, employers rely on contrived incentives and coercion, with standards, targets, and auditing. These are costly. And as administrative, monitoring and auditing costs rise, so do those associated with anxiety and stress, for workers and their families, and for firms and governments.

Stress is becoming a threat to recommodification, due to the human toll and rising cost. In Japan, there has been a rise in *karoshi*—death from overlabor. In Europe, health insurers are worried about *presenteeism,* arising from workers staying in the job due to fear of losing income or employment from taking time off to recuperate from minor illnesses. By not staying at home, their illness can degenerate into something worse.

With the world being dragged into the U.S. model, we should observe what is happening there with trepidation. For those aged 30–50, healthcare costs rose by more than 75 percent between 1987 and 2000, more than for the elderly. The main causes were depression, angioplasty, diabetes, hypertension and musculoskeletal injuries.

Even though workers are bearing more of the costs, employers are also facing rising costs. In their alarm, employers are creating tactics to evade and avoid obligations. In various countries, the state has begun to target obesity as a social threat. But while expensive diagnostic screening is spreading, attention has yet to focus on the pressures that spread such lifestyle illnesses.

The health effects are contributing to the populist *corporate social responsibility* schemes that are sweeping the world. Although they are helping to legitimize corporations, they may not have much lasting effect on labor activities, because it is institutional opposition to commodification that is required, not methods to secure acquiescence to labor intensification.

Stress and instrumentality lead not just to lower productivity and creativity, but also to a messy atmosphere of *sabotage* and what Polanyi called *boondoggling,* labor slacking that is a benign form of sabotage. Modern paternalists know it is hard to elicit an optimum supply of “emotional labor” or “knowledge labor.” These are relatively easy to withhold, which is leading to concern about how to motivate that wonderfully postmodernist creature, the “knowledge worker.” But, while the therapist may be welcome to devise ways of motivating, a sabotage that takes place in the mind is hard to detect or punish.

Therapeutic techniques are evolving to teach service workers how to provide appropriate emotions and deportment. The ability to manipulate has been increased by the corrosion of communities such as the family and professions. That allows intermediary controllers to build socially constructed workplaces characterized by “feeling rules” and “emotion-displaying rules.” What “human resource managers” (sic) want is for workers to internalize emotional soundness and acquiesce to ways of behaving functionally. The commercialization of emotion is a sphere of struggle that has yet to be articulated in a way that could induce opposition to its power.

The Promise: A Real Decommodification

> Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society.[54]

> In an established society, the right to non-conformity must be institutionally protected.[55]

In reflecting on how to achieve decommodification, one might begin by asking how that right to nonconformity could be protected. This has become a bigger question than when the advance of "civil rights" seemed unstoppable. Polanyi's view is clear:

> The individual must be free to follow his conscience without fear of the powers that happen to be entrusted with administrative tasks in some of the fields of social life. Science and the arts should always be under the guardianship of the republic of letters. Compulsion should never be absolute; the "objector" should be offered a niche to which he can retire, the choice of a "second-best" that leaves him a life to live.[56]

No tosh here about no rights without responsibilities, as used by modern moralists (Third Wayists, compassionate conservatives, and their ilk) to take away freedom from those being recommodified. Now, as then, the keys to decommodification are the same as for freedom—autonomy, self-control, and a context in which balanced reciprocity and social solidarity are both feasible and intelligible.

If one sees a transformation as a process resolved by a double movement, then the twenty-first-century challenge is to achieve decommodification of labor power. Polanyi gives a hint when he depicts the threat posed by the pursuit of a self-regulating economic system in the nineteenth and twentieth centuries—"a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones."[57] He saw a network of institutions and measures emerging to check the market for labor, land and money. We are at such a point again.

The horrors of insecurity are destabilizing, but a countermovement is in play. Recall the double movement that began in the mid-nineteenth century—a shift to *national* labor markets was followed by pressure for protective regulations *and* the emergence of collective voice, primarily of male industrial workers—"breadwinners." That advance was ultimately limited and oppressive. The next countermovement requires a universalistic voice. A challenge is to nurture a voice for *flexiworkers,* for a "feminized" workforce, in a context of the commodification of services. As laborist unions and social democratic politics fade, creating new institutions to give workers and communities collective *and* individual voice becomes essential.

For sustainable decommodification, in Polanyi's terms, society requires institutions strong enough to preserve reciprocity, social solidarity, overlapping communities, symmetry and centricity. It requires at least two forms of voice—one for strengthening the craft ethic—vital for real decommodification—and one for strengthening economic security.

Decommodification must mean that the state must shift from labor insurance and discretionary support to being the provider and guarantor of social, economic and cultural *rights.* Full freedom requires nondependency on a wage. This means that every citizen must have basic economic security—a basic income—coupled with a set of universal citizenship rights to ensure individual dignity.[58]

This is not utopian. Critics leap to dismiss the proposal on grounds of *affordability* and *incentives.* The former is trivial, the latter a matter of grasping the need for redistribution of the strategic assets of our time. The main monetary incentives and sources of egalitarian redistribution should come through a citizenship right to share in the income from capital. In addition, in decommodifying labor power by making us less dependent on supplying labor we could see a strengthening of the *craft ethic.* One would work to become better and be more self-fulfilled.

As work is central to existence, decommodification requires a future of occupational citizenship. More and more people should be enabled to have the capacity to construct a personal occupational profile in full freedom. In a good society, work could consist of a lifetime of several activities, in combination or in self-determined sequences, including time spent in caring for family, neighbors, and the community, and time on one's enthusiasms. In such a society, individuals would have a basic income as a right, which would allow for work to be self-chosen to a greater extent than is the case now. Work is central to our identity. But it should be embedded in civic friendship (*philia*), and be such as to foster autonomy and artisanship. What this would entail is the subject of another paper.

Notes

Thanks are due to the Polanyi Society for inducing me to deliver this address at its Istanbul conference, particularly Kari Polanyi-Levitt, Margaret Mitchell, and Ayşe Buğra. None of these should be held responsible for views expressed.

1. Guy Standing, *Beyond the New Paternalism: Basic Security as Equality* (London: Verso, 2002)
2. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston, MA: Beacon Press, 2001 edition), 3.

3. Many contest the image of *convergence.* Surely, one can depict general trends without implying that all countries are at the same point or are moving to identical "end points." On "varieties of capitalism," see J. R. Hollingsworth and R. Boyer, *Contemporary Capitalism: The Embeddedness of Institutions* (Cambridge: Cambridge University Press, 1997); T. Iversen, J. Pontusson, and D. Soskice, eds., *Unions, Employers and Central Banks: Macroeconomic Coordination and Institutional Change in Social Market Economies* (Cambridge: Cambridge University Press, 2000), inter alia.
4. In ancient Greece this was the *only* work regarded as honorable and productive. For a review of the evolution of the concept of work, see Guy Standing, "The Idea of Work," plenary paper presented at EU Greek Presidency Event, "The Future of Work," Athens, January 2003.
5. His comments can be seen colloquially. Why do I dig my garden, or experiment with recipes for sorrel soup? Why do I linger over the words for a paper for the Polanyi conference? In none of those activities—work—do I respond to the thought of economic gain. I do them for joy, for pride, or whatever, but not for commercial profit. How profoundly different is the motivation for *labor.* In performing the latter, I am confronted by the fear of income loss, dismissal, sanctions, being displaced by younger, more able workers, and so on.
6. Polanyi, *Great Transformation,* 171.
7. Even in the most rudimentary society, people have access to land with which to produce or acquire food, or receive gifts and support from those who do.
8. Some receive less *income* than they *earn,* not because of taxes but because intermediaries control access and deduct some of it, so concealing their poverty. Women are often impoverished in this way.
9. Symptomatic was the way labor contracts were molded. In the United States, from the 1950s onwards firms locked workers into long-term contracts through COLA (Cost of Living Adjustment) contracts, which tied pay to productivity growth, implying that unions accepted the existing distribution of surplus. COLA contracts led to a decline in union pressure for state benefits, and help explain why U.S. welfare capitalism involved a rise in EB relative to SB and W, whereas in Western Europe SB rose relative to W and to EB. On U.S. developments, see N. Lichtenstein, "From Corporatism to Collective Bargaining: Organized Labor and the Eclipse of Social Democracy in the Post-War Era," in *The Rise and Fall of the New Deal Order,* ed. S. Fraser and G. Gerstle (Princeton, NJ: Princeton University Press, 1989), 142–44.
10. While millions were turned into migrant laborers, a few, mostly civil servants, were provided with a social income package that was a copy of the norm for comparable employees in rich countries.
11. To receive a wage, a person had to turn up to a workplace (or have a legitimated excuse for not doing even that). Whether he then worked below the norm made only a small difference to his social income.
12. H. Arendt, *The Human Condition* (Chicago, IL: University of Chicago Press, 1957).
13. I define labor decommodification more broadly than Esping-Andersen did in his much-quoted book. He defined it as "the degree to which individuals, or

families, can uphold a socially acceptable standard of living independently of market participation." G. Esping-Andersen, *The Three Worlds of Welfare State Capitalism* (Cambridge: Cambridge University Press, 1990), 37.

14. It was partly because labor decommodification went furthest in the Soviet Union that the system ground to a halt in the 1980s, when the workers' wry joke was "they pretend to pay us, we pretend to work." The state decommodifies labor at its peril.
15. It exuded "fictions." One of the biggest was that there was full employment. This has grown into a myth that has allowed many to refer to the era as a Golden Age. That is not how it looked in 1968.
16. Polanyi, *Great Transformation,* 79.
17. I. Gough, *The Political Economy of the Welfare State* (Harmondsworth: Macmillan, 1979).
18. In the 1990s, as evidence gathered of welfare-state changes, some observers contended they were only marginal. One claimed, "The welfare state stands out as an island of relative stability." P. Pierson, *Dismantling the Welfare State? Reagan, Thatcher and the Politics of Retrenchment* (Cambridge: Cambridge University Press, 1994), 5. He argued that welfare bureaucracies preserved the status quo and used veto power over proposed reforms, ensuring path continuity. P. Pierson, "The New Politics of the Welfare State," *World Politics* 48, no.2 (1994): 147. Esping-Andersen contended that institutional inertia meant that welfare states were merely adjusting to challenges, such that "the inherent logic of our three welfare regimes seems to reproduce itself." G. Esping-Andersen, *Social Foundations of Postindustrial Economies* (Oxford: Oxford University Press, 1999), 165. He claimed, "In most countries what we see is not radical change, but rather a 'frozen' welfare state landscape." G. Esping-Andersen, "After the Golden Age? Welfare State Dilemmas in a Global Economy," in *Welfare States in Transition: National Adaptations in Global Economies* (London: Sage, 1996), 24.
19. There may be "retrenchment" even though social spending may be constant or rising, if the growth is less than the rate of growth of needs or demand.
20. J. Neyer and M. Seeleib-Kaiser, *Bringing the Economy Back In: Economic Globalization and the Re-commodification of the Workforce* (Bremen: University of Bremen, 1995); C. Holden, "Decommodification and the Workfare State," *Political Studies Review* 1, no.3 (2003): 303–16.
21. Guy Standing, *Global Labor Flexibility: Seeking Distributive Justice* (Harmondsworth: Macmillan, 1999); Standing, *Beyond the New Paternalism,* 2002. A resort to workfare was a predictable consequence of the surge to flexibility. Standing, "The Road to Workfare: Alternative to Welfare or Threat to Occupation?" *International Labor Review* 129, no.6 (1990): 677–91.
22. Polanyi, *Great Transformation,* 239.
23. Polanyi, *Great Transformation,* 238–39.
24. This is part of the reconfiguration of the state and the superstructure of global capitalism. While the United States is hegemonic, it can fashion the international agencies that help turn national states into responsive local authorities, institutionalizing governance systems that correspond to their needs.

25. A strange development is *decontractualization,* i.e., a trend toward fewer workers having formal contracts, particularly in developing countries. This arises from moves away from collective contracts via collective bargains, even though the rhetoric is about extending individual employment contracts.
26. By threatening to lower their rating, thus making it harder for them to raise money through bond issues, CRAs have leveraged U.S. local government authorities into curtailing health-care benefits for public sector employees. *The Economist* (July 2, 2005): 74.
27. In 2004, one CRA let it be known that it was contemplating upgrading South Africa's credit rating score. Even that signal led share prices and the value of the Rand to rise sharply.
28. *Wall Street Journal,* September 15, 2005. In many small firms, workers cannot afford health-care payments. But failure to pay each month may lose them entitlements and act as a barrier to reinsurance. The record is passed around. After all, a poor record to pay implies a risky worker!
29. W. Afford, *Corrosive Reform: Failing Health Systems in Eastern Europe* (Geneva: International Labour Organization, 2003).
30. See, e.g., N. Rose, *Powers of Freedom: Reframing Political Thought* (Cambridge: Cambridge University Press, 1999).
31. For its evolution in Australia, see C. McDonald and G. Marston, "Workfare as Welfare: Governing Unemployment in the Advanced Liberal State," *Critical Social Theory* 25, no.3 (2005): 374–401.
32. See, among many studies, J. Handler, "Social Citizenship and Workfare in the United States and Western Europe: From Status to Contract," in *Promoting Income Security as a Right: Europe and North America* ed. Guy Standing (London: Anthem, 2005): 567–608.
33. Guy Standing, ed., *Minimum Income Schemes in Europe* (Geneva: International Labour Organization, 2003).
34. Elsewhere I have referred to the moral crisis as one of eight "crises" of social protection. I endorse Vivien Schmidt's point, "No major and initially unpopular welfare-state reform could succeed in the medium term if it did not also succeed in changing the underlying definition of moral appropriateness." V. Schmidt, "Values and Discourse in the Politics of Adjustment," in *Welfare and Work in the Open Economy,* Vol. 1, F. W. Scharpf and V. A. Schmidt, ed. *From Vulnerability to Competitiveness* (Oxford: Oxford University Press, 2000), 231.
35. Polanyi, *Great Transformation,* 87.
36. One ruse in the United States is the infamous "chapter 11" that allows companies to declare bankruptcy as a way of off-loading pension and health insurance costs, and forcing workforces to accept large wage cuts, so becoming "a device for reasserting management fiat over workers with the backing of bankers." J. Gupper, "The Danger of Rewriting Chapter 11," *Financial Times,* October 13, 2005, 13.
37. General Motors now provides health insurance to over one million retired Americans. Note that pressure to cut its legacy costs has come from the private regulators, since the credit rating agency Standard & Poor's has lowered its credit rating due to these costs. *The Economist,* October 15, 2005, 73.

38. International Labour Organization Socio-Economic Security Program, *Economic Security for a Better World* (Geneva: ILO, 2004, reprinted 2005). Such subsidies account for a larger share of GNP of developing countries.
39. B. Ackerman, A. Alstott, P. van Parijs, et al., *Redesigning Distribution: Basic Income and Stakeholder Grants as Cornerstones of a More Egalitarian Capitalism* (London: Verso, 2005).
40. G. Dench, K. Gavron, and M. Young, *The New East End: Kinship, Race and Conflict* (London: Profile, 2006). This important study is mistaken in attributing the tensions to the drift to *rights-based* benefits.
41. G. Therborn, *Sex and Power: Family in the World* (London: Verso, 2004).
42. F. Furedi, *Where Have All the Intellectuals Gone?* (London: Continuum, 2004).
43. E. Hartmann, S. Haslinger, and C. Scherrer, "Liberalisation of Higher Education and Training: Implications for Workers' Security," in *The Liberalisation of Social Services,* ed. E. Rosskam (Geneva: ILO, 2006).
44. See, "A Survey of Higher Education," *The Economist,* September 10, 2005, 14–15.
45. S. Halperin, "Dynamics of Conflict and System Change: *The Great Transformation* Revisited," *European Journal of International Relations* 10, no. 2, (2004): 263–306.
46. Polanyi, *Great Transformation,* 73.
47. Ibid., 171.
48. Ibid., 76.
49. International Labour Organization Socio-Economic Security Program, *Economic Security for a Better World* (Geneva: ILO, 2004). We found measures of national happiness were inversely related to inequality, and positively to economic security.
50. For a nice critique, see Furedi, 20–25, et passim.
51. A favorite example is the new preferred term for failing an exam: "deferred success."
52. *The Economist,* August 9, 2003. Some studies have questioned this, claiming that hours of "leisure" have risen. However, the upward curve in working time started in the early 1990s, and more time seems to be devoted to labor-related activities.
53. John Jurgensen, "For More Americans, Life Begins at 5 a.m.," *The Wall Street Journal,* March 27, 2006, 36.
54. Polanyi, *Great Transformation,* 242.
55. Ibid., 263.
56. Ibid., 263.
57. Ibid., 79.
58. See, e.g., Guy Standing, ed., *Promoting Income Security as a Right* (London: Anthem Press, 2005).

5

The Right to Work, Way of Social Exclusion? Basic Income as a Guarantee to the Right to Work

José Luis Rey Pérez

Karl Polanyi, in his famous book *The Great Transformation*, wrote, "Labor is only another name for a human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized."[1] Many decades after, the proper meaning of the right to work is an important topic in discussions of social rights. This is not surprising if we take into account the central role played by the right to work in the development of the welfare state. When the crisis of the welfare state began and unemployment rates not only rose but also remained at high levels, the achievability of the right to work in Western economies began to be questioned. Unemployment today is a structural element of our economies, and this has led inevitably to a reassessment of the right to work.

At the same time, there are many international agreements that still recognize the right to work. Article 23 of the Universal Declaration of Human Rights proclaims that "everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment." The same article says that "[e]veryone, without any discrimination, has the right to equal pay for equal work," and "favorable remuneration" ensuring for the worker and his family "an existence worthy of human dignity and supplemented, if necessary, by other means of social protection." The declaration also proclaims that everyone has "the

A. Buğra et al., *Reading Karl Polanyi for the Twenty-First Century*

right to rest and leisure, including reasonable limitation of working hours and periodic holidays with pay." In similar terms, the right to work is recognized by the American Declaration of the Rights and Duties of Men, the European Social Charter, the International Covenant on Economic, Social and Cultural Rights, and the Treaty Establishing a Constitution for Europe, currently in limbo.[2]

If we want to know how these obligations should be interpreted in the current economic circumstances, probably we would have to go back to the way Polanyi understood work and its meaning. Then we will discover another sense for the right to work that implies the decommodification of labor as Polanyi argued.[3] With that purpose, in this chapter I shall point out that the obligations proclaimed in the legal texts described above consist of three different categories of rights: the right to work, the freedom to work, and labor rights. By distinguishing between these different aspects of the right to work, I will propose that the right be given a broader meaning than it is conventionally understood to possess.

The Right to Work, the Freedom to Work, and Labor Rights

Although the right to work, the freedom to work, and various labor rights appear together in the legal texts quoted above, they can be conceptually distinguished. Obviously, there are some connections among them, but if they were all the same, the explicit distinction that appears in the legal texts would not make sense.

The freedom to work is one of the classical freedoms of societies that recognize human rights. It means the prohibition of slavery and forced labor, and the freedom to choose an occupation without governmental intrusion. Therefore, it imposes a negative duty on the state, because citizens can demand that the state cease any actions that could impede their professional development or their election of an occupation.

Some authors suggest that the right to work does not mean anything different from the freedom to work. This contention is argued by some liberal authors whose views have influenced the way in which the right to work has been included in some legal rules. Some liberal authors argue that if we make the right to work bigger, the freedom to work will be reduced because the state could guarantee the former only by offering jobs and becoming more extended. Since doing this would be inconsistent with the model of state these liberals support, interpreting the right to work as nothing more than the freedom to work is seen as a necessary component of liberalism.

If the right to work were merely the freedom to do it, it would not be a social right. So it seems necessary to look for a different meaning for it. This does not mean to deny the importance of the freedom to work. It only means we have to distinguish between the freedom to work and the right to work.

Another distinction that it is necessary to establish is between the right to work and labor rights that also commonly appear together in legal texts. The right *to* work is different from rights *at* work. Despite the fact that Article 23 of the Universal Declaration of Human Rights proclaims these rights together, it also differentiates them. If they were the same thing, the language distinguishing between the right to work, the free choice of employment, the right to fair working conditions, and the right to protection against unemployment would not be necessary. These "fair working conditions" also include the right to rest, limitation of working hours, periodic holidays, and so on recognized in Article 24.

Title IV of the proposed European Constitution includes a group of labor rights that have been very important in the development of European labor law.[4] These rights try to ensure fair and favorable working conditions, but they only appear when the labor relationship already exists. This is why they are different from the right *to* work. The right *to* work is previous, and with these labor rights we impose some conditions on it.

Traditionally, labor rights were considered to be the heart of social rights, and they frequently were interpreted as synonymous. However, today we have to abandon this identification of labor rights with social rights, because if we argue for it, we necessarily would exclude a great number of people from the protection and exercise of their social rights, all those people who are outside the labor relationship in our societies.[5]

We can conclude from this discussion that the freedom to work, labor rights, and the right to work are three different categories of rights that try to protect different things. Labor rights try to protect working conditions and they appear when the labor relationship exists. The freedom to work tries to prevent slavery and to protect the freedom to choose an occupation. I will now turn to the question of what the right to work tries to protect and how that right can be defined.

Meanings of the Right to Work

If the right to work is different from the freedom to work and from labor rights, what is its meaning? What is it really protecting? Traditionally, it has been interpreted as the right to a job. In fact, during the development of the welfare state, the right to work—understood as the right to a job—was identified with the political and economic goal of achieving full employment. With full employment, the right to work seemed to be guaranteed.

However, from a legal point of view, there can be different ways of understanding the right to work when defined as the right to a job. Following the classical distinction pointed out by Alexy, we can interpret the right to work either as a *rule* or as a *principle.* While *principles* are guidelines that force governments to do their best to achieve the content of a right, taking into account available options, *rules* are immediate obligations. They may or may not be fulfilled, but they cannot be fulfilled gradually.[6]

Viewed as a *principle,* the right to work is understood as a right to a certain level of effort on the part of the state to make jobs available.[7] This means that governments have a duty to do their best to reduce unemployment and try to ensure that every citizen has a job. Viewed as a rule, the right to work is stronger, because it includes the possibility of going to court in case you do not have a job.

In this sense, the right to work is paradoxical. If we interpret the right as a *principle,* it is a right that is always secured because governments always try to reduce unemployment.[8] If, on the other hand, we interpret the right to a job as a *rule*[9] it is a right that cannot be secured, because if we do not change something fundamental in our economies, there always will be some unemployment. In consequence, as a *principle* the right to work makes no sense, because it is always obeyed, while as a *rule* it is impossible to realize, because the economy seems to need some level of unemployment.

Some authors have interpreted the right to work as a *rule* imposing a duty on the state to create and offer jobs to the unemployed. As presented by these authors, this right would not contradict the freedom to trade and would not imply the full nationalization of the economy.[10] From their perspective, the right to work "involves more than freedom from forced labor and an opportunity to compete for available jobs. It is a right actually to be employed."[11] This right would imply a duty on the part of the state to create jobs directly for those people who do not get one in the labor market.[12] This would be a way to concretize the content of the right to work when interpreted as a *rule.*

This contention has some problems. We could ask what type of jobs the state might create and if they are not fictitious ones, since, if they do not exist, they are not demanded in the market. Jobs created by the governments would involve *care work.* The idea, then, is to expand some activities that already are being performed and, in exchange for their performance, give people a salary. In consequence, the government would be creating jobs, but those jobs would not be real: the government would create fictitious jobs in order to maintain this narrow concept of the right to work.

In addition, these jobs created directly by the state would be a last option for people who have not found a job in the labor market. In consequence, it would stigmatize them and "if the state employment agency raised the wages of public-sector jobs to avoid the stigma that would otherwise attach to them, private employers would have to follow suit, again raising wages and reducing the demand for labor. Theoretically, the process would go until all private firms were driven out of business."[13] In Elster's opinion, the state only can assure the right to work by nationalizing the whole economy or by creating a second-class labor force of stigmatized workers.

In discussing these concerns, authors who support direct job creation have argued that Elster starts with two suppositions: first, "the State would have to accommodate the migration of workers from the private to the public sector by offering work to anyone who asked for it, irrespective of the number of job vacancies that existed in the private sector. Second, the state also would have to be prepared to match any wage increases in private sector employment. Otherwise, private sector employers could stop the migration by offering marginally higher wages than the jobs program."[14] Because of these two suppositions Elster arrives at the wrong conclusions. It could be possible to establish a system that creates jobs only if there were not enough vacancies in the private sector. In addition, wage levels in the guaranteed sector could be established just low enough to make workers indifferent between working in the private sector and working in the guaranteed sector. However, this answer does not reply to the argument that those who occupy jobs in the guaranteed sector would be perceived as people the private market does not want, and this necessarily would stigmatize them. The idea behind direct job creation proposal is not only that work is a right, but it is also a duty. That is the reason why some authors have emphasized the possibility of imposing these jobs as a temporary duty.

Direct job creation presents some advantages over an understanding of the right to a job as a *principle*, because it really would provide an occupation to everybody and the program also might provide more favorable wages and working conditions than substandard jobs in the regular market. At the same time, "average wages paid would be on the low-end of the range paid in 'decent' jobs, since unemployed workers tend to be less skilled than most regularly employed workers";[15] so only people employed in substandard private sector jobs would migrate to guaranteed jobs, but not people with decent private sector jobs. Therefore, direct job creation would also serve to guarantee labor rights to this group and not just the right to work. In response to the argument that it is impossible to conceive of the right to a job as a *rule,* direct job creation supporters argue that what is required is to reduce unemployment to unavoidable frictional unemployment, that which results from the fact that it takes time for job seekers and employers with jobs to fill to find one another and complete a hiring.[16] In that case, they would not say that the right is being violated.

However, from my point of view, this argument changes the meaning and concept of *jobs*. Jobs are work activities that the market values and for which it gives money and recognition in exchange. Direct job creation supporters say that the government must offer jobs when there are not enough in the market, but then they offer something different, something that strictly does not consist of jobs. Instead these are something fictitious, created simply to solve the problem that originated when the right to work is conceived as a right to a job. In my opinion, the proper way to respond to this problem is to broaden our conception of work and abandon the identification of work with wage labor as I will try to explain in the next section.

Arguing for a Broader Conception of the Right to Work—The Right to Work as the Right to Social Insertion

When we talk about particular human rights we should first clarify what we mean by human rights in general, because it is an ambiguous term. Depending on the conception of human rights we have in mind, we could adopt one or another view of the meaning of the right to work.

I assume a dualistic view of fundamental rights. In accordance with this concept, human rights are justified moral claims that solidify the content of determined moral values, particularly liberty, equality, solidarity, and security; but they also are valid norms that have been collected in legal texts that inform the judicial system and do not contradict it.[17] If we assume this concept of human rights, we have to reflect upon the moral value the right to work is trying to protect.

During the years of the development of the welfare state, the right to work was the main right among social rights. In welfare states, citizenship was identified with labor status. To engage in labor was the main and prior requirement to be a part of society, and it also was an important element in the construction of identity; it was what caused society to cohere as well as being a way to distribute wealth among citizens and control them.[18]

Today the right to work seems to have lost this capability. Rather than achieving social cohesion, labor markets divide society into different groups: those who have a job and those who do not, and among the former, those who have jobs with high protection standards and those who do not. And among those who have jobs with high protection standards, we see differences between those who live under the threat of losing them and those who enjoy employment security (including government employees, the last group to possess jobs with all the characteristics of jobs in the welfare state). *Flexibility* and *availability* are the two main characteristics of the current labor market. They imply adaptation to market demands and a reduction in the content of labor rights. The precariousness that was an exception during the years of the development of welfare state, is today the standard work relation.

Obviously, it is not true that full employment achieved social cohesion without any gaps during the years of the development of welfare state. There were exceptions that resulted in the exclusion of some people from social recognition, perhaps the most significant case being that of women, who participated in society through the mediation of their husbands. We could point out other examples of groups that did not achieve recognition through the labor market, but in general, it is possible to support the argument that in the 1950s and in the early 1960s the system achieved a high level of social cohesion.

The problem with the instrument of full employment was that it did not evolve to adapt to the social changes that were occurring in societies. Although there are many explanations of the welfare state's crisis, one of those causes was a crisis of legitimacy.[19] As the state met the needs of citizens, those needs increased and became both more diverse and less homogeneous. The institutions of the welfare state were not capable of answering the new social demands and problems it confronted. Consequently, people increasingly turned to the market to satisfy their needs, as the multiplicity of their demands broke the consensus on which the welfare state had achieved social cohesion.

The current labor market situation is even worse. The evolution of the labor market in the last 30 years has been characterized by an increase in precariousness, the division of the population into different groups, and the growing vulnerability of economies to the forces of globalization. This makes it impossible for the labor market to be the instrument of social cohesion that it once was, because, among other reasons, a labor market with full employment was designed for a different model of society than the one we live in now.

There are some authors who have denied the existence of a right to work based on the precariousness of employment today and the current situation of the labor market. Their denial starts with an idea of human rights that is different from the one I have argued for. To the two elements of the dualistic approach identified above, these authors add a third element based on the efficacy of a claim. According to this so-called integral vision,[20] the recognition of rights depends on the social reality in which they appear and, consequently, social factors render the justice and morality of rights conditional. Thus, according to the *integral vision,* a human right is a justified moral claim included in a legal rule that can be effective; and since we live in a social context of scarcity, only those entitlements that can be effective can be properly recognized as rights. Based on this view of human rights, some authors argue that the right to work cannot be a right because we cannot guarantee that work can be distributed equally and effectively.[21]

I do not agree with the third requirement for the recognition of human rights that forms a part of the so-called integral vision. I believe that considerations of efficacy appropriately belong to an institution close to rights, but different from them: namely, guarantees. Guarantees comprise the different measures by means of which the content of rights and duties are made effective. From my point of view, we recognize a right because of the strength of the moral values it tries to protect and because it is possible to include it in a legal rule that is consistent with other legal rules and, hence, contributes to the coherence of law. Considerations of efficacy are subordinate to these two elements. In other words, we should distinguish between the existence of a right and ways to make it effective. The latter are guarantees of the right rather than an element of the right itself, and efficacy is a primary element of those guarantees. Among the different guarantees that can realize the content of a right, we should choose those that are more economical. In this sense, efficiency can be a way of comparing the efficacy of guarantees. While rights and duties are relatively stable, guarantees are more changeable because they must be adapted to different contexts. This concept of guarantees implies that morality and the law are properly viewed as superior to the economy. That is, the recognition of rights must not depend on economic considerations because, among other things, scarcity arguments are not objective. They depend on ideological choices. Those who rely on scarcity arguments to criticize social rights are merely defending the way those resources are distributed.

In consequence, efficacy arguments are useful only to check whether one guarantee of the right works better than another. So to discover the meaning of the right to work, we have to consider the two elements of human rights—the moral values it tries to protect and whether it is possible to include it in a legal rule without undermining the legal system.

What are the moral values the right to work is trying to protect? To answer this question it is necessary to think about the meaning of *work*. Usually work is considered to consist of those activities that the market rewards with a salary or some other type of consideration. Based on this concept, work depends on the market; but the market is not stable, so the concept of work would be unstable too. For example, a housewife cleaning her own house is not engaged in work, but if she does the same activity in another house, receiving money for it, that automatically qualifies as work, even though the activity itself is the same in the two situations.[22] In consequence, this concept of work has no clear meaning. It depends on market criteria.

Guy Standing distinguishes between *work* and *labor,* with the former having a broader meaning than the latter.[23] Work consists of all activities where people combine their creativity with their physical strength and their intelligence with their capabilities; and it always implies interaction with other people. Labor consists of just some of these activities, those that the market values. In consequence, all labor is work but not all work is labor. We cannot make the concept of work depend on the market criteria. The point is that when we talk about the right to work in the conventional sense we are talking about the right to labor.

It is necessary to reflect about the characteristics that make work something more than just labor. In this sense, Schwarzenbach distinguishes between a *Lockean* concept of work, the object of which is production for the market and which encompasses all the activities required to make a product for sale, and a reproductive concept of work, the purpose of which is the establishment of a relationship through which someone can satisfy the needs of others, that is, the reproduction of human relations.[24]

Following this latter idea we can identify work with all activity that purports to add value to the society in which it is completed, whether or not it is recognized by the market. Through work people obtain a position in society. Labor is only a part of work. I am arguing for a broad conception of work. Some authors accept this conception but criticize it as excluding the narrower concept identified with labor, that is, with paid work. The broad conception does not exclude paid work; it includes not only this type of work but also other types. As Ben-Israel has pointed out, "Work cannot be considered only in relation to its market value."[25]

If we understand work in a broad sense, the right to work cannot be the right to labor, the right to a job; it must imply something else. Then it means the right to carry out an activity in which people can utilize their creativity, their physical and psychological capabilities, and through which they can establish relations with other people. The moral value that is realized by the exercise of this right is social cohesion and recognition, the opportunity to participate in society. In consequence, the right to work means the right not to be excluded, the right to be recognized as a full member of society. Belonging to a society is one of the main values of social justice.[26] The purpose of the right to work is to realize this value of social integration and belonging. In a modern and complex society, individuals must have a place in the social system, and they get that place through the activities they develop.[27]

During the developmental years of the welfare state the right to work and the right to a job were synonymous, because the labor market with full employment was the way people achieved social insertion. The guarantee of the right to social insertion was the labor market. Nowadays this guarantee does not work. The labor market has the opposite effect, creating social exclusion. Social exclusion does not only mean the absence of economic resources, but also the loss of opportunities to participate in social activities, in the life of the community.[28]

I defend the concept of the right to work as the right to social insertion not because of the insecurity and scarcity of paid employment. I argue for this concept because the moral value that was protected by the right to work, understood as the right to a job, was social inclusion. The scarcity of paid employment only demonstrates that it is not a good guarantee of that right today. So we will have to look for new guarantees. That is what I will try to do in the next section.

In my opinion, those who identify the right to work with the right to a job are confusing the right with its guarantees. Having a job is not a moral value by itself. It is a means of obtaining recognition within society, but jobs are not the only way to achieve that end. When the labor market cannot achieve this objective, we have to look for new ways to do it. Proclaiming a right to a job makes no sense because jobs lack the moral quality to be a right. Furthermore, understanding the right to work as a right to social insertion does not mean understanding it as a "right to have rights." It means a right to be in a position to exercise other rights. That is what social insertion means and that is what the labor market made real during the developmental years of the welfare state when citizenship was the same as having the status of labor.

Ways to Make Effective the Right to Work

If we understand the right to work as a right to social insertion, we have to look for the possible guarantees than can make effective the content of this right. In this section I am going to analyze three possible guarantees: direct job creation as discussed above, Minimum Insertion Incomes (MII) as they exist in some European countries, and basic income (BI) as an institution proposed from the academia.

Direct job creation

As explained above, some authors argue that the right to work means the right to a job, and they propose the creation of jobs by the governments for those who cannot get them in the market. I have already pointed out my disagreement with some aspects of this argument, especially the way it understands the right to work. In my opinion, supporters of direct job creation confuse the right to work with its guarantees, and they convert the latter (having a job) into the essential element of the right itself. In other words, they confuse the means with the end.

Apart from this conceptual disagreement, direct job creation can be a way to guarantee that the right to work is understood as a right to social inclusion. As I have pointed out earlier, the problem with this guarantee is the stigmatization that it would produce, because, in the end, people who enjoy public jobs created by the state would be seen as those people the market does not want. This would not help to achieve social integration and cohesion, and it is possible that there would be some social exclusion of those who occupy this type of job. This social exclusion might not be economic, because supporters of this guarantee defend labor rights with decent salaries. Instead it would involve questions of social respect, consideration, and recognition for these people and the activities they carry out. That is the reason I think it is difficult to defend this means of guaranteeing the right to work today.

The inconsistency in the argument for direct job creation is that it defends the right to have a job and then defines jobs in accordance with the concept of jobs we have today, a concept that depends on the market. The supporters of this argument do not want to adopt a broader conception of work, so they propose the creation of fictitious jobs, fictitious because they would not be created by the market—and all because they do not want to adopt a broader conception of work. In my opinion, arguing for a broad right to work does not mean denying labor rights. I agree with direct job creation supporters about the importance of the rights that must go with the existence of jobs, but as I have tried to argue they are conceptually different from the right to work. There is no right to have a paid job; there is a right to social insertion and a group of rights that impose certain characteristics on jobs.

Minimum Insertion Incomes

The increase in social exclusion experienced in European countries has forced governments to create a subsidiary guarantee when the labor market does not work. This guarantee, commonly referred to as a Minimum Insertion Income, was created and developed in Belgium and France, and other countries have copied the model. This new instrument is based on the idea that traditional income supplements are insufficient to overcome social exclusion. MII wages the fight against exclusion with three components: a cash income benefit, social emergency aid (both of the former being monetary in nature), and finally, the so-called insertion contract or covenant.

The cash benefit is not very high. It is paid periodically (usually monthly) directly to the recipient. It ensures that people can cover survival expenses, that is, food and hygiene. The income is not individual but familial, although a wide concept of family is used. However, the way the benefit is calculated penalizes large families, because the larger the family is, the less additional money they receive. In my opinion, this is irrational because it assumes that there are economies of scale in the consumption of food, but the retail price of food is not reduced if larger quantities are purchased. As Susín has indicated, "The amount assigned to each additional member (. . .) does not grow with what seems to be the needs of each additional member, wherein we can read a certain intention to penalize ethnic minorities that traditionally have large families."[29] The aid is provided only while the recipient's need persists, which means that social workers exercise a great deal of control over their situation. The recipient is obliged to show periodically that he deserves the aid, or what is the same, his incapacity to subsist. Therefore the institution causes stigmatization. In fact, some people leave the program because of this effect.[30]

The second element, social emergency aid, is not provided unless the recipient has some extra and special need related to clothing, education, or health. He can demand this aid from the social worker, who is responsible for evaluating whether it is appropriate. It is income that can only be used for the purpose it is granted.

Finally, receipt of these two types of income is conditioned on the recipient's signing an insertion covenant. The social worker includes in this covenant a group of activities that the recipient must carry out if he wants to receive economic help. The activities vary depending on the concrete causes of the recipient's exclusion. They can be educational, involve participation in a drug treatment program, and so on. The recipient must comply with his obligations in order to continue to receive economic aid. This instrument creates a great deal of room for social workers to exercise arbitrary power.

In sum, MII does not provide an effective guarantee of the right to social insertion, because the purpose of the institution is not to solve the problem of social exclusion but to control the excluded population. Its goal is to exercise more direct control over beneficiaries through a more personalized and direct processing of applications for aid, individualized monitoring of recipients, and the continual evaluation of their circumstances. The institution neither succeeds in eliminating stigmatization nor in presenting a new model of social assistance distinct from *workfare.* Moreover, in countries such as France where the institution has been in place for years, it has been demonstrated that it does not achieve its stated goals.

Basic Income

There is an institution that has been proposed by political philosophers and sociologists that can provide a new guarantee of the right to work: basic income. It is an unconditional and universal income given by governments to every citizen and resident. The main differences between BI and other programs of the welfare state is its universality (the same quantity of money is given to everybody) and its unconditionality (it is given regardless of whether you have worked or not, whether you want to work or not, whether you live alone or with others, whether you are rich or poor, or whether you live in one or another part of the country).[31] BI is presented as a solution to some of the problems detected in welfare programs: it would be a solution to poverty and unemployment traps, it would reduce stigmatization, it would be simpler in an administrative sense, it would prevent poverty and exclusion, and it would be adapted to new social and family models.

From my point of view, BI is a guarantee of the right to work understood as the right to social insertion. This right, a right to be an active member of the community and recognized by it, is a necessary social right that tries to make the participation of citizens in the process of decision making real. Giving an unconditional income to everybody would be a good way to guarantee the recognition of all the members of a society, now when the labor market cannot perform that function. In addition, BI would achieve one of the objectives of social rights, because it would end society's reliance on the market to satisfy the most basic and fundamental needs of its members, something that is necessary for the exercise of citizenship. BI would recognize all citizens, independent from the market. It would guarantee the right to work, interpreted as the right to social inclusion, because it would permit people to develop and engage in activities whether or not the market values them.

However, as I have pointed out earlier, in choosing a guarantee of a right, we have to compare all the guarantees that try to realize the content of the right and choose that one that is most effective. In this sense, compared to MII, BI has the advantage that it does not stigmatize recipients because, thanks to its universality, everybody receives the money no matter how rich or poor he is. It also requires less administrative control than MII, because governments provide the benefit and then leave it to recipients to decide how to use or invest the money. One of the purposes of basic income is to increase the real freedom of people, understood as the liberty to do whatever one *might* want to do,[32] providing everybody the opportunity to choose and develop their own lifestyle. In this sense, it seems to be a better solution to the problem of social exclusion.

Compared to direct job creation, BI has the advantage of being better adapted to the right to work understood in a broad sense because it would provide recognition for many activities developed outside the market, but it does not adopt the perfectionist argument of offering a list of what activities are considered contributions to society and what are not. BI tries to maintain liberal neutrality with reference to lifestyles. It does not need to rely on market criteria to justify work and then create jobs that do not satisfy that criterion.

Some might argue that BI, despite its universality, could cause stigmatization, especially among those who decide not to work. This prediction is based on the reciprocity objection that comprises the main criticism of basic income. The prediction assumes that the financing for basic income would come from taxing labor incomes. If we do it in this way, those who do not work in the labor market probably would be seen as free riders, and rather than achieving social cohesion BI could have the opposite effect. However, this method of financing is not an intrinsic characteristic of BI. There is nothing in it that implies the exploitation of workers by lazy people. It all depends on the concrete design we create for the institution. If we obtain the money to finance BI from other sources this obstacle disappears. In conclusion, BI appears as a good guarantee of the right to work understood as the right to social insertion.

Conclusion

We cannot identify the right to work with the freedom to work, nor with the labor rights that national and international rules recognize. If we want to know what is the meaning of the right to work, we have to reflect on the moral values it is trying to protect, because rights are those justified moral claims that are included in a legal rule. The moral value protected by this right is the value of social inclusion, membership in a society, so the right to work can be identified as the right to social insertion. Arguments that focus on the efficacy of the means available to secure the right to work are not enough to deny the existence of the right, because considerations of efficacy belong to another institution: guarantees. Those who identify the right to work with the right to have a job confuse these guarantees with the right itself, the means with the end.

For a period of some decades, the labor market was a guarantee of the right to work. But this guarantee no longer works, so we have to look for new ones. Compared to MII and direct job creation, BI presents some advantages, because it does not stigmatize, it is not an instrument of control imposed upon the socially excluded, and it is more consistent with the right to work understood as a right to social inclusion. All these reflections start in Polanyi's writings because he was one of the first scholars who pointed out the negative consequences of commodification of labor. What is surprising is that many years later, we have to discuss these points again.

Notes

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1. Karl Polanyi, *The Great Transformation. The Political and Economic Origins of Our Time* (1944; Boston, MA: Beacon Press, 1957), 72.
2. The article II-75.1 recognizes that "everyone has the right to engage in work and to pursue a freely chosen or accepted occupation."
3. As Polanyi pointed out, "It is not for the commodity to decide where it should be offered for sale, to what purpose it should be used, at what price it should be allowed to change hands, and in what manner it should be consumed or destroyed" (*Great Transformation*, 176).
4. For example and among others: the right of workers to information and consultation within an enterprise, the right to engage in collective bargaining and action, the right to social security and social assistance.
5. In consequence, the Charter of Fundamental Rights of the European Constitution does not go far enough because it seems to reduce social rights to labor rights (except for the right to health care and to education). In this respect the European Constitution is based on a way of thinking about rights that is now outdated, as I will try to explain later in this article.
6. R. Alexy, *Teoría de los Derechos Fundamentales* (1986; Madrid: Centro de Estudios Políticos y Constitucionales, 2001).
7. A. Montoya Melgar, "Ejercicios y garantías de los derechos fundamentales en materia laboral," *Revista de Política Social*, no. 121 (1979): 333; R. Sastre Ibarreche, *El derecho al trabajo* (Madrid: Trotta, 1996), 128.
8. Although in addition to reducing unemployment, governments sometimes pursue other goals that may cause them to adopt policies that increase unemployment, it is very difficult to evaluate these policy trade-offs from a legal perspective. We can examine the policy choices that governments make from a political or an economic point of view, but not from a legal one. If the consequence of some policy is an increase in unemployment, does it imply that the government can be sued for its policy choices? If we accept this idea, economic policy would be decided by courts and judges. Also, while governments do adopt policies that can cause an increase in unemployment in the short run, all governments try to reduce it in the long run. Governments do not voluntarily destroy employment, because, among other reasons, their reelection depends on that point.
9. M. R. Alcorcón Caracuel, "Derecho al trabajo, libertad professional y deber de trabajar", *Revista de Política Social*, no. 121 (1979): 20–21.
10. P. Harvey, *Securing the Right to Employment: Social Welfare Policy and the Unemployed in the United States* (Princeton, NJ: Princeton University Press, 1989); W. Gordon, "Job Assurance—the Job Guarantee Revisited," *Journal of Economic Issues* 31, no. 3 (1997): 826–34; W. F. Mitchell and M. Watts, "The Path

to Full Employment," *Australian Economic Review* 31, no. 4 (1997): 436–44; M. Forstater, "Flexible Full Employment: Structural Implications of Discretionary Public Sector Employment," *Journal of Economic Issues* 32, no. 2 (1998): 557–63; W. Quigley, *Ending Poverty as We Know It: Guaranteeing a Right to a Job at a Living Wage* (Philadelphia, PA: Temple University Press, 2003).

11. P. Harvey, "Human Rights and Economic Policy Discourse: Taking Economic and Social Rights Seriously," *Columbia Human Rights Review* 33, no. 2 (2002): 380.
12. M. Forstater, "Functional Finance and Full Employment: Lessons from Lerner for Today," *Journal of Economic Issues* 33, no. 2 (1999): 481.
13. J. Elster, "Is There (or Should There Be) a Right to Work?" in *Democracy and the Welfare State*, ed. A. Gutmann (Princeton: Princeton University Press, 1988), 74.
14. P. Harvey, "The Right to Work and Basic Income Guarantees: Competing or Complementary Goals?" paper submitted to X BIEN Conference (Barcelona, 19–20 September, 2004).
15. Ibid.
16. P. Harvey, "Benchmarking the Right to Work," paper submitted to 17th Annual Meeting of the Society for the Advancement of Socio-Economics (SASE) (Budapest, June 30–July 2, 2005).
17. G. Peces-Barba, *Curso de Derechos Fundamentales. Teoría General* (Madrid: Universidad Carlos III-BOE, 1995).
18. D. Méda, "New Perspectives on Work as Value," *International Labour Review* 135, no. 6 (1996): 637.
19. J. Habermas, *Legitimation Crisis* (London: Heinemann Educational, 1976).
20. G. Peces-Barba, *Curso de Derechos Fundamentales.*
21. G. Peces-Barba, "El socialismo y el derecho al trabajo," *Sistema*, no. 97 (1990): 9.
22. D. Raventós, *El derecho a la existencia. La propuesta del Subsidio Universal Garantizado* (Barcelona: Ariel, 1999), 70 ff.
23. Guy Standing, *Global Labour Flexibility: Seeking Distributive Justice* (London: MacMillan, 1999): 3–9.
24. S. A. Schwarzenbach, "The Limits of Production: Justifying Guaranteed Basic Income," in *Promoting Income Security as a Right: Europe and North America*, ed. G. Standing (London: Anthem Press, 2005), 97–114.
25. R. Ben-Israel, "The Rise, Fall and Resurrection of Social Dignity," in *Labour Law, Human Rights and Social Justice. Liber Amicorum of Ruth Ben-Israel*, ed. R. Blanpain (The Hague: Kluwer, 2001), 4.
26. B. Perret, *L´avenir du travail: les Démocraties Face au Chômage* (Paris : Seuil, 1995), 250.
27. A. Gorz, "Revenu minimum et citoyenneté. Droit au Travail vs. Droit au Revenue," Futuribles, no. 184 (1994): 49–60. Offe points out that "the key question remains whether and how we can structure this situation so as to minimise its negative social and political impact by combining the contractual and market patterns governing the social situation and status of labour with institutional patterns based on the principles of citizenship and community." C. Offe, "Towards a New Equilibrium of Citizens Rights and Economic Resources," in *Social Cohesion and the Globalizing Economy*, (Paris: OECD, 1997), 93.

28. W. Darity Jr., “Who Loses from Unemployment?” *Journal of Economic Issues* 33, no. 2 (1999): 491–96; M. J. Añón, “La contribución de los derechos sociales al vínculo social,” in *El vínculo social. Ciudadanía y Cosmopolitismo*, ed. J. de Lucas and others (Valencia: Tirant lo Blanch, 2002), 277–307.
29. R. Susín, *La regulación de la pobreza* (Logroño: Universidad de La Rioja, 2000), 326.
30. MII can be seen as a return to the Speenhamland Law that Polanyi studied in *Great Transformation*, 77 ff.
31. P. Van Parijs, *Real Freedom for All. What (if Anything) Can Justify Capitalism*? (Oxford: Clarendon Press, 1995).
32. Ibid.

Part III

Commodity Fiction in Contemporary Market Economies (2): Knowledge Today

6

Knowledge as a Fictitious Commodity: Insights and Limits of a Polanyian Perspective

Bob Jessop

One of Polanyi's most important contributions to critical social science was his insistence that land, labor, and money were fictitious commodities and that the liberal propensity to treat them as if they were real commodities was a major source of contradictions and crisis-tendencies in capitalist development—so great that society would eventually fight back against the environmentally and socially destructive effects of such treatment. Polanyi wrote during the epoch of industrial and financial capitalism when land, labor, and capital were considered the primary "factors of production." Contemporary capitalism is widely seen as a knowledge-based economy (or KBE), however, on the grounds that knowledge has become the most important factor of production and the key to economic competitiveness. This raises interesting questions as to whether knowledge is also a fictitious commodity, whether it has been disembedded from wider social relations, and, if so, whether its disembedding and fictitious commodification also entail a "double movement." This chapter explores these questions and deploys the answers to interrogate Polanyi's analysis of the other fictitious commodities.

Some Basic Concepts

Polanyi provided some useful concepts for examining knowledge as a fictitious commodity: substantive economy, formal economy, the economistic fallacy, dis- and re-embedding, fictitious commodity, market society, and

A. Buğra et al., *Reading Karl Polanyi for the Twenty-First Century*

double movement. He defined the economy in its substantive sense as "an instituted process of interaction between man and his environment, which results in a continuous supply of want-satisfying material means."[1] He then criticized the "economistic fallacy" that regards all economic conduct as formally rational and economizing and therefore assimilates the properties and dynamics of noncapitalist economies to those of market economies. But he also recognized that, whereas economic activities in precapitalist social formations were not conducted primarily for "economic" motives, that is, for the sake of gain or fear of going hungry for lack of employment,[2] contemporary market economies involve the increasing dominance of profit-oriented, market-mediated activities.

Given his interest in nonmarket as well as market economies, Polanyi focused on the organization of distribution rather than production. He identified four main principles: (a) householding based on autarkic production to satisfy the needs of a largely self-sufficient unit such as a family, settlement, or manor; (b) reciprocity among similarly arranged or organized groupings (e.g., segmentary kinship groups); (c) redistribution through an allocative center linked to a political regime; and (d) exchange mediated through price-making markets in a disembedded and potentially self-regulating economy.[3] He noted that symmetry, centricity, and market exchange can be combined under the dominance of one principle;[4] and added that trade could be based on reciprocal gift giving or centrally organized redistribution rather than monetary exchange.[5]

Polanyi further argued that "a market economy can exist only in a market society. . . . [It] must comprise all elements of industry, including labor, land, and money."[6] However, while these three elements have a price, they are either not produced at all (e.g., land is a gift of nature) or, if they are, they are not produced for sale (e.g., labor power, tokens of exchange). Nonetheless,

> Because labor and land were freely bought and sold, the mechanism of the market was made to apply to them. There was now a supply of labor and demand for it. Accordingly, there was a market price for the use of labor power, called wages, and a market price for the use of land, called rent. Labor and land were provided with markets of their own, similar to those of the proper commodities produced with their help. . . . [Yet] labor is only another name for man, and land for nature.[7]

This explains why, although land, labor, and money are "absolutely vital parts" of the market economy, Polanyi regards them as fictitious commodities. For, as he notes, what we call labor is simply human activity, whereas land is the natural environment of human beings, and money is just an account of value. Indeed, Polanyi emphasizes several times both that "[t]he postulate that they are produced for sale is emphatically untrue" and that "it is with the help of this fiction that the actual markets for labor, land and money are organized."[8] This also entails the organization of the wider society as a market society to sustain the organization of the economy in separate, market-based, and market-oriented institutions disembedded from nonmarket relations. For "a market economy can function only in a market society."[9] Yet if this threefold [fictitious] commodification goes too far, it undermines the market economy by provoking a wide range of social forces adversely affected thereby. Thus "the extension of the market organization in relation to genuine commodities was accompanied by its restriction in relation to fictitious ones."[10] The self-regulating market of economic liberalism is opposed by social protection intended to preserve man and nature. This is Polanyi's famous "double movement."

Is Knowledge a Fictitious Commodity?

Discussions of the information revolution, informational capitalism, or the KBE often treat knowledge as a factor of production similar to land, capital, enterprise, or labor. This informs a common periodization in which there is a transition from agriculture (land) through industrialism (capital and manual labor) to "informationalism" (information and communication technologies—or ICTs—and intellectual labor). This poses the question whether the alleged primacy of knowledge in the postindustrial market economy can be fruitfully analyzed in line with Polanyi's analysis of industrial society by considering knowledge as a fictitious commodity.

Three arguments suggest themselves. First, the production and circulation of knowledge can be secured otherwise than through market exchange: for example, through closure, reciprocity, and redistribution via private or state patronage. Thus one can ask under what conditions market rationality emerges and might then come to dominate other modes of production and circulation.[11] Second, to paraphrase Polanyi, while knowledge in the "information economy" has a price, it is not produced for sale but is simply a gift of [human] nature or another "aspect of man." Nonetheless, "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."[12] Thus, third, the "information economy" can survive only as part of a market economy and market society; information and knowledge must therefore be priced to ensure a balance in supply and demand.

One might expect this to trigger another round of the "double movement." But, despite increasing resistance from many forces at many sites on many scales, states have not yet responded with active and massive intervention to protect the intellectual commons and thereby prevent the treatment of knowledge *as if* it were a simple commodity, let alone one that is always one produced within capitalist relations of production. Indeed, the leading capitalist states are intervening to subordinate knowledge as a collective resource to the profit-oriented, market-mediated logic of economic competitiveness. This said, capital itself recognizes the limits of this logic in relation to knowledge and is attempting self-limitation and self-regulation in response to the contradictions of approaching knowledge as if it were just simple commodity. Likewise, economists concerned with innovation and information, intellectual property lawyers, and students of innovation are also busy debating the limits of commodification of knowledge.

More on Commodities and Fictitious Commodities

This section elaborates some crucial distinctions based partly on Polanyi's analysis and partly on a more general critique of capitalism inspired by Marx. First, a *commodity* is a good or service that is actively produced for sale in a labor process. If this were not so, Polanyi could not have sensibly distinguished commodities and fictitious commodities. A commodity can result from peasant, petty commodity, state production, cooperative production, or social enterprise as well as capitalist production—what matters is that it is production for sale.

Second, a *capitalist commodity* is one produced in a labor process subject to capitalist competition that creates pressures to reduce both the socially necessary labor time involved in its production and the socially necessary turnover time involved in realizing the surplus value that it embodies. This generates a dynamic relation between the organization of production and the commodity character of the products being produced.

Third, a *fictitious commodity* has the form of a commodity (can be bought and sold) but is not actually produced in order to be sold. It already exists before it acquires the form of an exchange value (e.g., raw nature) or it is produced as a use value before being appropriated and offered for sale (e.g., human artifacts originating in a substantive, socially embedded economy). Above all, in contrast to a capitalist commodity, a fictitious commodity is not created in a profit-oriented labor process subject to the competitive pressures of market forces to rationalize its production and reduce the turnover time of invested capital. This concept is important because analyzing land, money, and labor power as simple and/or capitalist commodities would obscure the conditions under which they enter the market economy, get transformed therein, and so contribute to the production of goods and services for sale. In this sense, a fictitious commodity belongs to the broader spectrum of "quasi-commodities" that have a price but otherwise fail to meet one or more of the criteria for a full capitalist commodity.[13]

Both Marx and Polanyi argue that land (or nature), labor power, and money are fictitious commodities. They regard land as a free gift of nature and, indeed, Marx considers that this holds for knowledge too. They view labor power as a generic human capacity that is not produced by capitalists for profit. Even when it has acquired a commodity form (a process that occurs very late in human evolution), labor power is reproduced in significant measure through a heterogeneous ensemble of nonmarket as well as market institutions and practices. Finally, regardless of the substantive nature of money tokens (natural, commodity, or fiduciary), the system in which they circulate is not operated solely for profit. On the contrary, money's economic functionality depends critically on personal and impersonal trust as well as extraeconomic institutions and sanctions.

The tendency to naturalize fictitious commodities as objectively given factors of production leads to the fallacious belief, strongly criticized by Marx, that economic value arises from the immanent, eternal qualities of things rather than from contingent, historically specific social relations.[14] This legitimates in turn the idea that each factor of production is entitled to its own share in the distribution of the total income and/or wealth of society. This theme is elaborated by Polanyi in the following terms:

> Self-regulation implies that all production is for sale on the market and that all incomes derive from such sales. Accordingly, markets exist for all elements of industry, not only for goods (always including services) but also for labor, land, and money, their prices being called respectively commodity prices, wages, rent and interest. The very terms indicate that prices form incomes: interest is the price for the use of money and forms the income of those who are in the position to provide it; rent is the price for the use of land and forms the income of whose who supply it; wages are the price for the use of labor power, and form the income of those who sell it; commodity prices, finally contribute to the incomes of those who sell their entrepreneurial services, the income called profit being actually the difference between two sets of prices, the price of the goods produced and their costs, i.e., the price of the goods necessary to produce them. If these conditions are fulfilled, all incomes will derive from sales on the market, and incomes will be just sufficient to buy all the goods produced.[15]

Focusing on social relations rather than naturalized factors of production matters not only for a general understanding of the market economy as Polanyi knew it, but also for the role of information, knowledge, and intelligence in "postindustrial economies." One must ask under what conditions knowledge gains the form of a commodity. Insofar as knowledge is collectively produced and is not inherently scarce (in economic terms, it is a "nonrival" good), it only acquires a commodity form insofar as it is made artificially scarce and access thereto depends on payment of rent. Hence, instead of naturalizing knowledge, one should assume that "information is not inherently valuable but that a profound social reorganization is required to turn it into something valuable."[16]

There are three key aspects to this profound social reorganization. First, as opposed to being an organic and inseparable part of creative labor in general, knowledge is codified, detached from manual labor, and disentangled from material products to acquire independent form in expert systems, intelligent machines, or immaterial products and services. Second, by analogy with the disembedding of economic activities from their wider social contexts, knowledge is disembedded from its social roots and integrated into extraeconomic institutional orders, functional systems, and the lifeworld and made subject to creeping commodification so that the primary code governing its use is profitable/unprofitable rather than true/false, sacred/profane, health/disease, et cetera. And, third, knowledge no longer circulates in closed economic units (householding), through reciprocity, or through redistribution but is allocated through profit-oriented markets. An obvious analogy in all three respects is the enclosure movement analyzed by Polanyi in *The Great Transformation*—an analogy that invites the question whether these intellectual enclosures also entail "a revolution of the rich against the poor."[17]

Rethinking Fictitious Commodification

Reinforcing the enclosure of the collectively produced knowledge of past generations is the process whereby workers' tacit knowledge is formalized and integrated into expert systems or smart machines. Knowledge can also be fictitiously commodified through the separation of intellectual from manual labor and its transformation into "knowledge work for hire" under capitalist control. Here workers are paid a wage and their immaterial output belongs to the employer. This is analogous to the formal subsumption of manual labor under capitalist control. Finally, intellectual labor can be subsumed directly under capitalist control through the commoditization of intellectual labor and the integration of its immaterial outputs into a networked, digitized, production-consumption process.[18]

Formal or real subsumption leads to important changes in the overall organization of the market economy when it is associated with the specialization of some firms in the production of immaterial goods or services that are information-rich, knowledge-intensive, or otherwise "creative." If these goods or services are key inputs into the market economy or final products and services that are deemed important components of socially defined consumption standards more generally, then, in a profit-oriented, market-mediated, capitalist economy, their producers need to obtain at least the average rate of profit. Otherwise these inputs will not be provided. Polanyi hints at this when he writes:

> All transactions are turned into money transactions, and these in turn require that a medium of exchange be introduced into every articulation of industrial life. All incomes must derive from the sale of something or other, and whatever the actual source of a person's income, it must be regarded as resulting from sale.[19]

Thus, just as wages are the market price for the use of labor power, rent is the market price for the use of land, and interest is the market price for the use of money capital, so we can interpret royalties in their different forms as the market price for the use of knowledge as a quasi or real commodity. This price must be paid when the application of knowledge to the production of immaterial goods and services becomes a distinct function within the division of labor and all such functions are rewarded through market mechanisms. There are different legal forms of intellectual property as "fictitious capital"[20] that confer rights of ownership over ideal, immaterial, or intangible objects and their corresponding revenue streams. In addition to more traditional intellectual property rights (including patents, trademarks, trade secrets, design rights, and copyright), newer forms cover other specialized economic inputs to the information economy. These include database rights, protection for semiconductor topographies, plant breeders' rights, protection for indications of geographical origin, rights in performances, and protection against circumvention of copy protection devices.

As Polanyi emphasized, however, there is nothing natural about the market economy. This is especially clear in the rise of intellectual property (IP) as a revenue category that purportedly rewards intellectual creativity. Historically, the production of knowledge occurred outside the market, in institutions such as guilds, universities, religious bodies, or state institutions; and it was rewarded through patronage, prestige, prizes, or income tied to rank or status rather than to economic performance. This was recognized in Bell's early claim that since the free circulation of knowledge offers no incentives to firms to produce, it must be created by some "social unit, be it university or government."[21] Or, as Polanyi concluded, "[s]cience and the arts should always be under the guardianship of the republic of letters."[22] This contrasts markedly with the growing importance of intellectual property rights (IPRs) as the basis for remunerating suppliers of information, knowledge, and intellectual creativity. Indeed, in contrast to the institution of property rights in land, labor power, and money, IPRs are distinctive because they have been extended to secure the average rate of profit for immaterial goods and services but do so by establishing a legal monopoly that enables IP owners (who may well not be direct knowledge workers) to earn superprofits provided that effective demand for their products continues.

Knowledge has always been important economically, especially in the major shifts associated with long waves of technological innovation. Novel features of the current period are the growing application of knowledge to the production of knowledge in developing the technical and social forces of production; the increased importance of knowledge as a fictitious commodity in shaping the social relations of production; and the increased importance of IP as a revenue category that modifies the overall distribution of social wealth. None of this entails that knowledge must be a real commodity—let alone that its exchange value equal the costs of the commodities consumed in its reproduction. For knowledge is a collectively generated resource, and even where specific forms of IP are produced in capitalist relations of production for profit, this process typically depends on the unpaid input of a far wider intellectual commons. The exchange value of commodified knowledge is hard to measure, of course, owing to the well known peculiarities of information. These include the phenomenon that the use value of knowledge qua nonrival good does not diminish when that knowledge is shared—and may even increase thanks to network economies—with corresponding problems for a purely market-led determination of output and price. The complexities of knowledge generation and its different forms of embodiment and embeddedness—especially in a networked economy—also make it hard to establish how knowledge in its various forms contributes to surplus value and profits. All of this renders implausible a naturalized "knowledge theory of value"[23] but it does still permit a "value theory of knowledge" that, by analogy with Marx's "value theory of labor,"[24] would assess the implications of treating knowledge as if it were a commodity.

Fictitious Commodities, Real Commodities, Fictive Capital

If these arguments are broadly correct, then knowledge has a complex economic status. First, as an intellectual commons that circulates more or less freely in society through reciprocity or is produced and distributed through nonmarket mechanisms (such as patronage), it is a noncommodity.

Second, when the intellectual commons is enclosed through nonmarket mechanisms and circulates as private property within the market, it can be regarded as a simple fictitious commodity. Third, when intellectual labor is formally and/or really subsumed under relations of capitalist exploitation and is transformed into immaterial goods and services, then it becomes a fictitious commodity like other forms of labor power and can become embedded in quasi or real capitalist commodities. The latter possibility will occur to the extent that the reflexive application of knowledge to the production of knowledge (i.e., information-rich, knowledge-intensive, or otherwise creative goods and services produced for sale) is subject to competition between different capitals to minimize the socially necessary labor time embodied within them and reduce the socially necessary turnover time of the capital invested in their production. Fourth, when the revenue streams to producers of information-rich, knowledge-intensive, or otherwise creative goods and services are guaranteed by IPRs rather than normal market mechanisms analogous to "technological rents," then we can talk of information, knowledge, and creativity as the basis of "fictitious capital" or even of "fictive capital." The last category reflects capitalism's power of abstraction, which can reduce intellectual capital (embodied in IPRs) to an anticipated flow of future revenue streams that can be bought and sold in secondary markets.

If these distinctions are accepted for knowledge, we should perhaps revisit Polanyi's arguments about land, labor power, and money. For they too might have a fivefold status: as noncommodities, fictitious commodities, other quasi commodities, real commodities, and the basis of fictive capital.

First, as noncommodities, they would comprise raw nature, human creativity, and natural tokens of exchange, respectively. Raw nature is unproblematic—it comprises the natural world prior to its appropriation and transformation in and through human labor; human creativity is also unproblematic—it comprises the innate capacities of the human species to engage in useful labor; and, as Polanyi shows, tokens would not be commodities where they exchange in equivalencies set outside the market mechanism.[25]

Second, as fictitious commodities, land, labor, and money would comprise (a) nature that has been appropriated and transformed by human labor and sold on the market; (b) wage labor reproduced beyond the market economy and entering the labor market from outside; and (c) money as a marketable store of value and medium of exchange, with competing commodity monies (e.g., gold, silver), fiduciary monies (tokens, paper money, bank credits), or tradable currencies (e.g., dollars, euros, yen). Polanyi's analyses of the limits of fictitious commodification remain as powerful as ever. Thus he emphasizes the disjunction between the logic of the market and the reproduction requirements of nature and of labor power alike and explores the effects of dissociating the circulation of money from the immediate requirements of economic exchange.

Third, treating land, labor, and money *as if* they were commodities could lead in due course to their transformation into one or more types of quasi commodity as they become more closely integrated into the cash nexus of market relations. At stake here are the ways in which economic forces engage in formal, rational action to increase the exchange value of these fictitious commodities, that is, their price as opposed to their value, through various forms of "investment." Examples of this include improvement in "land" (reflected in changes in absolute and differential rent), increasing skill levels or reskilling labor power (considered as "human capital"), or ensuring the credibility of money by linking it to real assets (e.g., the recovery from hyperinflation in the Weimar Republic by backing the new German mark with another fictitious commodity, land values). It is the integration of these noncommodities or fictitious commodities into the circuits of capital and their real subsumption under the competitive pressures of capital accumulation that lead to their treatment as if they were real commodities, thereby reinforcing the "economistic fallacy" in and through which fictitious commodities acquire the appearance of real commodities (see table 6.1).

Fourth, the power of abstraction permits land to be securitized as future flows of absolute and differential rent and enables money to be traded in futures markets and derivative markets. In relation to labor power, the logic of capital reduces concrete labor to abstract social labor. Since this is a generic feature of capitalism, however, the appropriate analogy with the securitization of rents, interest-bearing capital, or IPR revenues would be the calculation of future earnings in relation to labor power considered as human capital. This occurs theoretically in neoclassical economics, practically in institutionalized calculation about future earnings streams (e.g., legal compensation or insurance systems), and, increasingly, in workers' own calculations about the returns to "investment" in their own "human capital."

Contradictions of the KBE

So far I have engaged in a critical dialog with Polanyi's analysis of fictitious commodities in order to affirm the main thrust of his argument and to qualify it by introducing two further ways of thinking about "commodities," that is, quasi commodities and fictive capital. I now analyze the contradictions of the KBE, drawing once more on Marx as well as Polanyi.[26] My starting point is Marx's observation that the cell form of the capitalist

Table 6. 1 Land, labor power, money, knowledge and forms of commodification

	Precommodification	*Fictitious commodification*	*Quasicommodification*	*Real commodification*	*Fictive capital*
Land	Virgin land/ raw nature	Appropriated and transformed land/nature	Profit-oriented improvements in land/nature	Land reclamation, biofuels; genetically engineered organisms	Securitization of absolute and differential rents
Labor power	Generic capacity for human labor	Capacity for concrete labor offered for sale	(Re)skilling labor power, shaping labor supplies	Breeding farm and laboratory animals. Limit case is cloning slave labor for profit	"Human capital" as discounted revenue stream
Money	Householding, reciprocity, redistribution, etc.	Symbolic tokens for exchange of goods/ services, payment of taxes, tithes	Private/central bank action to raise relative price and performance of money, credit, etc.	Commodity money (e.g., sliver, gold) produced in capitalist labor process	Interest-bearing capital, derivative markets in interest rate futures
Knowledge	Knowledge as a cumulative, collective resource	Private enclosure of intellectual commons for sale at a profit	Formal subsumption of intellectual labor to sell creativity	New drugs produced entirely within capitalist labor process for sale	Securitization of IPRs

mode of production is the commodity and is fundamentally shaped by the basic contradiction in the commodity form between use value and exchange value.[27] Exchange value refers to a commodity's market-mediated monetary value for the seller; use value to its material or symbolic usefulness to the purchaser. Without exchange value, commodities would not be produced for sale; without use value, they would not be purchased. This was the basis on which Marx dialectically unfolded the complex dynamic of the capitalist mode of production. In the case of knowledge, this contradiction is expressed in the form of knowledge as intellectual commons and knowledge as IP—a contradiction that becomes more acute in the KBE because it is based on the reflexive application of knowledge to the production of marketable knowledge.[28] This contradiction manifests itself differently in relation to knowledge as a noncommodity, fictitious commodity, other types of quasi commodity, and basis of fictive capital. Five issues can be mentioned here.

First, there is the primitive accumulation of capital (in the form of intellectual property) through private expropriation of the collectively produced knowledge handed down from previous generations. This enclosure of knowledge takes several forms: (a) the appropriation of indigenous, tribal, or peasant "culture" in the form of undocumented, informal, and collective knowledge, expertise, and other intellectual resources and its transformation without recompense into commodified knowledge (documented, formal, private) by commercial enterprises—biopiracy is the most notorious example; (b) divorcing intellectual labor from control over the means of production that it deploys—this is achieved through its formalization and codification in smart machines and expert systems—and thereby appropriating the knowledge of the collective laborer; and (c) a creeping extension of the limited nature of copyright into broader forms of property right with a consequent erosion of any residual public interest.

Second, there is the role of "intellectual technology" in the real subsumption of mental as well as manual labor. Bell compares this to machinofacture in the subordination of manual labor to capitalist control,[29] and Robins and Webster note its role in appropriating the knowledge of the collective laborer.[30]

Third, there is the dynamics of technological rents generated by new knowledge and their disappearance once the new knowledge (whether as knowledge or as an intelligent means of production) becomes generalized and thereby comes to define the socially necessary labor time embodied in commodities. This problem is intensified by the reflexive application of knowledge to the production of knowledge. For this increases the pressure on firms, regions, or production systems to stay ahead of their competitors so that ever-renewed technological rents and increasing market share can alleviate the normal tendency for superprofits to be competed away. It also encourages attempts to protect vulnerable monopolies in knowledge or information by embedding them in technology, standards, tacit knowledge, or legally entrenched IPRs. These considerations underline the self-defeating character of the informational revolution from capital's viewpoint insofar as each new round of innovation is prone to ever more rapid devalorization.

IP also poses contradictions for capital itself. For each capital wishes to pay nothing for its knowledge inputs but wishes to charge for its intellectual output. This is reflected fractally in multiscalar versions of this contradiction, for example, Microsoft vs. Linux, Microsoft's use of hacker communities to beta-test its commercial software vs. firms that sell value-added services for Linux. Related to this is the conflict in the very form of IP that is both a potential guarantee of the average rate of profit for firms that specialize in the production of immaterial products and services and a potential guarantee of superprofits based on a legal monopoly position.

Finally, the KBE has implications for social inequality and polarization within and across national societies. This is seen in growing economic differentiation between knowledge workers, the creative class, or symbolic analysts with scarce skills and other workers who are deskilled through smart machines and expert systems. This is reinforced by a 'global war for talents' and transfer of low-skilled goods production and some consumer or producer services provision to low cost sites. In the longer term this changes could also pose problems of demand for the products of the information economy on a global scale.

Knowledge and the State

Exploring potential contradictions between informationalism and capitalism provides an interesting way to think about the state's role in the KBE. For example, is the growing socialization of productive forces (expressed in dynamic forms of networking and learning) coming into conflict with capitalist dominance in the social relations of production? Is capital blocking the realization of an information society? Does informationalism erode private control through its emerging networked forms of governance? We can explore these and other alternatives in terms of the various degrees of commodification of knowledge.

First, states help to create the legal and extralegal conditions for the primitive accumulation of knowledge or to protect indigenous resources that are vulnerable to dispossession. States tend to polarize in this regard around, first, protecting or enclosing the commons (for example, North-South) and, second, the most appropriate forms of IPRs and regimes from the global to local scales. Some states are more active than others in promoting the primitive accumulation of IP, privatizing public knowledge and commoditizing all forms of knowledge; others are more concerned to protect the intellectual commons, promote the information society, and develop social capital. States have a key role here in changing IPR laws and protecting domestic firms' appropriation of the intellectual commons at home and abroad.Given its competitive advantage in information and communications technology products, the knowledge revolution, and the so-called creative industries, the U.S. federal state has been especially significant in promoting a neoliberal form of the knowledge revolution on a global scale. This is evident in its advocacy of the Trade-Related Aspects of Intellectual Property Rights agreement and its use of bi- and multilateral trade agreements, conditionalities, and other pressures to enforce U.S. interests in regard to IPRs.

Second, states attempt to manage the contradictions of knowledge as a fictitious commodity. They "must balance the need to protect and maintain the intellectual commons against the need to stimulate inventive activity."[31] At stake here is the "socially optimal policy of investment in knowledge."[32] This need not always occur through the market. For example, Polanyi noted of mercantilist states that

> 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 implanting 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 revolutionaries of the age.[33]

Whatever their position on such issues, all states must try to resolve contradictions and dilemmas in knowledge production while eschewing any direct, hierarchical control over it. This is often pursued through state promotion of innovation and diffusion systems (including social capital), broad forms of "technological foresight," coinvolvement or negotiated "guidance" of the production of knowledge, and the development of suitable metagovernance structures.[34] Thus states sponsor information infrastructures and social innovation systems on different scales; develop IPR regimes and new forms of governance for activities in cyberspace; promote movement away from national utility structures with universal supply obligations suited to an era of mass production and mass consumption to more flexible, differential, multiscalar structures suited to a post-Fordist era; and intervene to restructure research in universities to realign it more closely with the perceived needs of business and to encourage the management and exploitation of IP through spin-offs, licensing, partnerships, science parks, technology parks, industry parks, and so on.

Third, states also promote the commoditization of knowledge and the integration of knowledge and intellectual labor into production. This is reflected in the increased emphasis on the training of knowledge workers and lifelong learning, including distance learning, the introduction of ICTs into fields of activity for which the state is more or less directly responsible, and the more general proselytization of the KBE and information society. They promote these strategies in the private sphere and third sector. There is also increasing emphasis on flexibility in manufacturing and services (including the public sector) based on new technologies (especially microelectronics) and more flexible forms of organizing production. Hence it attempts to introduce post-Fordist labor practices into the state sector itself and into new public-private sector partnerships. New technologies actively promoted by the state include: information and communication technologies, manufacturing technology, nanotechnology, biotechnology, optoelectronics, genetic engineering, marine sciences and technology, new materials, and biopharmaceuticals.

Fourth, the state also heavily promotes the dynamics of technological rents generated by new knowledge as part of a more general promotion of innovation. This serves to intensify the self-defeating character of the informational revolution from the viewpoint of capital, insofar as each new round of innovation is prone to ever more rapid devalorization. But it nonetheless wins temporary advantages and technological rents for the economic spaces it controls and, insofar as there are sustainable first-mover advantages, it can consolidate longer-term advantages for a region, nation, or triad. This strategy is an important and quite explicit element in the reassertion of U.S. hegemony since the years of pessimism about the growing threat of the Japanese and East Asian economies, and helps to explain the American commitment to the consolidation of a robust IPR regime.[35] Moreover, if firms in the information economy are to maintain above-average profit rates despite the tendency for technological rents to be competed away, less technologically advanced sectors must secure below-average profits. This is another driving force behind globalization insofar as less-profitable firms are forced to relocate or outsource to lower-cost production sites, and reinforces the tendencies toward unequal exchange and development associated with globalization. States also get involved in often-contradictory ways in promoting and retarding the mobility of productive capital.

Beyond Marx and Polanyi

Marx and Polanyi both regard land, labor, and money as noncommodities that may acquire the form of commodities in the process of circulation. As such they have a price, and the logic of capital requires that they be treated *as if* they were real commodities. These arguments can also be applied to knowledge as a noncommodity and a fictitious commodity. But knowledge can also become a quasi commodity and, through the process of abstraction in capitalist production and circulation, serve as a basis of fictive capital. These insights can be applied in turn to land, labor power, and money to reveal the limitations of Polanyi's analysis of these "three factors of production." For treating these noncommodities as if they were real commodities produces distinctive effects that subordinate them to the logic of market forces and even enables them to become the basis of "fictive capital."

Marx and Polanyi wrote in the period of industrial and financial capitalism (defined misleadingly in terms of their dominant factors of production) rather than in the current period of "informational capitalism" or "KBE." So they paid less attention to the contradictions of treating knowledge as a capitalist commodity than is justified today. Interestingly, Marx does adumbrate some aspects of these contradictions in his discussions, notably in the *Grundrisse,* of the significance of the "general intellect" or knowledge as a generic factor of production that is not amenable to private appropriation and valorization.[36] And, even more interestingly, Polanyi's brother, Michael, developed some important insights into the role of tacit knowledge and the reciprocal organization of the "republic of science" for scientific innovation, and how state planning of science and, to a lesser extent, its subordination to a profit-oriented, market-mediated logic would weaken or even block capacities for innovation.[37]

If we recognize these limits to a capitalist KBE, we should also recognize, with Marx and Polanyi, the need to embed nature and human creativity in a remoralized society. The critique of political economy must be extended to include political ecology and combined with a new moral economy. Given Bell's distinction between economizing and sociologizing logics, it is tempting to call for a transition from a KBE to a knowledge-based society. Rereading *The Great Transformation* and reflecting on the reprise of its lessons under global neoliberalism, however, it would be better to call for a wisdom-based society that draws on the collective good sense as well as accumulated knowledge of humankind. This is reflected in the wise words that are wrongly attributed to Chief Seattle of the Cree Indians but nonetheless indicate the limits of commodification:

> Only after the last tree has been cut down
> Only after the last river has been poisoned

Only after the last fish has been caught
Only then you will find out that money cannot be eaten

Notes

1. Karl Polanyi, "The Economy as Instituted Process," in *The Sociology of Economic Life,* ed. Mark Granovetter and Richard Swedberg (Boulder, CO: Westview, 1982), 29–51, at 33.
2. Karl Polanyi, *The Livelihood of Man,* ed. Harry W. Pearson (New York: Academic Press, 1977), 51–52.
3. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston, MA: Beacon, 1957), 47–53; *Livelihood,* 34–47; "Instituted Process," 35.
4. Polanyi, "Instituted Process," 37.
5. Ibid., 40–45.
6. Polanyi, *Great Transformation,* 71.
7. Polanyi, *Livelihood,* 10.
8. Polanyi, *Great Transformation,* 72.
9. Ibid., 57.
10. Ibid., 76.
11. Polanyi, "Instituted Process," 37.
12. Polanyi, *Great Transformation,* 57.
13. William C. Schaniel and Walter C. Neale, "Quasi-Commodities in the First and Third Worlds," *Journal of Economic Issues* 33, no. 1 (1999): 95–115. A full commodity for them is one that is *produced* in *factory-like* ways *for sale* on a *commercial market,* p. 96. My definition (above) adds the role of capitalist competition to reduce socially necessary labor and turnover times, which is a key factor in distinguishing craft and professional intellectual labor from the formal or real subsumption of "work for hire" and, above all, from a fully constituted capitalist immaterial labor process producing real commodities (see table 6.1).
14. Karl Marx, *Capital, vol. I* (Harmondsworth: Penguin, 1976), 993; Dan Schiller, "How to Think about Information," in *The Political Economy of Information,* ed. V. Mosco and J. Wasko (Madison, WI: University of Wisconsin Press, 1988): 27–44, at 32.
15. Polanyi, "Instituted Process," 69.
16. Schiller, "How to Think," 32.
17. Polanyi, *Great Transformation,* 35; cf. Christopher R. May, *The Global Political Economy of Intellectual Property Rights. The New Enclosures* (London: Routledge, 1998); Philippe Aigrain, *Cause commune. L'information entre bien commun et propriété* (Paris: Fayard, 2005); and David Harvey, *The New Imperialism* (Oxford: Oxford University Press, 2003).
18. On the first, see, for example, Kenneth Aoki, "Considering Multiple and Overlapping Sovereignties: Liberalism, Libertarianism, National Sovereignty, 'Global' Intellectual Property, and the Internet," *Indiana Journal of Global Legal Studies* 5, no. 2 (1988): 443–74; on the second, Schiller, "How to Think"; on the

third, Heather Menzies, "Challenging Capitalism in Cyberspace," in *Capitalism and the Information Age,* ed. Robert W. McChesney, Ellen Meiksins Wood, and John F. Bellamy, (New York: Monthly Review Press, 1998): 87–98; and Kevin Kelly, *New Rules for the New Economy* (London: Fourth Estate, 1998).

19. Polanyi, *Great Transformation,* 41.
20. Fictitious capital is a financial asset that circulates independently of material assets; it involves "financial assets/liabilities" accounting suited to an economy dominated by financialization as opposed to "fixed assets" accounting of industrial capitalism oriented to material depreciation. The former is linked to the growth of securitization and derivatives and also rests on "relations of property" rather than "relations of production." Cf. Junji Ishikawa, "A Social Science of Contemporary Value-Based Accounting: Economic Foundations of Accounting for Financial Instruments," *Critical Perspectives on Accounting,* vol. 16 (2005): 115–36.
21. Daniel Bell, "The Social Framework of the Information Society," in *The Computer Age: A Twenty-Year View,* ed. Michael L. Dertouzos and Joel Moses (Cambridge, MA: MIT Press, 1979): 163–211, at 174.
22. Polanyi, *Great Transformation,* 255.
23. Daniel Bell, *The Coming of Post-Industrial Society* (London: Heinemann, 1974), 127.
24. Diane Elson, "The Value Theory of Labour," in *Value: The Representation of Labour in Capitalism* (London: CSE Books, 1979): 115–80.
25. Polanyi, *Livelihood,* 62–73.
26. For more detail, Bob Jessop, *The Future of the Capitalist State* (Cambridge: Polity, 2002).
27. Karl Marx, *Capital, vol. 1.*
28. Manuel Castells, *The Rise of the Network Society* (Oxford: Blackwell, 2001).
29. Bell, *Coming,* 29; idem, "Social Framework," 167.
30. Kevin Robins and Frank Webster, "Information as Capital: a Critique of Daniel Bell," in *The Ideology of the Information Age,* ed. Jennifer D. Slack and Fred Fejes (Norwood, NJ: Ablex Publishing, 1987): 95–117, at 103.
31. A.C. Dawson, "The Intellectual Commons: A Rationale for Regulation," *Prometheus* 16, no. 3 (1998): 275–89.
32. Bell, "Social Framework," 175.
33. Polanyi, *Great Transformation,* 38.
34. Dirk Messner, *The Network Society* (London: Cass, 1998); Helmut Willke, *Supervision des Staates* (Frankfurt: Suhrkamp, 1996).
35. Cf. Bruce W. Lehman, "Intellectual property: America's Competitive Advantage in the 21st Century," *Columbia Journal of World Business* 31, no. 1 (1996): 6–16; and Dan Schiller, *Digital Capitalism: Networking the Global Market System* (Cambridge, MA: MIT Press, 1999).
36. Karl Marx, *Grundrisse* (Harmondsworth: Penguin), 703 et seq. Nick Dyer-Witherford summarizes Marx's argument succinctly: "By setting in motion the powers of scientific knowledge and social co-operation, capital ultimately undermines itself. . . . First, as advances in machinery and organisation reduce the requirement for direct labor in production, the need for people to sell their labour power—the very basis of capitalism's social order—is systematically

eroded. There arises a “monstrous disproportion” between individual labour time and the forces set in motion by organised science. . . . [S]econd . . . the increasingly social nature of activity required for technoscientific development, which unfolds not on the basis of individual effort but as a vast co-operative endeavor. As this becomes more and more apparent, highlighted by the diffusion and integration of communication and transport networks, both private ownership and payment for isolated quanta of work-time appear increasingly as irrelevant impediments to the full use of social resources. Automation and socialisation together create the possibility of—and necessity for—dispensing with wage labour and private ownership,” *Cyber-Marx* (Urbana, IL: University of Illinois Press, 1999): 484–85.

37. Michael Polanyi, *Personal Knowledge* (London: Routledge & Kegan Paul, 1958), 65, 375–76; idem, *Knowing and Being* (London: Routledge & Kegan Paul, 1969), 50, 56, 82, 143–44.

7

Commercialization of Science in a Neoliberal World

Gürol Irzık

Introduction

In a well-known passage of *The Great Transformation* Karl Polanyi wrote:

> But labor, land, and money are obviously *not* commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them. In other words, according to the empirical definition of a commodity they are not commodities. Labor is only another name for a human activity which goes with life itself, which in turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized; land is another name for nature, which is not produced by man; actual money, finally, is merely a token of purchasing power which, as a rule, is not produced at all, but comes into being through the mechanism of banking or state finance. None of them are produced for sale. The commodity description of labor, land, and money is entirely fictitious.[1]

Polanyi showed in detail that the self-regulating market economy that emerged in the nineteenth century was organized around the commodity fiction of labor, land, and money, which were the essential factors of production for industrial capitalism. Without that fiction, industrial capitalism could not have come about. He also argued that commodification of land, labor, and money would destroy the livelihood, society, and environment of human beings, as we know them.

> For the alleged commodity "labor power" cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human

A. Buğra et al., *Reading Karl Polanyi for the Twenty-First Century*

> individual who happens to be the bearer of this particular commodity. In disposing of a man's labor power the system would, incidentally, dispose of the physical, psychological, and moral entity "man" attached to that tag. Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as victims of acute social dislocation through vice, perversion, crime, and starvation. Nature would be reduced to its elements, neighborhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed.[2]

It is generally believed that capitalism today has reached a new stage, variously described as "post-industrial," "informational," or "knowledge-based." The common assumption is that expert knowledge has become a factor of production as important as, if not more important than, labor, land, and money. Expert knowledge is scientific knowledge since science is its main provider. This raises the question whether scientific knowledge too has become a "fictitious commodity," and if so, what consequences such commodification has.

In this chapter I will discuss these issues in the broader context of academic science. In my view the question of commodification of scientific knowledge should be taken up within the larger problem of commercialization of science as a whole. After some conceptual clarifications regarding the term "science," I will briefly outline the technoscientific, economic, and legal developments that led to its commercialization. Scientific knowledge or invention is secured as a commodity through intellectual property rights such as patenting and licensing. The existence of such rights, however, predates the "knowledge economy." It is therefore pertinent to examine the changing regime of intellectual property in the case of scientific knowledge and invention and the shifting boundaries between the two.

I shall show that, as a result of commercialization, the venerable culture of science, and in particular its value structure and its social function, is changing radically. Although the commercialization of academic science and its detrimental effects exist in varying degrees in many disciplines, they are most conspicuous in the field of biomedicine, as it is practiced in the United States. Both for this reason and for reasons of space and capacity limitations, I will confine myself to the case of biomedical research in the United States.

Conceptual Clarifications

Since my focus is science, scientific knowledge, and technological invention, I should clarify what I mean by them at the outset. I find this rather pedantic clarification necessary because in the literature on "knowledge economy" the terms "science" and "knowledge" are used indiscriminately and either too narrowly or, more often, too broadly.[3] By "science," I mean a system of activity and thought as well as a social institution. As a kind of activity and thought science is, above all, a curiosity-driven investigation of nature. It includes cognitive problems and research agendas, methods, cognitive aims (notably, knowledge, prediction, and explanation), practices directed toward those aims (such as observing, experimenting, testing, recording), ethos (cognitive and ethical norms that guide scientific activity), and, finally, end products such as knowledge. Scientific knowledge is different from mere belief or opinion in that the former is produced by the methods of science and therefore is justified and true or approximately true. It basically comes in two forms: propositional knowledge (as in "We know *that* genes are units of heredity") and skill knowledge (as in "We know *how to* splice genes").[4]

As an institution, science is a complex social formation that has a high degree of autonomy: it has its own system of initiation, prestige, promotion, awards, and punishments. It includes research centers, labs, academies, and, above all, universities as the major sites of knowledge production. The existence of such sites depends not only on considerable sums of money, but also on a large number of well-educated people (scientists and technicians) whose behavior is governed by certain cognitive, ethical, and social-institutional norms and values. Science serves public interests by informing people, producing socially useful knowledge, and providing an independent and critical voice about matters of general interest regarding health, the environment, and so on, all of which function to give science its social legitimacy.

Basic or pure science is usually distinguished from applied science, which is the application of science to practical problems. Applied science can be considered to be a form of engineering, which plays a fundamental role for technological invention. As we shall see in the next section, engineering is a relatively recent development in the history of science and technology. Technology, on the other hand, refers both to applied knowledge in general (not just necessarily applied scientific knowledge) and also to products such as cars, computers, and mobile phones. Thus, applied science can be seen as a subspecies of technology. With these points in mind, let me now summarize the main developments that made commercialization of science possible.

The Road to Commercialization

Contrary to popular opinion, basic science and technology were separate enterprises for a very long time. Until the second half of the nineteenth century, technological inventions were made independently of the use of scientific theories, and scientists and artisans formed two different communities that received different educations and did not interact with each other much. The existence of a sharp separation between basic science and technology also meant a relatively clear-cut distinction between *scientific knowledge* or *discovery* (of, for example, laws of nature and properties of various substances in nature) and *technological invention* (of processes as well as products). In the legal context since at least the nineteenth century, this implied that unlike technological invention, scientific knowledge is not patentable; it is considered to be a public good. Scientific knowledge is also seen as nonrivalrous in the sense that once it is produced, everyone can benefit from it without diminishing others' enjoyment; it is open to all and nonexcludable. These properties of scientific knowledge prevented it from becoming a commodity until the distinction between scientific knowledge and technological invention was blurred as a result of a number of complex factors that include technoscientific, political, economic, and legal developments.

Basic science and technology began merging in the nineteenth century when science became applied, that is, when scientific knowledge obtained from scientific theories was applied directly for technological purposes. Eventually, a new group of experts called engineers, who were equipped with highly specialized knowledge through scientific education, emerged. Basic scientists too became increasingly involved in the solution of practical problems during the second half of the nineteenth century and the early twentieth century.

Two devastating historical events gave impetus to this marriage: the two world wars. During the First World War, chemists, for instance, were mobilized to produce chemical weapons. During the Second World War, thousands of scientists, engineers, and technicians from a number of different disciplines were brought together under the famous "Manhattan Project" for the sole purpose of making an atomic bomb. This latter event was a turning point in the social history of science for two reasons. First, governments realized the enormous power of science for military and political purposes and consequently began pouring vast sums of money into it so that it could be the engine of technological innovations. To see this, compare the following research and development (R&D) expenditures as percentages of GDP in the United States: 0.2 percent in 1940, 0.7 percent in 1945, 3.0 percent in 1965, and 2.6 percent in 2000, a level that became more or less stable after its peak in 1965. This indicates a fifteenfold increase over a period of two and a half decades only, and a thirteenfold increase over six decades. Given the size of the U.S. economy, it amounts to huge sums of money.[5]

Second, science turned into "big science," that is, a costly activity that requires the collaboration of large numbers of scientists. Scientists broadly construed are as the fastest growing group among all professionals, with an exponential growth that doubles every fifteen years.[6] Such rapid increase in size manifests itself in the startling statistic that today 90 percent of all scientists who have ever lived are still alive today!

Under these circumstances, a revolutionary transformation of science-driven technologies into what might be called "technosciences" was inevitable, and, indeed, in the last several decades a number of technosciences, notably, computer science and technology, communication and information technologies, and genetic engineering and biomedicine, have changed the world forever. To name a few of the striking developments, recall that the first PC was produced in 1976, handheld mobile phones and cellular networks were introduced in the early 1980s, and the Internet was created only fifteen years ago; the first baby was born with the help of in vitro fertilization technique in 1978, and the first successful cloning of a living being, Dolly the sheep, was in 1997. That seems only yesterday.

One crucial consequence of the emergence of technosciences, when combined with a certain interpretation of the U.S. Patent Act, was the blurring of the distinction between scientific discovery/knowledge and technological invention. Patenting life forms is not new. In 1873, for example, Pasteur was issued a U.S. patent for yeast culture. But the patent pertained to microorganisms within the process of fermentation, not just to the organisms themselves. As Sheldon Krimsky put it, "no one could claim monopoly control over the organism independently of how it was used in an invention."[7] However, the situation changed dramatically with a Supreme Court decision regarding *Diamond v. Chakrabarty* in 1980, a decision that opened the gate to patenting both man-made living organisms and genetic material itself. The Supreme Court ruled by a 5–4 vote that while natural laws, physical phenomena, abstract ideas, and newly discovered minerals are not patentable, artificially created microorganisms can be patented under the U.S. Patent Act, Title 35 U.S.C., Section 101, according to which "whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." Thus, a patent was granted for a genetically engineered bacterium capable of breaking down crude oil independently of the process producing it. The majority opinion held that the bacteria was a useful "manufacture" or "a composition of matter" not found anywhere in nature.

Just eight years later, the United States Patent and Trademark Office (USPTO) granted Harvard University the first patent for a genetically modified living animal called the "oncomouse," which is used in labs for cancer research. The rest, as they say, is history. At the turn of the new millennium "the USPTO had issued patents on about 6,000 genes, one sixth of which were human genes."[8] The rationale for allowing researchers to patent genes was similar: it takes ingenuity and skill to find and isolate a gene within the genome, the sequenced gene is not found in nature, for it contains redundant nucleotides that need to be purified artificially, and it has potential use.

Does the sequencing of animal or human genomes fall under the category of "scientific discovery/knowledge" or that of "technological invention"? What does the sanctioned patenting of such sequencing imply? Allowing genes to be patented blurs the distinction between discovery/knowledge and invention in a way that diminishes the space of public knowledge. Krimsky makes this point forcefully:

> The upshot of this decision [of USPTO to patent genes] has made every gene sequencer an "inventor" or "discoverer of patentable knowledge," which has inadvertently thrust normal genetic science into entrepreneurship and basic biological knowledge into a realm of intellectual property.[9]

The emergence and flourishing of technosciences, the Supreme Court decision, the subsequent developments in patenting and economic policy that followed all coincided with the phenomenon known as globalization and the creation of the so-called knowledge economies that began in the mid-1970s. Technosciences held the potential to respond easily to the demands of a globalized market, by producing innovations bringing generous profits. It is no wonder that they have become rapidly commercialized.

At the level of economic policy, these changes were accompanied by relentless neoliberalism and privatization, initiated by the Reagan administration. Fearing that their federal budgets would be cut, American universities began seeking stronger ties with the private sector. To facilitate cooperation between the two, with the hope that such cooperation would help create a competitive edge for the United States in the "knowledge economy," the government passed a number of laws. The most important of these, known as the Bayh-Dole Act of 1980, encouraged small business firms, universities, and other nonprofit organizations to collaborate and gave them the right to patent the results of publicly funded research. In return, universities were required to file for patent protection and to ensure commercialization upon licensing. The Bayh-Dole Act also contained certain confidentiality provisions for the protection of intellectual property prior to and during the patenting process. In addition to this act, a number of other legal arrangements were made during the 1980s to foster university-industry relationships. These include the Stevenson-Wydler Technology Innovation Act of 1980, the Economic Recovery Tax Act of 1981, the Trademark Clarification Act of 1984, and the Federal Technology

Transfer Act of 1986. In 1987 the Bayh-Dole Act was extended, by executive order, to cover big firms as well.

The rationale behind these legal arrangements was purely commercial. They encouraged collaboration between universities and industry, and more specifically, a technology transfer from the former to the latter. Prior to the Bayh-Dole Act, the U. S. federal government held approximately 30,000 patents, but only a very small part of it (roughly, 5 percent) led to any new products. The federal government simply did not have enough resources to convert the inventions into any commercial use. Through the act, it was hoped that universities, in collaboration with industry, would do what the federal government could not. Indeed, universities responded well; within less than two decades after the law was enacted, university-held patents increased tenfold, as contrasted with only a twofold increase in the overall number of patents during the same period.[10]

In exchange for substantial funds, universities offered private business firms not only expert labor power, labs, and equipment, but also prior or privileged access to the results of scientific research, and shared or sole ownership of patents. While still holding their university positions and often being encouraged by the university administration, many scientists became consultants, CEOs, or partners in these firms, and others have started up their owns companies, making literally millions of dollars.[11] In short, universities became entrepreneurial.

A Win-Win Miracle?

On the surface everybody benefits from the commercialization of science. Universities win because they enjoy generous funds from industry and collect royalties out of patents they hold or share; individual scientists win because commercialization provides them with new opportunities to fund their researches and make money at the same time; private business firms win because they can capitalize on the new inventions and increase their profits; and, finally, the public wins because they can benefit from new drugs and therapies that would otherwise not have occurred. In short, a miracle seems to have occurred.

The truth, however, is that the commercialization of science comes at a high price. Almost every aspect of science is influenced negatively. Indeed, I do not think it would be an exaggeration to say, paraphrasing Polanyi's quotation cited in the introduction, that scientific knowledge cannot be shoved about, used indiscriminately, or even left unused without also affecting the universities and the scientists who happen to be its producers. In disposing of a scientist's intellectual creative power, the system would, incidentally, dispose of the psychological and moral entity of "scientist" attached to that tag. Robbed of its critical autonomy and social utility, science would lose its social legitimacy and eventually perish.

Consider first the research problems and agendas. Generally speaking, these are shaped and given priority through a very intricate system that bears the marks of intrinsic theoretical interest and intellectual challenge, past scientific achievements, and the public benefit. Some problems are found by the relevant scientific community to be much more interesting than, and thus given more priority over, others because their solution is the key to the solution of a host of other problems, thereby providing higher intellectual satisfaction. Some problems are simply inherited from the history of the discipline; they may be essential to its identity and development. Others are more pressing due to environmental or public health reasons. The policies outlined in the previous section push universities to collaborate with industry in such a way that they skew research toward what is patentable and commercially profitable. As a result, research interests are increasingly shaped by commercial and corporate interests rather than by scientific value or social utility. For example, no new drug has been developed for tuberculosis in the last thirty-five years, despite the fact that the disease is increasing rapidly in developing countries due to hunger and malnutrition. There is little new research toward curing tropical diseases although millions of people, almost all of whom live in developing countries, suffer from them. "According to the World Health Organization, 95 % of health related R&D was devoted to issues of concern primarily to the industrial countries, and only 5 % to the health concerns of the far more populous developing world."[12] The reason for apathy seems to be that such research is just not sufficiently profitable. This is not surprising given the raison d'être of private companies. Their main goal is profit, and their responsibility is to their shareholders, not the public. Profit-oriented research lures scientists into areas they would otherwise not be interested in, and it is unrealistic to expect that research stemming from the university-industry collaboration will target the solution of pressing problems if they do not promise generous profits.

It should also be noted that an obsession with what is commercially useful at the expense of what is scientifically interesting is myopic. It is often impossible to know ahead of time what practical use a certain fundamental scientific discovery will have in the future. For instance, when Einstein developed his special theory of relativity, he had no idea that forty years later it would become the basis of nuclear energy. He was just trying to solve some problems that Newtonian physics failed to overcome. Had he focused on what seemed to him to be commercially useful at the time, he might have never discovered that $E=mc^2$! Diverting attention from such intrinsically interesting problems in science may be costly in the long run, both scientifically and practically.

Second, commercialization is also threatening the value structure of science, what the famous sociologist Robert Merton has dubbed "the ethos of modern science." By the term "scientific ethos," Merton means the institutional values and norms that bind the community of scientists in their scientific research and activity; they are expressed as prescriptions, preferences, and permissions. Merton lists four such norms: universalism, communalism, disinterestedness, and organized skepticism.[13] These are widely recognized by the scientific community, and Merton's analysis of them is largely accepted by mainstream philosophers and sociologists of science.

According to universalism, scientific claims are accepted or rejected according to preestablished objective criteria, and the characteristics of scientists, such as ethnic origin, nationality, religion, class, and gender, are irrelevant.

Communalism refers to the common ownership of scientific discovery or knowledge. Merton expresses it as follows: "The substantive findings of science are a product of social collaboration and are assigned to the community . . . Property rights in science are whittled down to a bare minimum by the rationale of scientific ethic. The scientist's claim to 'his' intellectual 'property' is limited to that of recognition and esteem which, if the institution functions with a modicum of efficiency, is roughly commensurate with the significance of the increments brought to the common fund of knowledge."[14] The rationale Merton has in mind is that new scientific knowledge always builds upon old knowledge and that scientific discoveries owe much to open and free discussion and exchange of ideas, information, techniques, and even material (such as proteins). To be sure, there is competition, but it is mostly friendly and does not exclude collaboration.

Disinterestedness means that scientists should pursue their research and evaluate and report their findings independently of whether they serve their personal interests, ideologies, and the like. Disinterested pursuit of truth has the function of preventing the scientist from hiding or fudging the results of his inquiry even when they go against his personal biases, interests, and favored ideology.

The final norm is organized skepticism. Scientists subject every claim to logical and empirical scrutiny on the basis of scientific methodology, suspend judgment until all the relevant facts are in, and bow to no authority except that of critical argumentation.

Now, how is commercialization affecting the ethos of science? First of all, turning genes, DNA, cell lines, and any living organisms, including animals, whose genetic structure is sufficiently modified, into objects of intellectual property through a generous regime of patenting that breaks down any principled distinction between discovery and invention is antithetical to the norm of communalism. Whatever commercial benefits such a regime may provide, there is no doubt that it has the effect of shrinking the space of the intellectual commons. Moreover, there is evidence that secrecy, which is the opposite of communalism, is spreading like a disease. This is because when universities receive industrial support for their research, they sign protocols often containing nondisclosure clauses that ban university researchers from publishing their findings without the written consent of the supporting company. In 1995 a study conducted by the *New England Journal of Medicine* revealed that among the scientists in the top fifty universities receiving money from the U.S. National Institutes of Health, one out of four was involved in industry relationships and that they were twice as likely to engage in trade secrecy or to withhold information from their colleagues in comparison to those who were not involved in relationships with industry.[15] A recent study by the Harvard Medical School reached similar conclusions. Forty-seven percent of geneticists reported that they were denied information, data, or materials related to published research results at least once in three years; 28 percent of them said that because of this they could not confirm the accuracy of published results.[16]

Disinterestedness is another norm that is under threat. The kind of collaboration between universities and industry encouraged by the Bayh-Dole Act and similar laws clearly biases the interests of scientists toward what is patentable and commercially profitable. As a result, partiality and suppressing of "undesirable" data emerge as serious problems in medical research. For instance, in testing the comparative efficacy of a new drug negative results are seldom published. Furthermore, is it a coincidence that a study of 107 published papers comparing the efficacy of rival drugs showed that in all of them the drug produced by the sponsor of the research did better?[17] Such examples can be multiplied almost indefinitely. It would not be a prophecy to say that in the long run, secrecy, partiality, and the loss of disinterestedness can undermine the very basis of scientific discovery and innovation. The history of science unambiguously shows that progress in science owes much to open and free exchange of ideas, data, and materials. Isaac Newton summed this up memorably: "If I have seen further it is by standing on the shoulders of Giants."

The third problem caused by commercialization concerns the aims, function, and accountability of science. Aims such as profit and accountability to a small group of investors are alien to science. As I pointed out earlier, science as a system of thought and activity has a number of cognitive aims, such as producing knowledge about the world, predicting, and explaining events. Profit is simply not one of them. Historically, the pursuit of these goals has served essentially two functions, one intellectual and the other social: to satisfy human curiosity and to cope with the world. Since the second half of the nineteenth century such mastery also began yielding technologically useful knowledge. Even then, scientific knowledge has never been for sale, or produced for the sake of gain, until very recently. As major sites of knowledge production, universities have pursued knowledge even when it is not patentable or profitable, and as nonprofit organizations they are accountable to the society as a whole, not just to this or that group.

These considerations provide some justification for saying that scientific knowledge has become a "fictitious commodity" today, for the postulate that anything that is bought and sold must have been produced for sale is *historically untrue* in this instance. However, unlike land, labor, and money, which are not produced at all, much less produced for sale, scientific knowledge can be and is being produced for sale to some degree. For this reason, the notion of "quasi commodity" might be more appropriate (compare Jessop, this volume). Even then, we must exercise caution because some distinction is still preserved between scientific knowledge and invention despite the fact that the gap between the two is being narrowed.

Commercialization of science subverts the universities' cognitive and social functions. Science is held in high esteem by the public precisely because it has delivered what it is expected of it. People generally have confidence in the findings of science, trust the scientists' judgments especially in matters of health and environment, and count on the independent critical voice of the scientific community. The image of a scientist who is secretive, partial, and interested more in money than in truth is destructive of the social status of science. Such an image may erode public confidence in the results of science and undermine science's social legitimacy.

The fourth problem is related to the change in the reward system in science. Traditionally, the benefit a scientist gets out of her discovery has been not monetary, but intellectual: "it is limited to that of recognition and esteem," as Merton put it.[18] Recognition and esteem have functioned remarkably well in the production of scientific knowledge throughout history. But with commercialization, the reward now shifts to monetary gain. Those scientists who bring funds from the industry, those who obtain commercially useful patents, receive more prestige, especially in the eyes of university administrators, than those who do not. Worse, the latter are looked down upon, considered less "useful," and seen as consumers of university (and a fortiori public) resources rather than their producers. This change in the value system subtly damages the fabric of collegial relations and turns the university into a business firm.

Finally, the new type of corporate-sponsored university research is giving rise to unprecedented conflicts of interest that have alarming consequences. In the last two decades, numerous grave cases have surfaced and made national news in the United States. Due to lack of space, I will give only one example, but it is typical of the problem I am trying to draw attention to.[19] Flint Laboratories is a company that produces a drug named syntroid, which is used to treat an illness caused by lack of thyroid hormone. This company has 85 percent of the market shares in these sorts of drugs, worth roughly $500 million. Worrying about increasing competition from other companies, Flint Labs decided to support research that they hoped would show that their drug was better than their competitors'. For this purpose, in 1988 they made an agreement with Professor Betty Dong and other administrators from the University of California at San Francisco to give the university a quarter of a million dollars. The protocol signed between the two parties had a nondisclosure clause that said that "all the information obtained in this research is confidential and can be used by the researcher only in conducting her research. The findings obtained during the research are also confidential and cannot be published or made public without the written consent of Flint Labs."[20]

In 1990 Professor Dong completed her research and concluded that four competitor drugs had the same efficacy as syntroid. She duly reported this to Flint Labs. The company immediately filed a complaint to the university, saying that Professor Dong's research was flawed. Consequently, the university conducted two independent investigations, which concluded that there was nothing wrong with the research. Professor Dong then wrote an article and submitted it to the prestigious *Journal of the American Medical Association,* which in turn accepted it for publication.

The financial implications of Dong's study were enormous. For if doctors started prescribing the cheaper alternative drugs, then consumers would save about $365 million per year. This of course meant that Flint Labs' profits would drop substantially. When the company found out about Dong's submission, they pointed out the relevant clause of the protocol and threatened to sue the university for the likely damages. As a result, Professor Dong withdrew her article from the journal just weeks before its publication. As it turned out, Dong's article did get published two years later, but the damage had already been done.

This and similar examples unambiguously show several things at once. First, it is not unlikely that under such circumstances the researcher can lose her control over the results of her study. Second, science may well be prevented from serving the public interest, at least for a while. Finally, the tension created between the researcher and her administrators is surely damaging to the collegial atmosphere that should prevail in the university.

These are not the only unpleasant consequences of conflicts of interest caused by the new form of industry-supported university research. Many leading scientists are shareholders or CEOs in private firms, some have even started up their own companies, and still more regularly serve as consultants to corporations while holding their university positions. Often they are also asked to serve on the advisory committees and panels of regulatory agencies such as the Food and Drug Administration (FDA) and the Environmental Protection Agency (EPA). Unavoidably, some of them turn out to have financial interests in the products and general policy issues they review. A recent study carried out by *USA Today* revealed that the rate of conflicts of interests in FDA expert advisory committee meetings between 1998 and 2000 was alarmingly high, ranging from 33 percent to 50 percent, depending on the case under evaluation.[21] Although the FDA does have regulations for prohibiting conflicts of interests, it is not uncommon that a scientist is issued a waiver if, for instance, the FDA judges that the scientist's interests are not substantial or that his expertise on the matter is invaluable. Krimsky sums up the situation succinctly: "When selecting experts, choose either high ethical standards or high scientific standards—but you cannot have both. The leading experts are more likely to have commercial relationships. It is like the Heisenberg uncertainty principle, but applied to ethics and science."[22]

A similar problem is also forcing top medical journals to revise their strict conflict-of-interest policies. For instance, in June 2002, the *New England Journal of Medicine* announced that it was dropping its policy of not publishing editorials or review articles on a particular drug or treatment if their authors had financial ties with the company that invented it or with a competitor. Reason? Independent experts are simply scarce. The journal now accepts articles as long as their authors receive payments of less than $10,000 a year as a result of such a stake.

Politics of Law and Patenting

When presented with these disturbing consequences, many of my colleagues lament, but hasten to add that nothing can be done. They see the commercialization of science as a spontaneous, inevitable, and unstoppable natural phenomenon. This brings me back to Polanyi. My analysis so far has been in many ways a direct extension of his idea of commodity fiction to scientific knowledge/discovery, and I believe that *The Great Transformation* contains other important insights that are relevant to a broader understanding of the phenomenon of commercialization of science. These insights have to do with the liberal ideology that worships the free market economy and with the legislative action that deliberately created such an economy on the basis of liberal ideology. Polanyi has shown that the self-regulating market economy did not emerge in nineteenth-century Europe as a result of spontaneous, natural, unstoppable forces; it was created deliberately through a series of legislative actions. The creation of such an economy was governed by a liberal ideology, according to which it was best to leave the allocation of resources to the "self-regulating" mechanism of the market; any outside (i.e., political) intervention was therefore a cardinal sin since it would destroy the spontaneous natural order and create more problems than it was intended to solve. In other words, the liberal ideology was beset by a paradox from the very beginning. It was preaching noninterventionism with regard to an economy that it helped to bring about by legislative intervention.

Now, I argue that these insights can be mobilized *mutatis mutandis* to make better and broader sense of certain aspects of the politics of law and patenting that facilitated the commercialization of biomedical science in the United States. To this end, let us begin by recalling that the rationale behind the Bayh-Dole Act and a number of other legislative acts and policies in the 1980s was not scientific, but economic. As we saw, the purpose was to make "idle" knowledge commercially useful in order to gain for the United States a competitive edge in the "knowledge economy" in a globalized world. In other words, the university-industry collaboration that came about in the post-1980 era was in no way "natural," "spontaneous," or "inevitable." Without legislation that had the specific purpose of luring universities into corporate funds, it would not and could not have occurred. Such legislation is continuous with the neoliberal ideology of privatization. The so-called economic necessity is no more than a disguised political choice.

The crucial Supreme Court decision in *Diamond v. Chakrabarty* that allowed for patenting of life forms should be seen against this background. While it may be an exaggeration to claim that the court's decision is shaped by the neoliberal ideology, it is nevertheless a reflection of the changing mentality toward what is patentable and what is not in medical research. It is here we can discern the rudiments of the spirit of the new capitalism, or so I argue.

During most of the twentieth century, the prevalent attitude was that science and property did not go together. The latter was considered to be a notion antithetical to the scientific enterprise, and accordingly most scientists were reluctant to patent the results of their inventions, especially when they concerned public health. As a result, many inventions were not patented. Two of the most important of these were magnetic resonance imaging and the polio vaccine. The latter was developed by the famous American biologist Jonas Salk in the 1950s. When asked who owned the patent on the vaccine, Salk said memorably: "Well, the people, I would say. There is no patent. Could you patent the sun?"

In line with this, most universities did not have any patent policies until after the Second World War and approached the issue of patents in health sciences unfavorably. Yale University, for example, adopted the following policy in 1948: "[I]t is, in general, undesirable and contrary to the best interests of medicine and the public to patent any discovery or invention applicable in the fields of public health or medicine; but if, at any time, any member of the faculty deems it necessary solely for the protection of the public, *without profit to himself or the University,* to control any invention or discovery by means of a patent, he shall bring the matter before the Prudential Committee." Similarly, Harvard University had this to say in 1934: "No patents primarily concerned with therapeutics or public health may be taken out by any member of the University, except with the consent of the President and Fellows; nor will such patents be taken out by the University itself except for dedication to the public." This mind-set and the university policies informed by it continued well into 1970s, after which things began to change dramatically.[23]

A similar understanding was the norm in the judicial system as well. In 1948, for instance, in an important case known as *Funk Brothers Seed Co. v. Kalo Inoculant Co.,* the Supreme Court ruled that bacteria could not be patented. Justice William Douglas summed up the case and expressed the majority opinion as follows:

> Respondent's discovery that certain strains of each species of the bacteria involved could be mixed without harmful effect to the properties of either was a discovery of their qualities of noninhibition. It was not patentable because it was no more than a discovery of the laws of nature. Respondent's discoveries did not make the bacteria perform in any other way than their natural way. Respondent's combination of the bacteria was new and useful but lacked the requirements of invention or discovery . . . Patents cannot issue for the discovery of the phenomena of nature . . . The qualities of these bacteria, like the heat of the sun, electricity, or the quality of metals, are part of the storehouse of knowledge of all men. They are manifestations of the laws of nature, free to all men and reserved exclusively to none.[24]

By 1980 things had changed. Approximately thirty years after Judge Douglas' statement, the Supreme Court ruled in *Diamond v. Chakrabarty* that bacteria were patentable after all under certain conditions. In the interim, the constitution had not changed; U.S. patent laws had not changed; the only change, as far as the legal system was concerned, was in the mentality that reflected the spirit of the upcoming age of globalization, of the new capitalism based on intellectual property whose scope the Supreme Court helped extend.

Further support for this can be found in another crucial Supreme Court decision in *Moore v. Regents of the University of California.* John Moore, an engineer from Seattle, was diagnosed with hairy-cell leukemia in 1976. Upon the recommendation of his doctors at the UCLA Medical Center, he went through an operation that removed his spleen. For several years after the operation, Moore was called back to the Medical Center supposedly for further treatment, but in reality for removing more blood samples and tissues from him. Eventually, he found out that that his doctors had used his tissues, without his consent, to develop a cell line that had therapeutic value, had applied for a patent for it, and negotiated a contract with a private company for commercial development of the cell line and the products to be derived from it. He then sued his doctors and UCLA for breaching the doctors' disclosure obligations and conversion (i.e., theft of his tissues), arguing that he was not informed about the cell line and the potential profits from it and that his tissues were his property. In the meantime, UCLA was granted a patent for the cell line. The trial court dismissed Moore's case, but the appellate court disagreed; it ruled that the tissues belonged to Moore and that the consent form he had earlier signed pertained to the removal of his tissues, but not their commercial use. As a result, the case went to the California Supreme Court, which in 1990 ruled in favor of Moore on the issue of breach, but against him on that of conversion.

The court's decision that the cell line could not be Moore's property referred to *Diamond v. Chakrabarty* explicitly. The patented cell line, the court said, was an invention, not a naturally occurring organism, and therefore was "both factually and legally distinct from the cells taken from Moore's body."[25] The court also considered the public-policy implications of the extension of conversion liability. It argued that granting Moore property rights to his body parts would severely limit scientific research and that "since inventions containing human tissues and cells may be patented and licensed for commercial use, companies are unlikely to invest heavily in developing, manufacturing, or marketing a product when uncertainty about clear title exists."[26] Thus, the court cited both of these implications side by side and in its discussion of its ruling, it appealed to the argument from economic incentive for research and commercial use repeatedly.

Moreover, the concurring Judge Arabian went further and added the following: "Plaintiff has asked us to recognize and enforce a right to sell one's own body tissue for profit. He entreats us to regard the human vessel—the single most venerated and protected subject in any civilized society—as equal with the basest commercial commodity. He urges us to commingle the sacred with the profane. He asks much."[27]

Arabian's moral outrage against turning human body parts into commercial commodities is certainly understandable, but neither he nor the majority opinion with which he concurred saw the disparity in the court's ruling. While the court did not grant Moore himself the right to make money out of his tissues, it did not see anything wrong with allowing the researchers and the private companies to enjoy the financial fruits to be obtained from those tissues! This point was brought home by the dissenting Judge Broussard: "Far from elevating these biological materials above the marketplace, the majority's holding simply bars plaintiff, the source of the cells, from obtaining the benefit of the cells' value, but permits defendants, who allegedly obtained the cells from plaintiff by improper means, to retain and exploit the full economic value of their ill-gotten gains free of their ordinary common law liability for conversion."[28] Commercial gain from one's body parts was denied to the owning individual himself, but granted to the third parties including private companies.

As Judge Broussard further pointed out, as far as public and scientific interests were concerned, it would be much better to prohibit any private individual or entity from profiting from human body parts and to make them freely available to all researchers. Both the majority's public-policy analysis and the legislature as a whole are oblivious to this obvious possibility. The spirit of corporate commercial mentality in major court rulings on intellectual property could not have been more transparent.

Concluding Remarks

I have argued that biomedicine in the United States is being rapidly commercialized. It is geared more and more toward what is patentable and profitable. While I have limited myself to one scientific discipline, commercialization of science is under way in many other disciplines, such as materials science, optical science, and even cognitive science.[29] Nor is it peculiar to the United States only. It can be observed in varying degrees in EU countries as well, especially in England.[30] We must realize that this is a new phenomenon that must be situated squarely within the global neoliberal order.

In *The Great Transformation,* Polanyi vividly described the destructive impact of commodification of land, labor, and money on society. A similar process is under way in science as well, a process that is affecting almost every aspect of science from its research agendas to its value structure. I am afraid that it will be equally destructive if it goes on unregulated. The question we face, therefore, is clear: What sorts of policies are needed in order to decommercialize science without at the same time hindering its development? Once we answer that question, the task ahead of us will be equally clear.

Notes

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1. Karl Polanyi, *The Great Transformation* (Beacon Hill, MA: Beacon Press, 1957), 52, emphasis original.
2. Ibid., 73.
3. Just to give an example, the famous economist Fritz Machlup, who was one of the earliest people to write about the "knowledge economy," believes that the distinction between "knowledge" and "scientific knowledge" is not useful for

his purposes. Fritz Machlup, *The Production and Distribution of Knowledge in the United States* (Princeton, NJ: Princeton University Press, 1962), 16. He has such a broad notion of the former that even religious sermons and Sunday-school classes count as knowledge (Ibid., 23). As a result, churches appear as institutions in which knowledge production takes place!

4. Both forms of knowledge express a relationship between a subject (knower) and an object (known). For this reason, knowledge cannot be detached from human beings, from their creative labor. This implies that, strictly speaking, it is not knowledge that is commodified, but its codifiable informational content. For the sake of brevity I will talk about "commodification of knowledge," but this phrase should be understood according to the proviso explained.
5. Note that these numbers indicate percentages of total R&D, not just academic R&D, but a similar trend exists for the latter as well, as indicated by a cursory look at National Science Board, *Science and Engineering Indicators* (Arlington, VA: National Science Foundation), available at: http://www.nsf.gov/statistics/indicators/.
6. James E. McClellan and Harold Dorn, *Science and Technology in World History* (Baltimore, MD: Johns Hopkins University Press, 1999), 359.
7. Sheldon Krimsky, *Science in the Private Interest* (Lanham, MD: Rowman & Littlefield, 2003), 62.
8. Ibid., 66.
9. Ibid., 69–70.
10. Sheila Jasanoff, *Designs on Nature* (Princeton, NJ: Princeton University Press, 2005), 235.
11. M. Kenny, *Biotechnology: The University-Industrial Complex.* (New Haven, CT: Yale University Press, 1986).
12. World Bank, *World Development Report* (New York: Oxford University Press, 1998), 132.
13. Robert K. Merton, *The Sociology of Science* (Chicago, IL: The University of Chicago Press, 1973), 268–70.
14. Ibid., 273.
15. Daniel S. Greenberg, *Science, Money, and Politics* (Chicago, IL: University of Chicago Press, 2001), 357.
16. Krimsky, *Science in the Private Interest,* 83.
17. J. R. Brown, "Community of Science." Paper presented at the 31st Annual Philosophy of Science Conference (Inter-University Center, Dubrovnik, Croatia, April 11–15, 2005), 3.
18. Merton, *Sociology of Science,* 273.
19. For the example that follows see Krimsky, *Science in the Private Interest,* 14–18. For other cases, see Chapter 2 of Krimsky's book. It is worth noting that such cases are also reported in Canada. The most important of these is known as the "Olivieri Affair." See J. Thompson, P. Baird, and J. Downie, *The Olivieri Report* (Toronto: James Lorimer and Co., 2001).
20. Quoted in Krimsky, *Science in the Private Interest,* 15.
21. D. Cauchon, "FDA Advisors Tied to Industry." *USA Today,* September 25, 2000.
22. Krimsky, *Science in the Private Interest,* 104.

23. Harvard University, for example, changed its policy on patenting in 1974.
24. *Funk Brothers Seed Co. v. Kalo Inoculant Co.*, 333 U. S. 127 (1948).
25. *John Moore v. The Regents of the University of California,* 51 Cal. 3d 134 (1990).
26. Ibid.
27. Ibid.
28. Ibid.
29. Sheila Slaughter and Larry L. Leslie, *Academic Capitalism* (Baltimore, MD: Johns Hopkins University Press, 1997).
30. Jasanoff, Designs on Nature.

8

Intellectual Property: Commodification and Its Discontents

Virginia Brown-Keyder

> We view IP theft as a threat to our national security . . . As we move into the future, our economy is going to be increasingly dependent on our ability to protect IP. If theft increases . . . you're looking at a scenario for economic disaster.[1]
>
> John Ashcroft's deputy, David Israelite, 2004

> Nothing has a higher priority in our trade policy than the fight to protect American intellectual property. It is every bit as important an effort for us as the war against weapons of mass destruction.
>
> US consular official in China.[2]

> The right to trade, property rights, these things are not to be determined by some democratic election.
>
> Grover Norquist in defense of new IP laws brought into Iraq with U.S. invasion.[3]

Intellectual property (IP) rights—property rights created through patent, copyright, and trademark law—have become the driving force not only of the U.S. economy, but also of U.S. international relations in general. IP has become the backbone of a world of "market states" held together by a growing string of free trade agreements imposed through U.S. economic might on an increasingly reluctant world.

Over the past three decades, IP has become one of the most important areas of U.S. law as a result of new federal legislation, Supreme Court decisions, structural changes in the U.S. Patent and Trademark Office (USPTO), and the creation in 1982 of a new purpose-built court (the Court of Appeal for the Federal Circuit, or CAFC). IP has also become inextricably tied to trade law and policy. In the past ten years alone, the United States has succeeded in persuading the vast majority of nations to enact laws for which the U.S. is the prime beneficiary, first through the provisions of the Trade-Related Aspects of Intellectual Property (TRIPS) section of the World Trade Agreement (WTA) and then through numerous and even more onerous bilateral "free trade" agreements. In addition, U.S. corporations are now pressuring their client legislators and trade representatives to spare them even the costs of compliance with national laws in their "market states." As expressed by the U.S. House Judiciary Committee: "The cost to U.S. companies and inventors of applying for and obtaining separate patents in each of 150 or more countries is prohibitive . . . A single low-cost world patent is the best long-term approach to obtaining effective world-wide patent protection for U.S. companies and inventors." Thus, securing "full faith and credit" to patents granted by an international organization or, better yet, by the United States, EU, or Japan, is far more desirable to U.S. companies. Such measures are being supplemented by extraterritorial legislation, the posting of U.S. prosecutors abroad, and increasingly one-sided extradition treaties (a measure that even the United States' most trusted market ally, the UK, has been forced to accept, much to the displeasure of UK corporations).

How Did It Happen

Why and how has IP law become such an important issue in the United States and, under its influence, around the world? Prior to the 1960s, IP law was but a sleepy corner of American legal practice with no links to international trade whatsoever. In those countries where IP laws had been enacted, mostly pursuant to colonial relationships, they received little or no attention. Today, by contrast, some writers on the subject have gone as far as to say that imposing U.S. IP law on the rest of the world is the only reason the United States enters into international agreements at all.

This chapter will attempt to facilitate an understanding of how IP law gained such prominence in the United States and how the United States managed to force the rest of the world to take up and protect U.S. interests with such stridency. It will examine the reaction, both in the United States and abroad, of those on the receiving end of an international strategy pursued by a small number of U.S. companies at the expense of many around the world and will then forecast what we might expect in the future.

Expansion of the Concept of IP in U.S. Law

New subject matter

The purview of IP law has expanded considerably in recent years. Since 1980, the U.S. Supreme Court alone (i.e., without the help of new legislation) has confirmed the patentability of living forms (*Diamond v. Chakrabarty,* 1980), computer programs (*Diamond v. Diehr,* 1981), business methods (*State Street Bank & Trust Company v. Signature Financial Group, Inc.,* 1998), and sexually reproduced plants (*JEM Ag Supply v. Pioneer,* 2001). The patenting of plants and animals, genes and smaller units of genetic information, business methods, and seeds represents the most important areas into which the concept of property rights has expanded in recent decades. It has also been extended to cover the design imprinted on integrated circuits; geographical indications of wines, spirits, and foods; and most recently, data from clinical trials of pharmaceuticals. An international treaty currently under negotiation will expand considerably the IP rights of broadcasters and cablecasters over material for which they exerted no creative effort. One enthusiastic U.S. patent lawyer, Andrew F. Knight, has even proposed the patenting of story plots.[4] An increasing number of corporations make more money enforcing IP rights than they do from the revenue on the sale of their products. (According to a 2006 study by PricewaterhouseCoopers, the median amount of damages awarded by juries in patent-infringement cases is $8 million,[5] and this does not take into account dubious actions filed and settled by defendants who don't believe they have infringed, but are fearful of notorious U.S. litigation expenses.)

New strength, longer life

IP, in all its forms, was initially designed to reward innovation and creativity by privileging the innovators with a limited monopoly on the proceeds of their creation. This limited privilege, granted as an incentive to enrich the public weal and contribute to a general body of scientific and creative culture, has over the last century been legislatively and judicially transformed into private property. More recently, in response to deep-pocketed IP-rights-holding corporate contributors, politicians and trade representatives have become devoted to a program of continuous expansion of these property rights.

Judicial remedies for infringement have also expanded—from civil compensation for losses incurred in those rare cases where the court actually found infringement, to serious and often cross-border criminal prosecution. State protection of IP has expanded not only to criminalizing infringement, that is, copying, itself, and utilizing mechanisms to copy, but also to possession or transmission of means that might possibly be used to dismantle technical mechanisms (DRMs) designed to thwart copying (as in the U.S. Digital Millennium Copyright Act, or DMCA). Too technical? A few short years ago a Norwegian teenager and a Russian computer scientist, working in their own countries, were caught by U.S. criminal law for tinkering, and talking about tinkering, with a Windows program designed to prevent copying of films. No actual copying was alleged.

This type of expansion of the scope of IP law has been felt in other sectors as well. In the case of agricultural biotech patents, the development and patenting of the "terminator gene," which renders sterile all plants in which it is inserted, has effectively relieved the IP owner of even having to pursue costly legal methods of protection. This not only eliminates the need to prove validity and infringement of one's patent, but also serves to extend protection far beyond the period provided by patent law.

Terms of protection have increased as well. While patent terms have expanded only marginally, from 17 years to 20, extensions are being tacked on under ever-broadening circumstances. New considerations such as regulatory periods, testing populations, and even relations with generic drug makers have added years to patent lives. In copyright, the term under U.S. law has expanded from 28 years in 1975 to over 70 years from the death of the author today, and for corporate owners, to 95 and sometimes even 120 years.

Perhaps most importantly, the reach and force of law embodying these extensions of IP has spread to virtually every country with any aspiration to participate in the world economy. Those countries that refuse to enact such laws or fail to enforce them find themselves on the receiving end of serious and damaging trade sanctions. In 2006, U.S. Trade Representative Susan Schwab announced a cutback in trade benefits for countries offering inadequate IP protection. Threatened sanctions applied to countries ranging from Argentina and Brazil to Croatia, India, Romania, and Turkey.[6]

Unsatisfied with the results of harmonization achieved through the TRIPS, the United States has effectively abandoned this forum (particularly after the widely predicted collapse of the Doha Round of trade talks in 2006) in favor of bilateral agreements—in which solidarity among like-minded nations is impossible and even more stringent conditions of IP protection may be imposed—and unilateral sanctions.

In the United States, and increasingly abroad, judicial findings of patent validity and infringement—rare before the 1970s, when patents were routinely struck down as being anticompetitive and therefore invalid—have become a virtual certainty today. This is due not only to the creation in 1982 of the above mentioned Court of Appeals for the Federal Circuit, designed to facilitate protection of IP in general and patents in particular, but to a new and heightened legal presumption of validity, which can only be overturned by "clear and convincing evidence" (higher than the "preponderance of evidence" standard required to be proven in other civil actions). The inability of juries to understand the growing complexity of patent cases sufficiently to overturn a patent using this heightened burden of proof has resulted in plaintiffs' attorneys increasingly choosing to have their cases heard by juries. This has also strengthened what many describe as structurally weak patents. Weak or badly drafted patents have themselves become more common as patent examiners are encouraged through increased USPTO funding to churn them out. It is noteworthy that in an effort to reform U.S. patent law in order to loosen the "patent thicket" that is now widely believed to be constraining U.S. innovation, a reversion to the previous lower burden of proof required to rebut this presumption has been proposed.

The Internationalization of IP

The spread of trade-based IP like thick ooze over the surface of the earth began in the United States and was incorporated into the agendas of the EU and Japan through U.S. influence in the mid-1980s. Today IP is often seen as a battle between developed and developing countries, between property rights of multinational corporations on the one hand, and rights to health, education, and food sovereignty and security around the world (often referred to as a "right to development") on the other. By tracing developments in U.S. law over the past 30 years, we find the origins of the trends that will have pronounced effects on life in the twenty-first century.

Until the 1970s, U.S. patents were seen as monopolies (a term which carried negative connotations at the time) and thus narrowly granted and strictly construed. This was reflected in IP law as well as in competition, or antitrust, law. In some areas of economic activity, it would have been possible to say that upholding the validity of IP was the exception rather than the rule, so negatively was IP's anticompetitive character viewed by the courts. In terms of international trade, it would have made no sense before the late 1960s to portray IP as pro-free trade, so clearly allied was the concept of IP with monopoly and trade restriction.

The early 1970s witnessed several developments that caused legislators to view IP in a new light. These included the expansion in copying technologies (photocopy, audio, and later video cassettes), the severe economic downturn in the United States brought on by the oil crisis and the Vietnam war among other things, and the birth of biotechnology as a promising field in pharmaceuticals and agriculture. The U.S. government's waning desire and ability to sustain scientific research budgets left it open to suggestions by representatives of a select group of industries (some have limited this further to a specific "12 hungry men") that IP be strengthened and expanded in order to encourage the private sector to take up and profit from the research activities formerly carried out by government agencies and public universities. With the "privatization" of research and development (R&D), the profit motive quickly replaced scientific status (achieved through publications, etc.) and the paramountcy of public benefit as a goal of R&D.

In short, publicly funded R&D, by far the rule throughout the first half of the twentieth century, peaked in 1965, and by 1980 private funding surpassed public. The happy recipient of considerable amounts of publicly funded research results, and encouraged by the increasing importance to a weakening economy of advancement and inventions in computer technology and biotech in U.S. universities, U.S. industry began to take advantage of its unparalleled proximity and access to federal politicians. In this regard, it must be remembered that the United States, like most of its Anglo-Saxon/Common Law counterparts, has no "state" to stand between the interests of industry and the politicians. The influence of the IP-laden private sector on politicians and in particular trade negotiators increased dramatically in a few short years.

Industry, IP, and Trade

Already in the 1960s and 1970s U.S. business had become active in trade policymaking. The 1974 Trade Act allowed the Federal Trade Commission (FTC) to bring sanctions directly against countries whose products were seen to hurt U.S. interests. In 1979 the now infamous Section 301 of the U.S. Trade Law was amended to allow "private parties to take significant and public steps to enforce international trade agreements."[7] This was again amended in 1984 to provide that a trading partner's failure to act to protect IP could result in sanctions. Within a few short years, IP-based industries rose to the top of the business lobby mountain at the expense of older, less IP-dependent sectors of the economy. In 1984, the International Intellectual Property Alliance was formed as a strong lobbying body for all IP-based industries.

As U.S.-dominated globalization got off the ground, U.S. corporate interests were more concerned with reducing barriers to their products abroad than in keeping competing goods out of the United States. Given that U.S. products were overwhelmingly IP-based (entertainment, software, technology, designer clothing, etc.), it became crucial that "market states" afford such products the same legislative and judicial protection against copying as they received in the United States. Unprecedented access to cheap international labor, another major pillar of globalization, also helped in the lessening of barriers to imports into the United States and heightened IP protection in producing countries (so as to be able to prevent the flow of "illegal" or "unauthorized" goods into the world market directly from cheap producers). Designer clothing is only one, albeit significant, example of how one sector managed to reduce production costs significantly by outsourcing production, while maintaining and in fact enhancing profits through IP-enabled monopoly pricing. Expansion of trade in general also meant that other sectors, such as the U.S. retail sector, began to press for less protectionism in order to take advantage of cheaper goods through the international labor market. Such economic actors had no use for the monolithic protectionism preferred by the manufacturing sector that had characterized the earlier era. In short, where protectionism had been the defining feature of economic policy in the past (dominated as it was by U.S.-manufactured goods), national borders were now forced open to allow American access to international labor and markets while at the same time facilitating the importation of cheaply produced but monopoly-priced goods into the United States. IP assured that prices would remain high both in the United States and abroad. IP was becoming the glue of the new U.S.-dominated world economy.

Changes to the U.S. Trade Act in 1974 and the creation of the above-mentioned Section 301, and other sanction-based legal instruments came into effect and the mid-1980s saw the first actions for "piracy" of agricultural chemicals against Hungary. The year 1987 saw the first Section 301 threat of retaliation against Brazil for its lack of pharmaceutical patent provisions. The first GATT sanctions (created in 1947 the General Agreement on Tariffs and Trade (GATT), constituted the only multilateral trade regime until it was broadened by the WTO in 1995), against Mexico (to the amount of $500 million in lost benefits), occurred in 1987 for failure to protect pharmaceutical patents. This was the time when the benefits to U.S. industry of including IP in the Uruguay GATT Round began to become apparent, and TRIPS soon became the linchpin of U.S. WTA negotiating strategy. In brief, TRIPS mandated that all countries should enact U.S.-style IP laws in a practice pioneered within the European Community called "harmonization."

During this period patent law was formally acknowledged, for the first time since 1912, to be considered at least as important for economic growth as open and free competition, thus shifting the balance away from antitrust law to the "anything goes" view of competition in place today. In 1988, the Justice Department rescinded guidelines for antitrust prohibitions on certain kinds of licensing. This removed IP licensing from antitrust scrutiny and ensured that prohibitions on clauses that might be considered anticompetitive in other contracts would not be so interpreted if found in IP licenses.

From this point on, patents, the locomotive of the new international economy were to be generously granted and broadly construed. The creation of the Court of Appeals for the Federal Circuit in 1982, where all IP cases would be heard in an unprecedentedly friendly environment, ensured this nationally, while the provisions of TRIPS and subsequent bilateral trade agreements guaranteed strong IP internationally.

Another important issue that has been controversial since the 1970s is access to the natural resources—genetic material and traditional knowledge—upon which one important segment of the U.S. IP economy is based: biotechnology. The United States had never been rich in these two resources, but with the establishment of the technology-based, export-oriented economy, reliable and unhindered access became more important than ever before. Natural substance–based medicines developed over time in "traditional" societies inhabiting resource-rich locations are but one example. "Borrowing" from the resources of other countries has always played a significant role in the abundance that characterizes American life, but now ownership became crucial.

With the growth of the "IP mentality" and the new centrality of biotechnology to the U.S. economy, the conditions of such "borrowing" underwent substantial modification as it became necessary to secure reliable and ongoing access to these underlying resources, situated for the most part in "Southern" nations. Unable to lay claim to these through IP in the early years (because U.S. law had not yet evolved to recognize such resources as "property"), the late 1970s gave birth to the concept of "heritage of mankind"—or "what's mine is mine and what's yours is also mine." After the developments described above in 1980s patent law, "Southern" nations began to become aware of the value of what they were sitting on, however, and began to see the dangers "heritage of mankind" presented to their resources. Presented with IP as a more sophisticated way to claim ownership of such resources, the "North" also became less enamored with the concept. Here the ways of the North and the South parted, however. The Convention on Biodiversity (CBD), part of the Rio Convention of 1992, attempted to provide for an equitable distribution of rights to these resources and to the technologies arising out of their use. The concept of ironclad patent ownership over genetic material proved more attractive to the North, however, and the conflict between CBD and TRIPS continues to occupy legal scholars today.

Though not a central feature of this chapter, it is important to keep in mind the continuing conflict between the provisions of CBD and those of TRIPS. Coupled with the "right to development" arguments, resource ownership (and the ability to fight for such ownership in "Northern" courts) is one of the foundation stones of the recent success achieved by middle-level countries such as Brazil and India in fighting what many view as the neoimperialism of the IP-dominated economy.

Market States, Market Universities

In 1982, the United States enacted the Bayh-Dole Act, which allowed universities to hold patents and collect license fees on inventions resulting from publicly funded research. This not only gave universities unprecedented funds from licensing agreements, but also attracted significant corporate research money through collaborative agreements. It has, however, had other consequences as well. Corporate-dictated, high-end product oriented research has now begun to replace basic research. Universities are finding it increasingly expensive and often impossible to secure cooperation among scholars (because no one wants to be caught giving away information that might constitute patentable subject matter) and access to research tools patented by other research institutions. In 2002, the CAFC held in *Madey v. Duke* that universities constitute businesses and are not eligible for experimental research exemptions in connection with patented technology. The traditional view of academic status based on publications, collaboration, and public benefit has been replaced by profit, corporate competition, and secrecy not only within the jurisdiction of the U.S. law, but internationally as well, as international scholars are funneled into the U.S. market universities from around the world.

Government laboratories joined the bandwagon with the 1986 Federal Technology Transfer Act, which "encouraged government labs to become more active in patenting and licensing" and to license their inventions to private industry.[8] In 1989 the National Competitiveness Technology Transfer Act "extended the licensing provisions contained in the 1986 Act to all contractor-operated national laboratories." The quaintness of the oft-cited response of Jonas Salk in the 1950s to the question of whether he was going to patent his polio vaccine ("Could you patent the sun?") shows just how much has changed in the last half century.

Trial Runs for Globalization

Early attempts to impose IP laws on other countries included the Caribbean Basin Initiative in the mid-1980s—the template in a way for what has come to be known as globalization. This mandated a formal link of IP and trade, first in films and music and later in book publishing.

The Trade Act was amended in 1988. Section 301 could now target the legislation of trading partners, not only the offending sectors. More authority was transferred to the Trade Representative, so that politics, defense, et cetera, would not hinder IP sanctions under 301. (The draconian IP laws brought into Iraq with the initial invasion would appear to signal that there is no longer any conflict between the interests of "defense" and those of corporate IP interests). During this same period, the requirement to show injury to U.S. interests in order to threaten sanctions was removed—i.e., no sector need now show actual damage in order to commence proceedings against a country whose legislation they object to. Similarly, complainants need not show that their businesses are efficiently and economically operated domestic businesses, thus expanding the pool of complainants to U.S. industrial interests outsourced abroad.

And onto the World Stage

This then is the background to the 1995 TRIPS. What did the rest of the world get in return for the promise to protect U.S. IP? In return for worldwide harmonized IP, the United States and the EU agreed to open their markets to developing countries' textiles (which had been eliminated from GATT in 1974 with the Multi-Fiber Agreement to protect U.S. and European textile industries) and agricultural products (which had not previously been subject to trade agreements, as food was understood to be a national rather than an international priority). Today's "negotiations" on reducing U.S. and EU farm subsidies and the United States' and the EU's reluctant acceptance of textile imports cover promises made more than ten years ago. Claiming then that they needed ten years to prepare their economies for textile and agricultural imports from developing countries, such measures today are widely represented as new concessions unfairly demanded from developed countries.

While the complexity of the question of textile imports into the United States and the EU places it beyond the scope of this chapter, it is important to remember that bioengineered fibers (especially cotton) and the growth (and relative fall in recent years) of designer clothing render the textile trade more than just a bargaining chip in assuring worldwide U.S.-style IP laws. Textiles today play a central role in the globalization of IP itself.

Similarly agriculture, once thought to be completely outside the realm of trade, is today central to the IP-based U.S. and world economy. The growth in recent years of genetically engineered and patented seeds (particularly, but not exclusively, soy and maize), plants, and other agricultural products, and the political/legal clout of producers such as Monsanto ensures that IP-laden agriculture will constitute a cornerstone of the world economy. The "comparative advantage" that until recently favored agricultural exports of poorer nation states to more developed ones has given way to "enablement of global opportunity,"[9] where wealthy, resource-poor market states create opportunities by tinkering with and then propertizing other people's resources and selling them back to them.

These are just some of the many events that have contributed over the last 25 years to the position IP occupies in today's trade-obsessed world. Primary has of course been the framing of IP as "private property" (and the framing of health and education as privilege) in a country where private property forms the basis of all rights-based discourse, where business holds unparalleled influence and which is unquestionably the dominant power, in terms of sheer, raw force, in the world.

The internationalization of U.S. IP has been achieved through unilateral U.S. legislation, multilateral and bilateral agreements, and, most recently, through military invasion. At each stage, IP has been core to the U.S. understanding of globalization. What has emerged is a world in which the only international law that seems to matter for the dominant player is IP-based trade law. While the complexity, combined with the sheer heavy-handedness, of IP law was successful for a time in ensuring U.S. control over the world economy—now deemed to include not only traded goods, but also services often themselves intricately linked to IP, such as health, food security, education—the tide has now begun to turn within the United States and abroad.

A Good Idea Gone Bad

There is no doubt that IP has an important role to play in providing an incentive to creative minds to contribute to the public good. IP law has been developed to achieve far more than these humble and worthwhile goals over the past three decades, however. Not only has the public domain, the pool of available idea resources that cultures and nations rely on to go forward, diminished, but we have also been led to believe that only the profit motive inspires humans to think and create.

Reaction against excessive IP has been brewing not only in developing countries but also within the United States and the EU. U.S. citizens who dare to frame health and affordable access to medicines as a right are but one voice among many. Universities are plagued by diminishing access to research materials through fear of inviting patent infringement actions and the prohibitive costs of using patented research tools. The increasing reluctance of academic researchers to publish their findings for fear of harming patent possibilities (through destruction of the "novelty" required to secure a patent) and loss of corporate sponsors is just one factor behind the decrease of scientific discourse in recent years.

One major response within the United States and internationally is the open source movement, the participants of which work to expand availability of both technology and scientific publications. Major universities like MIT that still actively believe that knowledge should be shared have contributed to a sharp growth in support of anti-IP movements, or at least preservation of the ever-shrinking public domain.

Even the above-mentioned coalitions of IP-based industries are beginning to disintegrate. In early 2006, the Coalition for Fair Patenting was formed by 45 companies from the technology, financial services, and manufacturing industries to try to reverse some of the more damaging advances in IP law, including the heavy burden of proof necessary to rebut the presumption of patent validity.[10] The tendency to patent anything that moves and much that doesn't has rendered R&D in many industries dangerous ground indeed. According to Joe Crea, only the pharmaceutical industry remains devoted to the "extreme patent" mentality.

The Empire Strikes Back

Outside the United States, the framing of health and food sovereignty and sustainability as rights is beginning to have an effect on the behemoth of intellectual property as well. As in many areas, 2001 was a turning point. The success of South Africa in warding off legal actions from pharmaceutical companies over access to AIDS drugs in the late 1990s was an important step. So too was the agility with which the United States changed its position on compulsory license and parallel imports (two important avenues for limiting the absolute power of patent holders) when faced with 14 deaths from anthrax: the antibiotic Cipro was available only from German Bayer, who had the audacity to sell the drug in the United States at market price. As if by magic, the moral argument supporting circumvention of monopoly pricing became apparent to U.S. authorities in light of the disaster of the 14 American deaths. On November 5, 2005, a bill was introduced by Congress (HR 4392, 109th Cong.) to allow compulsory importation of Tamiflu into the United States and to relinquish the promise of the United States not to import pharmaceuticals produced under compulsory license, as provided for in the 2001 Doha Declaration and the 2003 Decision of the United States to implement the provisions of that Declaration.

Based on the success of South Africa and the threat posed by India's upcoming patent legislation, which would effectively turn off the spigot of generic drugs and parallel imports from that country to other developing countries, various efforts by developing countries have begun to see some success. On November 14, 2001, the Ministerial Conference of the WTO adopted the Doha Declaration on the TRIPS Agreement and Public Health (Doha Declaration). This affirmed that TRIPS "can and should be interpreted and implemented in a manner supportive of WTO Members' right to protect public health and, in particular, to promote access to medicines for all." Art. 6 of the Doha Declaration also recognizes that WTO members with insufficient or no manufacturing capacities in the pharmaceutical sector could face difficulties in making effective use of compulsory licensing under the TRIPS Agreement (because compulsory license only allows production for domestic use). Council for TRIPS was thus instructed to find an expeditious solution to this problem. On August 30, 2003, the WTO General Council adopted the Decision on Implementation of Paragraph 6, allowing countries to produce under compulsory license for export. This Decision must now be converted into a permanent amendment to TRIPS. Canada, defying strong pressure from the United States and Norway, quickly passed legislation necessary to produce under compulsory license for export. Several developed countries have, however, agreed not to import pharmaceuticals under this provision. Another positive step from the point of view of developing countries is Art. 7 of the 2003 Decision, which extends the deadline for patent legislation on pharmaceuticals and data protection to 2016.

At the same time, the "right to development" movement within the Geneva-based World Intellectual Property Organization (WIPO) led by Brazil and Argentina has been gaining momentum. On another international organizational front, Brazil's decision in early October 2005 to exercise IP sanctions against the United States for that country's failure to abandon its cotton subsidies, found illegal by the WTO, marks the first time IP sanctions have been used as a retaliatory sanction in this process.

The World Health Organization (WHO) has also been active in guaranteeing access to essential medicines and diagnostic tools made difficult due to pharmaceutical patents. Other actions have been taken as well. India's statement to the effect that the 1992 CBD, which provides that genetic resources shall be the property of the sovereign states from which they originate, takes precedence over TRIPS is one example of a perspective with strong and growing support in developing countries.

The growing domination of world agriculture by patent-based seeds and the move to replace traditional crops with crops in which IP content is high are increasingly being rejected by countries, both because of ramifications to the world food supply and economic sustainability of farmers (patented seeds must be repurchased each year by farmers from companies like Monsanto) and the safety to food supplies and local ecology. Once again, the United States, with its requirement that genetically modified (GM) crops must be scientifically proven dangerous (in contrast with the precautionary principle favored by the EU and elsewhere) before their importation can be prohibited, has managed to subvert the issue into a pure trade matter.

National prohibitions on importation of genetically modified organisms (GMOs) have been unsuccessfully litigated in numerous international fora, from the European Court of Justice to the WTO. The February 2006 WTO decision in favor of the U.S. "hard science" approach, in which safety concerns must be scientifically based, over the EU "precautionary" approach on the legality of resisting GMO food imports would appear to tilt the scales in favor of the WTA position over that of CBD, but the effects of this decision remain to be seen. The difficulty in understanding the outcome of this 1,000-page decision is aggravated by the fact that both sides claim "victory."

In spite of Germany's recent calls for a free trade area with the United States (the Trans Atlantic Free Trade Area, or TAFTA), which would no doubt include a common position on many IP issues, its achievement is by no means a foregone conclusion. The EU's failure, against U.S. pressure, to include mandatory criminal penalties for IP infringement in its recent Enforcement Directive (though it should be noted that a second bite of this apple is currently being sought in the EU), and similarly its failure to enact the harmonizing Software Patent Directive in July 2005 are evidence that it is not on all fours with the U.S. position on IP. Calls to include the source of genetic material and traditional knowledge in applications filed under the European Patent Agreement (as mandated in the 1992 CBD) is another example of important differences between the United States and the EU in the area of IP.

Beating Them at Their Own Game

Not all efforts to thwart U.S., and to a lesser extent EU, control over IP have been of such an institutional nature, however. India and China, emerging industrial and trade powers in their own right, have now succeeded in training a generation of lawyers and judges with the competence to challenge patents that are clearly not in the interests of developing countries, or even, in some instances, valid in their original filing location. Invalidation of patents based on well-known plants (neem, basmati, and turmeric) originating in India have been successful, and recently the Indian pharmaceutical company Ranbaxy was successful in invalidating Pfizer's weakly drafted patent on the active ingredient of the best-selling cholesterol drug Lipitor in Austria, and partially in the Netherlands, Norway, the United States, and the UK.

Patent issues are not the only IP questions being debated in international fora. In September 2006 a major seminar was held in Alexandria, Egypt, on issues surrounding access to knowledge and the problems brought on by overextension of copyright law. Such issues touch not only on access to knowledge per se, but on basic questions of education and its role in development and economic prosperity. What is important is that developing countries now realize that they share fundamental interests and that they must act together to avoid becoming no more than spokes in the wheel of a globalization of which the United States is the controlling center.

The U.S. Counteroffensive

The U.S. response to this international turnaround has not been pretty. One tactic has been to change the forum of the debate in an effort to derail movements perceived to be in favor of developing countries within the WIPO. The holding of secret meetings, begun in February 2005, to which developing countries were not invited in an effort to devise strategies to thwart the interests of these countries is another strategy that has gained favor in the United States.

Tactics used in other areas of U.S. foreign and domestic policy have also been used to strengthen criminal sanctions and sway public opinion on IP issues. Claims that buying unauthorized goods supports terrorism and attempts to penalize countries who do not agree to legislate far beyond the requirements set out in TRIPS are only two examples of such efforts. This year the United States announced plans to post its own prosecutors abroad and simplify extradition of "IP criminals" (even from countries where the actions alleged violate no law). The first such appointment, of one Christopher Sonderby to the position of intellectual property law enforcement coordinator, was announced in January 2006.

In October 2005, the EU came forth with a proposal for upcoming TRIPS negotiations to the effect that developing countries must not only legislate against production, distribution, et cetera of IP-protected goods and enforce strong criminal sanctions in these efforts, but also establish mechanisms to control their own exports and goods in transit in the interests of developed countries. Monsanto's recent action to collect royalties on genetically modified soy flour entering the UK market from Argentina, when no patent exists on the seed source for the soy in Argentina, is another example of the increasing polarization of developing and developed countries on this issue. It must be remembered that merely having to answer such an accusation in the courts of developed, and particularly Anglo-Saxon, countries is often enough to bankrupt a developing country-based export firm.

This battle is now at its height. Arguments underpinning international IP—primarily that development, foreign investment, inspiration for innovation, and attracting research will not happen in developing nations who fail to harmonize their IP laws to (and sometimes even beyond) those of the United States, along with the claims to high moral ground and economic loss by firms producing IP-laden products—have successfully been put to rest by IP scholars for anyone who cares to listen. The ideology of "trade" and the idea that all problems facing humanity can be dealt with through U.S.-mandated trade rules and attempts to portray IP as a "moral issue" through employment of terms like "theft" and piracy-driven "terrorism" are beginning to seriously fray.

That the United States is becoming totally reliant on IP is beyond dispute. IP is perhaps the main force that allows the United States to maintain control over an economy that is increasingly outsourced. Recent developments in the international fora, including WIPO and WHO, would indicate that developing countries are making considerable progress in defending access to health, education, food sovereignty, security, and other areas increasingly perceived as "human rights." The development agenda remains central, and attempts to move debates on this movement to moribund committees have failed, at least for the moment. Arguably, the advantage of the asymmetry of power of U.S. corporations in the governmental process at home, and through trade representatives abroad, and of its nonmilitary strength abroad is diminishing. Whether military strength will be brought to bear in this arena as it has in so many others remains to be seen. The method by which the United States tried to impose its IP order on Iraq may become the rule, or alternatively this event may represent the high point of its power.

Notes

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Part IV

Patterns of Resistance and Adaptation

9

Polanyi's Concept of Double Movement and Politics in the Contemporary Market Society

Ayşe Buğra

Introduction

According to Polanyi, a self-regulating market system constitutes an order where the economy is "controlled, regulated and directed by markets alone; order in the production and distribution of goods is entrusted to this self-regulating mechanism."[1] It was such an order, which Polanyi described as "a stark utopia which could not exist for any extended period without annihilating the human and natural essence of society,"[2] that constituted the centerpiece of nineteenth-century civilization. This civilization was different from all other human societies in which the economy was "embedded" in social institutions.

What defines this difference is not the existence of market exchange, which exists in many societies through different historical periods and plays only an auxiliary role in determining the livelihood of people. The livelihood of people is largely shaped by other principles of socioeconomic integration, such as "reciprocity" and "redistribution." These principles, which define different types of human behavior, can only be effective in guiding and directing economic activity in the presence of their accompanying institutional patterns and, in the case of reciprocity and redistribution, these patterns are not principally economic in nature. Hence, reciprocity relations that typically manifest themselves in kinship groups, neighborhoods, ethnic and religious communities, or state redistributive processes control and regulate economic activity in conformity with social objectives. The nineteenth-century market economy, where the principle

A. Buğra et al., *Reading Karl Polanyi for the Twenty-First Century*

of market exchange, with its exclusively economic character, came to dominate production, distribution, and consumption, presents a unique historical phenomenon where the economy is "disembedded" from society.

Polanyi writes that a society shaped in such a manner could never come into being spontaneously, without deliberate policy interventions preparing its institutional setting. In other words, the disembedding of the economy from society appears as a political process, the nature of which is analyzed in the historical account of the nineteenth-century developments presented in Polanyi's most important book, *The Great Transformation.* This interventionism was directed at making the commodity fiction regarding land, labor, and money prevail in order to "institute" a social order where the economy was disembedded from society. "None of [these elements of industry] is produced for sale," writes Polanyi. "The commodity description of labor, land, and money is entirely fictitious. Nevertheless, it is with the help of this fiction that the actual markets for labor, land and money are organized."[3] This, according to him, presented a most unusual situation, hardly compatible with the reality of human society.

What follows, in *The Great Transformation,* is a description of the devastating consequences of treating human activity, nature, and politically created purchasing power as commodities. The concept of "double movement"—which consisted of parallel attempts to eliminate the barriers to the functioning of the market economy and to resist, at the same time, the latter's consequences for human beings, nature, and industrial activity—is then introduced to explore the historical dynamics of the nineteenth century. The "countermovement" for the protection of society and nature was of vital significance, but it was not compatible with the market society itself. This incompatibility produced a series of strains and stresses, which ultimately destroyed the system to which self-regulating markets were central.

What we witness today is a resurrection of the market civilization, armed with novel mechanisms of regulation designed both to institute the market economy and to ensure its sustainability. The global reach of the self-regulating market economy seems to be the defining characteristic of the international developments of the 1980s, which involved a massive structural change through privatization, deregulation, and liberalization of trade and capital flows. In the same period, the emphasis of monetary restraint and budget discipline largely precluded the use of monetary and fiscal policy according to the requirements of productive activity. Production and distribution were to be left to the functioning of self-regulating markets guided by individual self-interest.

The steps taken in this direction necessarily required a good dose of government intervention to legislate the self-regulating economy into existence. Still, a firm connection was established between the retreat of the state and the advance of the market in political ideology and discourse. This was the time of the "Washington Consensus," when international financial institutions dictated the rules of the game for developing countries that had to financially stabilize and structurally adjust their economies according to the dictates of the global market.

In the 1990s, however, there was a clear shift in the ideological atmosphere and the regulating framework. The notion of "good governance" has emerged as a central component of the new "post-Washington Consensus." A significant characteristic of this contemporary context is the emphasis placed on the capacity of civic initiatives engaged in complex private-public partnerships in supporting good governance. What we observe today is a series of developments that together mark the rise of a consciousness of the fact that markets cannot function in a vacuum but require some kind of noneconomic intervention to ensure their economic efficiency and social viability. Yet the market continues to expand across the globe, and there are not many indications of a reversal of the trend toward the commodification of all aspects of life and livelihood. What, then, are the limits and political implications of the contemporary attempts to make the market economy compatible with human society?

This chapter tries to answer this question by revisiting Karl Polanyi's contribution in its contemporary relevance. It argues that Polanyi's analysis, which rests upon the role historically played by distinct principles of socioeconomic integration in determining the "place of the economy in society" and hence the coordinates of the "Livelihood of Man,"[4] might have certain limitations in the current global context where frontiers between the institutional domains in which these principles operate have become fluid and ambiguous. The developments that characterize the contemporary world economy indeed define more than a simple retreat of the state and make it difficult to clearly delineate the realm of state redistribution from the activities undertaken by nongovernmental organizations and the private sector to share the social responsibilities of the state. However, Polanyi's work remains a forceful source of insights for the analysis of the political implications of this contemporary regime of governance, which shapes the current form of the double movement and limits the possibilities beyond the neoliberal world economy.

Markets and Societies Today

How do the nineteenth-century developments discussed in *The Great Transformation* compare with those that mark the recent resurgence of the self-regulating market economy? To answer this question, one must recognize, first, that certain nonnegligible differences separated the market fundamentalism that reigned supreme in the 1980s from the characteristics of the policy environment that has emerged in the 1990s. This environment, regardless of its society-specific differences in different parts of the world, is defined by a governance regime where the role of the nation-state has significantly changed through a transfer of social responsibilities to non-state actors involved in diverse partnerships with public authorities.[5] The characteristics of this new regime are clearly reflected in the policy discourse adopted by the World Bank and extended to the approaches to economic development in general. As Joseph Stiglitz wrote in 1999, "Views about development have changed in the World Bank, as they have in the development community. Today there is concern about broader objectives, entailing more instruments, than was the case before."[6]

The change in question had to do with the recognition of the economic and social problems caused by the market-oriented reforms that were introduced in the 1980s. There was, specifically, a widespread acknowledgement of the fact that the faith in the ability of the self-regulating market to bring about economic prosperity and political stability was exaggerated and that there was need for deliberate policy intervention. Hence, the term "governance" has acquired a novel significance in the policy discourse. Some writers have interpreted this as a signal of the increased willingness to take the political dimension of development into account: "The recognition of the crucial role of the state in economic management and in the regulation and supervision of financial markets has conferred acute significance to the strengthening of good governance. Markets require a legal and regulatory framework that only governments can provide—appropriate legal and financial institutions and regulations ensuring sound financial and banking regulations, establishing oversight bodies and regulatory agencies."[7]

All this is in full conformity with what Polanyi meant when he wrote " . . . free markets could never come into being by allowing things to take their course . . . The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism."[8] In *The Great Transformation,* we find a detailed account of "the outburst of legislation" and "the enormous increase in the administrative functions of the state." There was, through the nineteenth century, just as there is today, a frenzy of legislative activity to reshape the material life of the society in a way to eliminate all types of intervention that could hamper the self-regulating character of the market economy.

However, the contemporary concept of governance refers to little more than one side of the double movement, the one that pertains to the deliberate policy action taken to institute the market economy. Another dimension pertains to the attempts undertaken by political and economic power holders to assure governability in a market-dominated economic order.

Encouraging social participation in market reforms is an important aspect of these attempts. Hence, assuring good governance for economic development, whose principles were systematically laid out in the 1997 World Development Report of the World Bank, significantly involves the empowerment of community organizations, and enhanced collaboration between civil society and local governments receives a lot of emphasis. In this regard, good examples that we find in World Bank publications include the collaboration between civil society and local governments to provide infrastructure to the poor, as in Colombia, or new partnership-based models for public service provision that incorporate "the dynamism of the private sector and community groups into public planning as in Karachi where such partnerships provide sanitation services for informal settlements."[9]

This appeal to nonmarket forms of socioeconomic interaction is not limited to the new development policy discourse but extends to developed countries of the North, where an "organized welfare mix" has given way to "fluid" ways of welfare provisioning in which partnerships between the state and civil society actors are important.[10] Especially in liberal welfare regimes, the emphasis on philanthropy constitutes an important aspect of this new development. In England, for example, one central idea that now dominates the electoral campaign is endorsed with equal fervor by the leaders of both the Labour and the Conservative Party: the idea that major problems that call for the provisioning of social services and assistance could be solved effectively if the third sector assumed many of the responsibilities hitherto assigned to the government. This marks a certain modification of conservative attitudes since the time when one of the leading proponents of market ideology, Margaret Thatcher, announced that "there is no such thing as society, there are only individuals and families." As an article in the *Economist* puts it: "The notion that voluntarism and social entrepreneurship are inherently superior to the dead hand of the state provision plays to the same sentiment as (the Tory leader) Mr. Cameron's elegant riposte to Margaret Thatcher that 'there is such a thing as society, it's just not the same thing as the state.'"[11]

One set of examples showing how social entrepreneurship could replace the state in providing social protection can be found in the broadly advertised philanthropic activities of global tycoons such as Bill Gates. In this regard, a truly striking case of gift giving has recently received widespread media coverage. The case concerns one of the world's richest men, Warren Buffet, donating $31 billion to the $29 billion charitable foundation run by Bill Gates and his wife, Melinda Gates, which is active in the area of combating poverty and disease and improving access to technology in the developing world. In response to a question about why these resources were not made available to the government for official aid, Buffet's reply was, "Bill and Melinda will do a better job than . . . the federal treasury."[12]

The reply is in full conformity with the spirit of our times, quite accurately described by an article in the *Guardian:* "The 19th century was the age of capitalism, the 20th the age of socialism. The 21st is to be the age of charity, or so we are given to hope."[13] Of course, the spirit in question is not entirely new. The belief in the superiority of private charity to public assistance has been a historically important aspect of liberal thought, explicitly developed, for example, in Tocqueville's *Memoirs of Pauperism.*[14] Polanyi himself mentions the place of this particular belief within liberal thought with reference to the questions that WilliamTownsend passionately raised in this regard: "Are the sentiments of charity not far nobler than those that flow from hard and fast legal obligations? . . . Can in nature anything be more beautiful that the mild complacency of benevolence?"[15]

Today, however, such sentiments are situated in societal contexts where they are supported by institutional arrangements that involve the state, which continues to exercise some control over welfare provision in a context of cogovernance.[16] Governments also play an important role in processes where voluntary action becomes salient by contracting out the provisioning of services, such as training programs for the disabled and the unemployed, to charities that consequently become huge enterprises with close links with the private sector.[17] In fact, in the countries of the North as in the countries of the South, what we are experiencing today is not simply the "retreat" of the state, but a "metamorphosis" whereby the political power becomes "diffused," "decentered," or privatized.[18] The voluntary sector is increasingly called upon to assume what were once the responsibilities of the state, and private-public partnerships of different kinds proliferate in areas hitherto considered to be the realm of state redistributive action.

What is important to note here is that this sharing of the prerogatives of the state is different from the post–Second World War European context of neocorporatism, where formal interest associations, empowered by the state, could have an important input in the policy process. Private foundations or NGOs, currently salient at local, national, and global levels, could hardly be said to conform to the well-defined norms of representation and accountability that the former state-empowered associations such as labor unions did. There can now be, and often is, a good deal of ambiguity concerning the sources of the nongovernmental actors' representational powers or the rules that define the nature of their relations with the state. This fluidity of state-society relations was highlighted by Neera Chandhoke, who problematized its implications for democratic citizenship:

> Democratic citizenship, at least as we know it in the twentieth century, has been dependent on a state, which recognizes rights as moral constraints on

> its power. Correspondingly, a modern state is not wholly incompatible with a state that is responsive to demands from civil society. It has to be strong in order not to get bogged down in pressure politics. Conversely, civil society needs to be somewhat autonomous from the state in order to acquire political competence, in order to chart out a discourse on what is politically desirable, and in order to hold the state accountable.
>
> New theories of governance, on the other hand tend to dissolve this division between the state and civil society.[19]

Since these new theories are in a coherent dialog with the patterns of socioeconomic integration in contemporary societies, the principle of exchange cannot be said to rule supreme in the current world order. How useful, then, is Polanyi's theoretical account of the nineteenth-century market economy to the analysis of our present?

According to one particular interpretation, the difficulty of explaining the contemporary state of affairs with reference to Polanyi's contribution may reflect the analytical weakness of the concept of disembeddedness. As Douglas North argued, "Price-making markets have never completely dominated economic decision making through history, *including* the nineteenth century. We do not observe resources being allocated by market prices inside households, voluntary organizations, and governments throughout the history."[20] The position that Mark Granovetter adopted on the subject is along the same lines and situated between "under- and over-socialized accounts of economic action." While Granovetter is critical of standard economic theory's atomized, undersocialized conception of human action, he also takes issue with the Polanyian position on the ground that "the level of embeddedness of economic behavior is lower in non-market societies than it is claimed by substantivists . . . and it has changed less with 'modernization' than they believe."[21] This particular position involves the emphasis of the importance of personal relations, relations of trust in particular, in modern capitalist economies.

There is no reason to believe that Polanyi would deny the impact of traditionally rooted relations and institutions on the material life of people and society, even in the high market age. Yet in the story of the disembedding of the economy from nineteenth-century society and the steps taken toward reembeddedness after the Second World War told in *The Great Transformation,* the role of reciprocity is practically absent. The story that Polanyi tells is basically one that involves the separation of the political from the economic, where redistribution and exchange, the state and the market have the leading role. Does the fact that the principle of reciprocity is so important to the contemporary emphasis of nonstate and nonmarket actors make this story inapplicable to the present situation?

What perhaps deserves more attention than Polanyi's neglect of reciprocity is the theoretical possibility of treating different principles of socioeconomic integration and their corresponding institutional patterns as neatly distinct from one another. Notwithstanding the questions that could be raised in this regard, the political implications of the contemporary governance regime could be assessed within the framework of Polanyi's analysis of a disembedded economy and its incompatibility with human life in society.

In Polanyi's work, the subordination of human society to the logic of the market in a way to undermine political will appears as the natural outcome of an economic order organized on the basis of commodity fiction. In this regard, there are obvious parallels between the contemporary trends observed in the world economy and the nineteenth-century developments analyzed by Polanyi.

It would indeed be difficult not to see how far contemporary societies have gone in the organization of markets for labor, land, and money, and how strong the pressures in the same direction still are. It would be difficult not to see how flexible employment practices, accompanied by the weakening of labor unions, leave workers without security; how commercialization of agriculture is leading to massive social dislocations whereby ever-increasing numbers of people leave the agricultural sector to settle in the slum areas of cities, where they have almost no chance of ever finding regular employment;[22] and how unregulated capital flows leave governments powerless to control purchasing power and regulate productive activity in a way to protect jobs and incomes. To these developments one could also add the trends toward the commodification of human knowledge, analyzed in the chapters in the third section of this volume. From a Polanyian perspective, then, one could hardly imagine that the economy is now embedded in society because there is voluntary gift giving by global business tycoons or because civil society associations that operate at international, national, and local levels share some of the responsibilities that states should normally assume, receiving, at the same time, publicly provided support for their activities.

It is possible to suggest, however, that the institutional setting of the contemporary market economy is of a nature to create what one could call "an illusion of embeddedness." This is an illusion that sustains the belief that economy and society cannot and should not be modified through deliberate state intervention. In Polanyi's work we find a thorough analysis of this typically liberal belief that is developed with reference to the "denial of the reality power" that it reflects. The insights provided by this analysis could be highly useful to the attempts to understand the current political situation in the global market economy.

Polanyi on the Reality of Power and the Basis of Freedom in a Complex Society

According to Polanyi, nineteenth-century society, with its specific way of understanding and organizing itself, was no longer a "political society." This idea, which has a central place in the *Great Transformation,* is developed with reference to the crucial rift that, for Polanyi, separates the moral essence of Adam Smith's work from the biological analogies with which Townsend analyzed social order in his *Dissertation on the Poor Laws.* As Polanyi put it,

> The change of atmosphere from Adam Smith to Townsend was, indeed, striking. The former marked the close of an age which opened with the great inventors of the state, Thomas Moore and Machiavelli, Luther and Calvin; the latter belonged to the nineteenth century in which Ricardo and Hegel discovered from opposite angles the existence of a society that was not subject to the laws of the state, but, on the contrary, subjected the state to its own laws.[23]

The centrality to the rise of liberal thought of a particular imagination of society as distinct from the realm of politics is also analyzed by Stephen Wollin. As Wollin, and later Margaret Somers, argued, this liberal imagination significantly involves a contrast between what is spontaneous and natural on the one hand, and what is artificial and arbitrary on the other.[24] The liberal outlook rests upon the conceptualization of society as the realm of natural phenomena and of the state as a force outside society, artificially and arbitrarily interfering in the natural course of human affairs. The development of this particular outlook was accompanied by efforts to understand the laws governing society as a spontaneous order. These laws were found in the functioning of the economy in such a way that society was largely reduced to the totality of economic activities.

What is observed, through the rise of liberal thought is, therefore, a twofold process whereby society as a natural order is separated from the artificial realm of the political and is identified with the economic. Polanyi brought together the two aspects of this development by raising the following question: "What maintained balance and order in this human collective which neither invoked nor even tolerated the intervention of political government?"[25] He then wrote that Townsend's biological analogies offered one answer to this question:

> Thus it came to pass that economists presently relinquished Adam Smith's humanistic foundations, and incorporated those of Townsend. Malthus's population law and the law of diminishing returns as handled by Ricardo

> made the fertility of man and soil constitutive elements of the new realm the existence of which had been uncovered. Economic society had emerged as distinct from the political state.
>
> The circumstances under which the existence of this human aggregate—a complex society—became apparent were of the utmost importance for the history of nineteenth century thought. Since the emerging society was no other than the market system, human society was now in danger of being shifted to foundations utterly foreign to the moral world of which the body politic hitherto had formed part.[26]

The question that emerges with the contemporary developments in our age of voluntary initiatives and philanthropic deeds is the following: Does a nonpolitical society, a society which no longer "invoke[s] nor even tolerate[s] the intervention of political government," have to be, necessarily, an economic society? Could the economy not be embedded in society in other ways than those that involve state intervention?

In *The Great Transformation,* the most explicit treatment of this question is found in the discussion of Robert Owen's contribution to what Polanyi described as "the persistently sought aim of the evolution of social thought" in nineteenth-century consciousness, namely "the reintegration of society into the human world."[27] Among all the nineteenth-century social thinkers, Robert Owen is the one for whom Polanyi had the greatest respect and admiration. Owen, Polanyi wrote, "was deeply aware of the distinction between society and state: while harboring no prejudice against the latter, as Godwin did, he looked to the state merely for that which it could perform; for helpful intervention designed to avert harm from the community, emphatically not for the organizing of society."[28]

Owen did not call upon the state to organize the complex society that had emerged after the Industrial Revolution, but he thought that its intervention was of crucial significance for the survival of the latter. This modern society was shaped by the destruction of traditional relations. People were no longer bound by these relations, which had hitherto provided the norms of conduct that held society together. As Polanyi wrote, "The Industrial Revolution was causing a social dislocation of stupendous proportions, and the problem of poverty was merely the economic aspect of this event. Owen justly pronounced that unless legislative interference and direction counteracted these devastating forces, great and permanent evils would follow. He did not, at this time, foresee that the self protection of society for which he was calling would prove incompatible with the functioning of the economic system itself."[29]

This observation rested upon two parallel incompatibilities: On the one hand, the disembeddedness of the economy manifested in the institutional arrangements based on the commodity fiction was not compatible with human society. On the other hand, the legislative action taken to protect society was not compatible with the market economy. It was the spontaneous reaction of society to the annihilating forces of the market system that called for state intervention, but the latter generated disruptive strains leading to the economic and political crises of the first half of the twentieth century that ushered in a new world order after the Second World War.

Implicit in this particular historical interpretation is an assessment of the place of political rights in a market society. According to Polanyi, universal suffrage became the most systematically and persistently articulated popular demand in England as the market society expanded. As he put it, "The more viciously the labor market contorted the lives of the workers, the more insistently they clamored for vote."[30] Yet, as he argued, it could hardly be expected to see the masses, whose lives were being devastated by the market society, granted the right to have a say in the administration of that very society. Hence, the liberals ardently opposed the Chartist's demand for universal suffrage on the ground that this would be a fatal blow to "the institution of property on which whole civilization rested."[31]

Today, the countermovement, which, in Polanyi's analysis, refers to a spontaneous alliance of different segments of the population that has led to the articulation of demands placed on the state for protective legislation to take fictitious commodities out of the orbit of the market, cannot be said to manifest itself in a comparable manner. This is not to say that the expansion of the market in the post-1980 period has not met with any resistance. Yet political authorities have not been pressured in the same way by popular demands for the reversal of the steps taken toward liberalization, privatization, and deregulation.

This is not unrelated to the extremely low tolerance for state intervention, which is succinctly expressed by a popular slogan of the neoliberal times: "The state is not the solution to our problems, the state is the problem." The idea expressed by this slogan is not, of course, any different from the liberal ideas that shaped the nineteenth-century market civilization Polanyi discussed at length in *The Great Transformation.* There is, however, something different between these two periods in question. In the post-1980 period, many people, including the leftists, who previously would have defended interventionism against the liberal position, were now reluctant to defend an active state.[32]

This change of leftist attitude toward the expansion of the market is reflected in certain attempts to use the Polanyian idea of the countermovement in the analysis of contemporary neo-liberalism and the reaction to it. At the first International Karl Polanyi Conference held in Budapest in 1986, Bjorn Hettne stated that "reciprocity may be seen as the response to current crisis, going beyond both market and state solutions."[33] The view that the burden of the countermovement was shifted from the state to the society, that the state could no longer be relied upon to deal with the crises engendered by the market economy, appear integral to some of the ways in which Polanyi's ideas have recently been used to explain current trends in the global economy.[34]

Current historical conjuncture has many elements that could explain this loss of faith in the state shared by the left, including some of the Polanyian left. Political disillusionment caused by the failure of the twentieth-century socialist experiments is one of these elements. At another level, the massive dimensions of economic relations spread across the globe might make the task of regulating these relations seem too complex to be realistically undertaken by the state. However, one could also seek the factors behind the declining expectations from the state in the changes that are taking place in the nature of the state itself.

In the contemporary context, where political power becomes "diffused" and "de-centered," where new forms of "governance" render the boundaries of the realm of redistribution fluid, it is probably not very surprising to see that forms of resistance to the market themselves become less focused as to whom they address their complaints and demands. One outcome of this situation is the localization of political engagement, which comes to concentrate on problems of immediate concern to the daily life of the local community and its improvement.[35] Along with community engagement to improve the provisioning of public services, we also witness the increasing importance of certain networks that challenge the market system through the values and alternative lifestyles that characterize their daily existence. We find examples of such movements in voluntary groupings such as the "slow food movement," but resistance to the threat presented by the market economy to alternative values and lifestyles also comes from communities based on religious and ethnic identity.[36]

These different forms of resistance are not apolitical. They often involve demands to modify existing institutions and forms of state-society interaction. However, the types of political engagement that they present are of a nature to limit the scope of the change that they could bring about. They entail, for example, the danger of "balkanization of politics," whereby the political horizon of people is restricted in a way to preclude the formulation of wider transformative agendas beyond the improvement of specific communities' daily existence. Even at the community level, it is not clear how political action undertaken in the absence of a well-defined institutional setting of representation and accountability would be able to deal with background inequalities and handle power relations without compromising the interests of the less powerful.[37] Another disturbing question emerges in relation to possible conflicts between the advocacy function of the civil society associations and the newly significant role they play in assuming or sharing the social responsibilities of the state. In other words, one could ask whether the context of these associations' partnership with the state is one in which they can continue to exert pressure on public authorities to take legislative action to contain and to control the market.

It is possible to suggest that behind all these different problems there is a general decline in the significance of electoral politics in determining the ability of people to affect the coordinates of their economic livelihood. With the state ceasing to be the only locus of power to which popular demands are addressed, the challenge of political democracy to the existing social order has also ceased to be important. Hence, the incompatibility of market economy with political democracy that Polanyi discussed with reference to the Chartist movement has become easier to resolve. In fact, in the current global situation, where the violation of human rights in any given country is met with a strong global reaction, and many repressive regimes are being replaced by electoral democracies, people remain practically powerless to bring about any change in the nature of the socioeconomic order.

However, people do react to this loss of electoral power within or outside normal political processes. For example, the results of the Dutch and French referenda on the European Constitution could be explained with reference to the electorates' concerns about their increasing inability to influence the policy processes.[38] Yet, more alarming types of popular reaction could also be expected. Hence, some writers refer to the current demise of electoral politics in an attempt to explain the ability of terrorist groups to recruit supporters in poor countries of the South.[39]

In this setting, where an active state responsive to and responsible for people's needs ceases to be the central actor in economic and social policy process, it becomes worthwhile to remember two questions systematically pursued by Polanyi: Can the individual be free in a society where the institutional organization of the economy rests upon the treatment of human productive activity, nature, and politically created purchasing power as commodities? Is freedom possible in a setting where the reality of power is denied?

Polanyi's answer to both questions was negative. He thought that the regulation of the economy to put an end to the commodity fiction was the only means of spreading and strengthening freedom in a complex society. Otherwise, the idea of freedom would simply "degenerate into a mere advocacy of free enterprise."[40] The advocacy of free enterprise, according to Polanyi, constitutes the characteristic feature of the liberal position, where the threat to freedom is merely associated with political repression. This position is clearly reflected in the Hayekian idea of "the road to serfdom" paved with regulation and planning, an idea that presents the economy as a spontaneous order where power and compulsion are absent.

According to Polanyi, power and compulsion appear as necessary elements of any society: "Accepting the reality of society is accepting the reality of power." He argued, in fact, that the main factor leading to the rise of fascism was the liberals' refusal to use state power to maintain the cohesion of society: "The victory of fascism was made practically unavoidable by the liberals' obstruction of any reform involving planning, regulation, or control. Freedom's utter frustration in fascism is, indeed the inevitable result of the liberal philosophy, which claims that power and compulsion are evil, that freedom demands their absence from a human community. No such thing is possible; in a complex society this becomes apparent."[41]

In both *The Great Transformation* and his essay "The Essence of Fascism,"[42] Polanyi compared the liberal denial of society, which rests upon the rejection of political intervention, to the fascist affirmation of the society, which leaves no room for the right to nonconformity. Polanyi believed in the possibility of finding an alternative to both liberalism and fascism, an alternative where the institutions that would protect and expand the realm of individual freedom would be deliberately designed and redesigned. "As to personal liberty," he wrote, "it will exist to the degree in which we will deliberately create new safeguards for its maintenance and, indeed, extension. In an established society, the right to nonconformity must be institutionally protected."[43]

Right to nonconformity was, in Polanyi's words, "the hallmark of a free society." Hence, he wrote that:

> Every move towards integration in society should thus be accompanied by an increase in freedom; moves toward planning should comprise the strengthening of the rights of the individual in society. His indefensible rights should be enforceable under the law even against the supreme powers, whether they be personal or anonymous.[44]

Conclusion

Polanyi thought that in a complex society individual freedom, unless it is identified with free enterprise, could only be protected by the nation-state, through deliberate political intervention in economic and social life. This position is firmly rooted in his theoretical analysis of a self-regulating market society characterized, first and foremost, by deliberate attempts undertaken to organize the economy and society in conformity with the commodity fiction. Just as the markets for fictitious commodities are organized by legislation, legislative action is required to take them out of the orbit of the market.

In *The Great Transformation*, the criticism of the liberal denial of the reality of power has a central place. This criticism is based on Polanyi's theoretical appraisal of the problems involved in the institutional separation of the political from the economic, which would reduce the society to a mere appendage of the market. In a modern complex society, where the institutional setup of the economy is designed on the basis of the commodity fiction and the principle of noninterventionism, this outcome appears inevitable. But Polanyi's analysis also shows that society would necessarily react to such a state of affairs and the reaction would not necessarily take on morally and politically desirable forms. If state intervention deliberately directed both at the protection of life and livelihood and the expansion of individual freedom is systematically blocked, the end result might not be more liberty at the expense of security, but a "total frustration of liberty," as in the context of the fascist experiment Polanyi discussed within the analytical framework presented in *The Great Transformation.*

Our contemporary neoliberal world, where the emphasis placed on voluntary gift giving, civil initiatives, and romantic notions of civil society are used to hide the reality of an unprecedented commodification of life and livelihood on a global scale, is less equipped than ever to appreciate the implications of the liberal denial of power and take action against them. In such a setting, Polanyi's work remains a forceful statement of the fact that people cannot be free in a society where commodity fiction forms the basis of economic organization and national political authorities do not or cannot assume responsibility for the welfare of people.

Notes

1. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston, MA: Beacon Press, 1947), 68.
2. Ibid., 3.
3. Ibid., 72.
4. This is the title of a posthumously published book by Polanyi. Karl Polanyi, *Livelihood of Man*, ed. H.W. Pearson (New York: Academic Press, 1977).
5. Bob Jessop, "The Changing Governance of Welfare: Recent Trends in Primary Functions, Scale, and Models of Coordination," *Social Policy and Administration* 33, no.4 (1999): 343–59.
6. Joseph Stiglitz, "The World Bank at the Millennium," *The Economic Journal* 109 (November 1999): 577–97, 587.
7. Carlos Sandiso, "Good Governance and Aid Effectiveness: The World Bank and Conditionality," *The Georgetown Public Policy Review* 7, no.1 (2001): 1–22, 16.
8. Polanyi, *Great Transformation*, 139, 140.
9. World Bank, *World Development Report 1999/2000* (Oxford: Oxford University Press, 2000): 122, 145.

10. See, especially, Ingo Bode, "Disorganized Welfare Mixes: Voluntary Agencies and New Governance Regimes in Western Europe," *Journal of European Social Policy* 16, no. 4 (2006): 346–59.
11. *Economist*, "The Fight over a Big Idea" (July 22–28, 2006), 44.
12. Simon Jenkins, "The Welfare State Is Waning. Bring on the Philanthropists," *The Guardian*, June 28, 2006.
13. Ibid.
14. A. de Tocqueville, *Memoir on Pauperism*, ed. G. Himmelfarb (Chicago: Ivan R. Dee, 1997).
15. Quoted in Polanyi, *Great Transformation*, 118.
16. Bode, "Disorganized Welfare Mixes."
17. See, for example, David Hencke, "Government Turns Charities into Multimillion-Pound Businesses," *Guardian*, July 3, 2006.
18. The authors who use these terms do so in different paradigms of political power and state action. The terms together indicate, however, a major change from the standard forms of the modern bureaucratic state toward formations where the boundaries between the political and the nonpolitical become blurred. See, especially, Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy* (Cambridge: Cambridge University Press, 1996); Neera Chandhoke, "Governance and Pluralisation of the State: Implications for Democratic Practices in Asia?" Paper presented at International Conference on Governance in Asia: Culture, Ethnic, Institutional Reform, and Policy Change, City University of Hong Kong, December 5–7, 2002; and Béatrice Hibou, "From Privatising the Economy to Privatising the State: An Analysis of the Continual Formation of the State," in *Privatising the State* (London: Hurst & Company, 2004), 1–47.
19. Chandhoke, "Governance and Pluralisation of the State," 16–17.
20. Douglas North, "Non-Market Forms of Economic Organization: The Challenge of Karl Polanyi," *Journal of European Economic History* 6 (1977): 703–16, 709.
21. Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *The American Journal of Sociology* 91 (1985): 481–510, 482.
22. See Mike Davis, *Planet of Slums* (London: Verso, 2006).
23. Polanyi, *Great Transformation*, 111.
24. Stephen Wollin, *Politics and Vision* (Boston: Little, Brown and Company, 1960); and Margaret Somers, "Romancing the Market, Reviling the State: Historicizing Liberalism, Privatization, and the Competing Claims to Civil Society," in *Citizenship, Markets and the State*, ed. Colin Crouch, Klaus Eder, and Damian Tambini (Oxford: Oxford University Press, 2001), 23–48.
25. Polanyi, *Great Transformation*, 115.
26. Ibid., 115–16.
27. Ibid., 126.
28. Ibid., 127.
29. Ibid., 129.
30. Ibid., 225.
31. Ibid.

32. On this subject, see, for example, Archon Fung and Erik Olin Wright, "Deepening Democracy: Innovations in Empowered Participatory Governance," *Politics and Society* 29, no.1 (2001): 5–41.
33. Bjorn Hettne, "The Contemporary Crisis: The Rise of Reciprocity," in T*he Life and Work of Karl Polanyi*, ed. Kari Polanyi-Levitt (Montreal: Black Rose Books, 1990): 208–20, 208.
34. Stephen Gill, "Theorizing the Interregnum: The Double Movement and Global Politics," in *International Political Economy: Understanding Global Disorder*, ed. Bjorn Hettne (London: Zed Books, 1995): 65–99; and Marguerite Mendell, "New Social Partnerships: Crisis Management or A New Social Contract?" in *Urban Lives*: *Fragmentation and Resistance,* ed. Vered Amit-Talai and Henri Lustiger-Thaler (Montreal: Black Rose Books, 1994): 71–92.
35. For an analysis of the new political significance of urban community movements developed on the shifting boundaries of the state and civil society, see Henri Lustiger-Thaler, "Community and Social Practices: The Contingency of Everyday Life," in *Urban Lives: Fragmentation and Resistance*, 20–44. See also the discussion of a progressive institutional reform model based on certain attempts undertaken by ordinary people at a local level, to redesign democratic institutions in a way to deal with the problems that existing economic and political mechanisms fail to adequately address: Fung and Wright, "Deepening Democracy."
36. James H. Mittelman, *The Globalizing Syndrome: Transformation and Resistance* (Princeton: Princeton University Press, 2000): 166–72.
37. Fung and Wright present a thorough discussion of such problems in relation to the model of "empowered deliberative democracy" that they develop: Fung and Wright, "Deepening Democracy."
38. Anthony Giddens, Patrick Diamond, and Roger Liddle, eds., introduction to *Global Europe and Social Europe* (Cambridge: Polity, 2006): 1–13, 12.
39. James Putzel, "Politics, State and the Impulse for Social Protection: The Implications of Karl Polanyi's Ideas for Understanding Development and Crisis," (working paper series no.1, Crisis States Program, Development Studies Institute, London School of Economics, 2002).
40. Polanyi, *Great Transformation,* 257.
41. Ibid.
42. Karl Polanyi, "The Essence of Fascism," in *Christianity and Social Revolution,* ed. J. Lewis, K. Polanyi, and D. K. Kitchin (London: Victor Gollanz, 1937): 359–94.
43. Polanyi, *Great Transformation*, 255.
44. Ibid.

10

Reforming East Asian Labor Systems: China, Korea, and Thailand*

Frederic C. Deyo and Kaan Ağartan

Just as Karl Polanyi described the "countermovement" of society to contain and repair the disruption caused by the attempted instituting of free markets in nineteenth-century England, so we have reentered a period of social reconsolidation and renewal following two decades of sustained and sometimes forcefully imposed market liberalization, particularly in developing countries. While this most recent countermovement is global in scope, it is perhaps most visible and dramatic among those rapidly growing capitalist and transitional economies of East Asia collectively referred to as the "Asian Tigers." In recent years, these economies have reinvented themselves as they shifted from guided or state-led development to market-oriented reform and external liberalization, after which they encountered a difficult period of economic crisis and social turmoil, rooted in part in the tensions and disruptions of continuing market reform.[1] In response to these emergent difficulties, the Tiger economies have now embarked on a new development journey into relatively uncharted territory.

Given the increasingly important role of the East Asian Tiger economies in redefining agendas of globalization and reform, it is not surprising that so much is now being written on social development in the region.[2] Our goal here is somewhat different: to build on this growing literature to suggest an analytical framework within which to understand

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and integrate that literature—and the evolving experience it reflects—in a way that foregrounds and emphasizes the foundation of all social economies: the labor systems that harness society to the requirements of economic accumulation.

This chapter explores the recent experience of market-oriented economic reform and restructuring in East and Southeast Asia, with particular emphasis on Thailand, China, and South Korea.[3] It argues that reform in these countries, as elsewhere in the region, has increasingly encountered its own social and political limits as seen in a redirection and slowing of market reform as well as renewed efforts to protect society from its destabilizing effects. Our approach seeks to identify the social and institutional tensions associated with reform: tensions that have in turn driven recent redirections in the reform process at global, national, and enterprise levels.[4]

Reforming Asian Labor Systems

Our account is organized around the concept of labor systems:[5] the institutionalized social processes through which particular types of labor[6] are socially reproduced, protected, mobilized, and allocated via markets or other social arrangements into productive activities, managed and motivated at sites of production, and valorized into profit or surplus.[7] A labor-systems approach permits us to identify and locate the often-destabilizing outcomes of market reform for labor institutions.

The manner in which market reforms may create institutional tensions as well as political opposition was perhaps most forcefully articulated in Karl Polanyi's seminal account of the disastrous social outcomes of market liberalization in nineteenth-century England. More recent accounts of the tensions between market and society have emphasized the socially destructive, self-contradictory, and antidevelopmental aspects of the market reforms associated with globalization and most prominently encouraged and sanctioned by the U.S. government, the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), and, somewhat less stridently, the World Bank.

In discussing the social tensions of economic reform and policy accommodations in developing Asian countries, it is necessary to disentangle the effects of reform from those of the financial and economic crisis of the late 1990s. We suggest that the crisis had two conflicting outcomes for economic and social reform. First, the crisis was widely viewed as both exposing and exacerbating the negative effects and increased economic and social vulnerabilities attendant on economic reform, outcomes that politicized the reforms and hardened opposition among those most affected. Second, even as the crisis led some to question the major tenets of reform and the multilateral agencies that promoted it,[8] it had the broader and more enduring effect of enhancing the social and political sustainability of a more socialized version of reform by forcing the enactment of a variety of programs to protect workers and domestic firms against the market vulnerabilities that the crisis had so clearly exposed.

This chapter contrasts the diverse experiences of reform in Thailand, South Korea, and China during the last two decades, focusing mainly on those economic reforms of greatest direct importance for labor. Here we particularly address labor-market deregulation, privatization of state enterprises, and external liberalization of trade and investment, noting more briefly two additional types of reform: the marketization of social services and their devolution to autonomous or private sector providers, and reduced subsidies for urban consumers and agricultural producers.

The first of these reforms, labor-market deregulation, has as its primary goal the enhancement of labor-market efficiency and flexibility by freeing labor markets from the institutional rigidities imposed by government intrusion, trade unions, and social obligation. To give but one example, Chinese agricultural reforms and relaxation of residency requirements created a vast pool of mobile labor free to migrate to cities and coastal areas where new industrial and service jobs are being generated.[9]

Labor-market deregulation comprises a direct, *policy-based* program of labor reform, as when a government eases state regulation of labor markets and employment practices. More often, however, such institutional deregulation takes indirect or *structural* forms, as when privatization of state-owned enterprises (SOE) casualizes or informalizes work by pushing workers out of the regulated world of state ownership and into the relatively unregulated sphere of private employment; when increased capital mobility undercuts the power of trade unions or governments to regulate work rules and pay standards, mandatory employment benefits, and severance pay; or when rapid growth in labor-intensive export-processing activities expands zones of relatively unprotected work. In these and other ways, labor systems are partially freed from the rigidities of institutions organized around social rather than only economic agendas.[10]

Following Polanyi's discussion of the political response of society to social and cultural dislocations resulting from the attempted commodification of labor, a critical literature[11] on contemporary market reform has noted the ways in which the reforms have indeed exceeded their sustainable institutional limits in two important senses. First, reform policies may create the conditions for social and political tensions as market reforms drive a wedge between the needs of society and the requirements of a globalizing economy; second, they may undermine market efficiencies themselves by weakening and disorganizing those institutionalized processes through which labor and other economic factors are transformed and utilized. While we address both these closely intertwined issues, our major contribution relates to the second dimension of reform and to the changed role of the state in managing this difficult institutional transition within the constraints of political contestation.[12]

Social and Institutional Tensions of Reform

Compromising the Social Reproduction and Protection of Labor

Market reforms threaten worker livelihood and economic security by shifting the costs of social reproduction and market risk from employers and states to families and communities.[13] In many developing countries, especially under IMF debt-restructuring agreements, reform-driven reductions in state subsidies and services undermine the social wage of urban populations.[14] Various forms of labor market deregulation[15]—whether policy-based or structural—further undercut social livelihood. Policy-based deregulation diminishes the legal obligations of employers in the areas of pay, benefits, job security, pensions, and the like.[16]

Conversely, the privatization and corporatization of SOEs is one of the most contentious *structural* forms of deregulation, provoking organized opposition on the part of previously protected state workers. In China, state enterprise reform has been associated with the shedding of tens of millions of jobs that, while offering relatively low pay, had provided a variety of job benefits collectively referred to as the "Iron Rice Bowl." The expansion of export-processing zones, in which large numbers of low-skilled, often female, workers are employed in factories that produce goods for world markets, has a similar outcome. Growth in these zones enlarges the scope of the formal (registered, legally covered) sector, although, contrary to expectation, workers in this formal sector are relatively *unprotected*[17] insofar as cost-driven labor systems in the zones offer but minimal pay, benefits, and job security.[18] Indeed, high labor turnover in these zones is not entirely unwelcome, as it keeps pay levels down and thwarts the formation of worker organizations that might push for better employment conditions.[19]

Trade liberalization has played an important role in undercutting social livelihood as well. Liberalization threatens formal sector workers in previously protected economic sectors[20] as employers react to intensified market pressures by cutting costs, downsizing, outsourcing, casualizing work, and reducing benefits. In many cases, relaxed government enforcement of existing labor laws, in part based on the same logic of cost cutting to meet new competition, has intensified this threat.

Reduced state regulation does not necessarily lead to compromised employment conditions for all workers, however. When states deregulate, employers may protect their skilled, core workers from direct labor-market competition, though they often compensate for this burden through increased reliance on casual, temporary, and subcontract labor in noncore activities, thus further reinforcing tendencies toward workforce dualism and inequality.[21] In addition, lack of protection or safety-net provisions for the growing number of unprotected workers further reduces their motivation to enter employment they perceive to be precarious. This problem is particularly acute among lower-skilled workers whose commodification is most evident in the rapidly growing export-processing sectors in Asia's economies.[22] As employers externalize the costs of social reproduction to society, families and communities are forced to draw on other economic resources and to rely on social and family networks to subsidize family member participation in labor markets. The greatest burden falls on women, who are both major providers in the area of social reproduction and heavily represented among unskilled casual workers, thus exacerbating these social tensions of deregulation.[23]

A case in point is the extensive reliance in China and Thailand on casual or seasonal migratory labor. Rural families and communities become in essence labor reserves as they assume the burdens of labor force reproduction, maintenance, and protection.[24] In China, lack of citizen-based entitlement to social services and support for migrant workers in coastal Chinese export-processing areas provide the formal institutional basis for such externalization of reproductive costs.[25] Employers may rely heavily on social networks and rural families not only for recruitment of the many young female workers needed for export-assembly operations, but also to absorb the costs of preparing and motivating these workers to enter the workforce and to support them when their labor is no longer needed.[26]

Compromising social reproduction also impinges on the strategies of governments as the progressive passing on of both social reproduction costs and market risk to families and communities generates institutional problems. One of the problems relate to the diminished capacity of these communities to support workers and their dependents during economic downturns and times of heightened unemployment. This became dramatically evident in late 1997, the first year of Thailand's financial crisis, when employers and government agencies encouraged Bangkok's laid off workers to return to their home communities in the rural northern and northeastern regions of the country. In some cases, these communities could no longer reabsorb returning family members, thereby transferring the social problems of urban unemployment to rural villages.[27]

Undermining Control in the Labor Process

Labor deregulation undermines labor controls and discipline at the point of production in ways rarely acknowledged by positive, mainstream accounts of the benefits of market incentives. In human capital–intensive and developmental labor systems,[28] employers seek to capitalize on the knowledge, capabilities, and inventiveness of skilled (and relatively costly) labor through the creation of "mutual commitment" employment relations based on incentives designed to elicit full engagement and participation rather than only sullen compliance. These incentives may include some combination of job security and benefits, accommodation of personal and family needs, investment in training and career building, and delegation of operational decision making. Such provisions make the employer-worker relationship more collaborative and reflect the employer's commitment to the worker's well-being and future prospects. To the extent that competitive pressures undermine this collaboration, a cornerstone of work commitment and developmental upgrading is lost.[29]

A similar challenge to managerial authority occurs in the state enterprise sector, where the pressures of marketization erode normative controls rooted in paternalism and employment security. Under heightened competitive pressures, state enterprises are forced to abrogate many of their traditional employment obligations through reduction of job benefits and gradual replacement of protected regular-status workers by contract workers or outsourcing. Across Asia, SOE marketization and privatization have provoked sharp opposition and protest from workers. As layoffs of state enterprise workers in China continue, industrial disputes and informal worker demonstrations have increased by roughly 30 percent a year.[30] Thai SOE workers, whose unions or employee associations[31] comprised the backbone of the Thai labor movement for several decades, mounted effective opposition to privatization. And in Korea, the militant and independent Korean Confederation of Trade Unions (KCTU) draws substantial membership and support from workers in state enterprises threatened by privatization.

Workers who migrate to the expanding export-processing zones face a similarly abrupt transition from accepted patterns of authority: in this case from the family or personal discipline they knew within small firms or on farms, to the disciplinary power of impersonal labor markets in larger factories.[32] Here the outcome is less one of worker protest than of disruptive rates of absenteeism, job turnover, low morale, and resistance, not to speak of difficulties in recruiting and training new workers on a continuing basis.

In smaller domestic firms, both family workers and paid nonfamily employees may operate in a relatively personal system of mutual commitment. This system draws on relationships of mutual support and trust to sustain unpaid family labor, to maintain paid employment during unprofitable periods when wages cannot be paid, and more generally to encourage loyalty and commitment, if not skill and enterprise. Where these smaller firms act as suppliers of goods or services to larger client firms, intensified reform-driven competitive pressures may be transferred down supply chains to doubly impact local firms. In this situation, local firms are forced to rely ever more heavily on familial obligation (whether appropriately termed paternalism or not) to sustain operations during chronically difficult times. But since the sustaining of mutuality in such firms depends on periodic financial "recapitalization" during more profitable periods, trade liberalization may have the effect of generating such unrelenting competitive pressure—particularly among lower-tier informal-sector suppliers—as to preclude this necessary occasional resuscitation. If the chronic exploitation of social relationships exhausts domestic labor systems, both local firms and the families in which they are embedded may fail.

Under reform, these varied situations of production share two institutional problems: the first rooted in normative conflict between different, concurrently existing forms of labor control; the second institutional problem flows from the transition to new forms of control. Both state-owned and private sector firms respond in part to new competitive pressures by increasing reliance on casual and contract workers. Hagen Koo[33] notes that Korean firms have dramatically increased their temporary and part-time employment and subcontracting to enhance flexibility. The market-governed employment practices experienced by growing numbers of irregular workers define a stark and unacceptable contrast to the employment conditions enjoyed by technical, skilled, and supervisory workers and by permanent semiskilled workers within the same firms. Especially problematic is the situation in which equally skilled and comparably tasked workers, in many cases working side by side, have vastly different terms of employment depending on whether they are in-house workers or employees of supplier or outplacement firms. Segmented and unequal work situations generate resentments and conflicts that may undermine production.

Secondly, both labor-market deregulation and SOE privatization imply an erosion of existing and expected patterns of mutual obligation. As social regulation gives way to the impersonal governance of markets, expedience, power and exploitation displace obligation in labor recruitment and the sphere of production. Thus, when companies and governments seek to institute or stabilize new forms of labor regulation, they may face paralyzing conflict and anomie as workers invoke the norms of the old system in protest.

A frequent outcome of Asian labor deregulation is a progressive undermining of associative or collective employment regulation through government-linked union federations. In China, the uneven and contested decline[34] of the SOE sector alongside rapid growth in private sector and foreign-enterprise employment implies a gradual attenuation of state-organized controls through the quasi-official, Communist Party-based All China Federation of Trade Unions (ACFTU). Similarly, South Korea's government-linked Federation of Korean Trade Unions (FKTU) has been partially displaced by the more militant KCTU, whose independence from government control erodes workforce discipline. In both cases, loss of corporatist union-based controls destabilizes workplace authority and encourages militancy among workers.[35]

Compromising Development

The ways in which economic reform compromises and undermines labor systems also speaks of prospects for continued development. Deficits in the social reproduction of labor present a range of antidevelopmental outcomes extending from poor health and substandard basic education to shortages of highly educated and technically skilled workers, and to inadequate research and development (R&D) capabilities. Similarly, the competition-driven displacement of mutual-commitment employment systems by market-based shop-floor discipline undercuts quality and innovation by exacerbating conflict and reducing communication and trust.[36]

As mentioned earlier, firms may respond to deregulation by protecting core employees while leaving nonessential workers more vulnerable. In this scenario, firms take a long-term view, enhancing their competitiveness and adaptability by investing in human capital and organizational restructuring. In support of such efforts, firms may offer benefits and positive employment conditions to some workers to ensure their continued loyalty and returns to company training costs, even as other less-skilled, noncore workers disproportionately absorb the costs of restructuring. In reality, however, accelerated trade liberalization may only reinforce cost-driven strategies that take full advantage of a natural comparative advantage in cheap labor without encouraging efforts to upgrade into higher-value economic activities.[37] With the weak or diminished countervailing influence of trade unions, labor-market deregulation may thus have a mainly antidevelopmental effect: undermining progressive labor practices even among core workers by shortening firms' time horizons and rendering employee and organizational improvements prohibitively expensive in the face of immediate competitive threats, both domestic and international. As labor-market deregulation displaces labor upgrading with cost-driven practices, long-term competitiveness and industrial development are also compromised by market-driven employment relations. Rising employee turnover rates, a consequence of both casualization and poor morale, further discourage expensive developmental training programs. Finally, heightened cost pressures on suppliers may damage essential supply chains as small and family businesses[38] fail, especially during market downturns or crises. Here, economic liberalization paradoxically threatens the operations of transnational firms that are themselves among the most powerful advocates of continued reform.

Emergent Tensions of Social Disintegration and Disorder

There remains the larger question of the implications of market reform for social integration and stability. This question is too broad to be adequately addressed here, other than to point out a few prominent strands in current critiques of the effect that economic reform has on social order. First of course is the matter of growing social inequality, a frequent result of early stages of market reform:[39] excessive reliance on markets gradually displaces citizen-based entitlements, the social wage, and income redistribution policies. Dualistic corporate labor practices and other structural outcomes of reform are also sources of inequality, as they heighten the exclusion of marginalized groups, encourage the withdrawal of economically advantaged groups from local civil engagement,[40] and augment a variety of related divisions that undermine civic traditions and community solidarity. Social disengagement on the part of both "winners" and excluded or marginalized "losers" encourages anomie and the breakdown of civic norms of acceptable behavior, self-responsibility, and mutual respect. As society absorbs the social externalities of economic reform, social disorder becomes a visible and immediate problem. In a sense, social disorder comprises an alternative public response to that of political opposition: supplanting collective action with a more diffused breakdown of normative social control.[41]

China provides an apt illustration of such a situation. Under Chinese SOE reforms, corporate, work-unit, and residency-based eligibility for housing, pension, health care, transportation, education, and other elements of livelihood support and security were lost to the millions of workers expelled from the state sector and uprooted by migration from rural areas to export zones. These workers enlarged what is often referred to as a "floating mass" of workers lacking either steady work[42] or legitimate claim to residency- or workplace-based support systems.[43] This largely uncontrolled economic transition has resulted in social instability and community disorganization[44] as well as in the emergence of new social divisions and inequalities separating groups with differential access to social benefits and support.[45]

Addressing the Tensions of Reform

By the late 1990s, the cumulative though varied experience of economic crisis, political opposition, workforce instability, and social disorder encouraged Asia's corporate and government elites as well as the leadership of multilateral agencies[46] to rethink the reform process, turning quickly to the problem of the social and political sustainability of the neoliberal agenda. The Chinese Communist Party (CCP) chairman, Hu Jintao, for instance, presented himself as a champion of the poor with an overriding concern for poverty and regional inequality.[47]

There are a number of ways in which governments and corporate elites have sought to address the various institutional and social tensions of Asian economic reform, particularly as they have threatened or compromised strategic interests and goals. The most important of these policy responses as they relate to labor include the political containment of disorder, slowing reform, active labor-market policies, social protection, reorganization of the labor process, and developmental upgrading.[48] Of course, these various approaches to dealing with social instability are not mutually exclusive. Their separate treatment in the following discussion is only intended to suggest analytically distinguishable dimensions of the policy responses taken to resolve the social, political, and institutional tensions of reform.

The Coercive Option: Containing Tensions and Disorder

When political opposition, heightened labor militancy, and social disorder reach threatening levels, governments may employ their coercive powers to contain the tensions of reform. Indeed, such a response is implicitly, if only indirectly, encouraged by frequent reference to such "models" of authoritarian capitalism as China, Malaysia, and Singapore, and to the need for government "resolve" in pushing through market-reform programs in the face of popular resistance or even democratic challenge.

Given the legacy of authoritarian rule in Korea, China, and Thailand—indeed, across much of Asia—it is not surprising that governments continue to rely on force to contain resistance to reform programs. Democratic reforms have been stalled in China since the 1989 Tiananmen Square protests, which were driven in part by the dislocations of reform. In both Korea and China, labor disputes and public demonstrations have routinely been met by police containment or violence.[49] And even the populist former prime minister of Thailand, Thaksin Shinawatra, declared that force would be used against opponents of state projects,[50] while unions and strikes remain banned in Thai state-owned enterprises. A substantial literature emphasizes the ways in which these and other Asian governments coerce, repress, co-opt, and contain populist pressures and opposition. To be sure, such a response to social tensions has played an important role in maintaining political order, sometimes supplanting, sometimes bolstering other responses. In any case, our emphasis here is instead on a variety of alternative ways in which governments and companies have sought to resolve, rather than suppress, the institutional tensions of reform.

The Default Option: Slowing Reform

As a second response to tensions, governments may opt to slow reforms. In the Asian context, the most-often compromised reforms relate to trade liberalization, privatization of state-owned enterprise, reduction of utilities and public goods subsidies, and elimination of agricultural price supports.[51] Given that such moves to slow or backpedal on these types of reforms collide directly with the interests and objectives of important corporate and international elites whose continued support is essential, governments are quick to publicly justify them in terms of the need for delay in order to make necessary domestic adjustments, such as strengthening safety nets and bolstering the competitiveness of domestic business and agriculture. Indeed, international trade agreements under the World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation Forum often allow additional time for "developing" countries to meet mandated tariff reduction targets for precisely this reason.

China, Thailand, and South Korea have all moderated the pace of reform. They slowed SOE privatization to varying degrees, in part in response to social tensions and political opposition. They also selectively delayed external trade liberalization as its social and economic impact became clear and nationalism found a new voice.[52] In Thailand in particular, global recession and the resultant growing demands from domestic business groups for increased protection from foreign competition[53] encouraged a tilt toward inward-directed policy. That tilt is evidenced by the selective reintroduction of tariffs as well as by new efforts to favor domestic over foreign investors in SOE privatization programs.[54]

China further exemplifies this default option. Faced with the growing threat of social disorder, the CCP, ever sensitive to its need to maintain social support among workers and peasants, has opted to slow major elements of the reform program. Chinese WTO negotiators successfully tempered U.S. demands for substantial reductions in agricultural subsidies to Chinese farmers. Banks were directed to maintain current levels of questionable loans in order to avoid further layoffs and closures, and reform "gradualism" has generally been promoted as essential to social stability.

Active Labor-Market Policy: Making Markets Work

If labor-market deregulation is supposed to foster more efficient and dynamic allocation and reallocation of labor, its failure becomes evident where rapid economic growth coexists with a slow or difficult reemployment of workers displaced from declining sectors. Nowhere is this more apparent than in China, where state enterprise reform has led to layoffs of tens of millions of workers, most of whom remain unemployed or underemployed long after their termination. With the encouragement and assistance of the World Bank,[55] the Chinese government has responded to the job crisis by instituting transitional assistance, retraining, and reemployment programs. Especially important is the network of government reemployment centers set up to provide monthly pay and benefits along with retraining and outplacement service for laid-off SOE workers for up to three years, followed by continued assistance in job search and placement.[56] Steps are also being taken to resolve the most important institutional impediment to a rapid reabsorption of workers in growth sectors: social entitlement programs tied to home residency. Efforts to ease residency requirements are now recognized as critical for the functioning of Chinese labor markets. Similar concerns pressured the Korean government to introduce a more flexible and secure employment scheme for migrant workers.[57]

In workplaces themselves, the disciplinary power of labor markets may be further sharpened. In China, private sector firms have in part responded to problems of low morale, insubordination, and unreliability among workers by refining and systematizing market discipline through increased reliance on piecework or performance-based pay, group productivity incentives, and threat of dismissal.[58] Similarly, many larger companies in Thailand have developed complex and detailed monetary incentives for attendance, productivity, cleanliness, and even courtesy.[59] Vocational training also became an important integral part of the overall retraining and reskilling efforts by the Thai government.[60] The Korean government, too, has put into practice plans to increase financial assistance to the unemployed and to the workers in small companies to facilitate their self-development.[61]

Reconstructing the Labor Process

Four nonmarket-based approaches to rebuilding the labor process are the consolidation of commitments between employers and workers, institutional pyramiding, the institution of new mechanisms of conflict resolution, and efforts to reduce normative conflict in a rapidly changing employment situation. The first of these alternatives, the bolstering of trust-based, mutual-commitment employment practices, was alluded to earlier when discussing how benefits, employment security, and encouragement of employee participation can foster heightened morale and involvement on the part of workers. While labor-market deregulation alongside a diminished protective role of trade unions typically frees firms to determine their own employment practices, new competitive pressures tend to confine this relatively costly[62] approach to the ranks of skilled, core workers in large firms. For this reason, selective government reregulation of employment, another instance of reform reversal, may become necessary.

The governments of all three countries have in some measure reregulated labor markets to compensate for the failure of mutual-commitment employment systems. In Thailand, there has been a movement over recent years to institute new employment rules governing large companies. Most important in this regard is the 1998 Labor Protection Act covering working hours, employment of women and children, holidays and overtime, health and safety, and labor inspections.[63] There have also been attempts to regulate the employment of foreign immigrant workers.[64] Similarly, in China there has been substantial effort (if mixed success) in expanding contract-based employment in large firms. And beginning with new labor legislation in 1994, conditions of private sector employment have been more tightly regulated.[65] Korea is something of an outlier among the developing Asian countries in the existing scope, penetration, and enforcement of job security as well as in the extent of social conflict engendered by IMF-encouraged efforts to eliminate those protections through labor-market deregulation. In response to sharp opposition from the militant KCTU labor federation, the government was forced to negotiate employment safeguards and compensating measures to cushion the impact of weakened job security legislation.[66]

The second general approach to stabilizing the labor process, institutional pyramiding, involves embedding or reembedding workplace discipline in the larger but subordinate social context of family, community networks, and other social ties. Pyramiding shifts the burden of discipline to these external social structures by drawing on the patterns of mutual dependency and normative obligation that constitute them. For example, Japanese and other foreign investors in China typically delegate substantial personnel management to local Chinese managers better able to utilize social networks, unions, and political connections to reinforce workplace authority.[67] Lee Ching-Kwan's insightful account[68] of labor controls among young female workers in a Chinese export-processing factory provides another example of pyramiding. As production was gradually relocated from Hong Kong—where the employer relied on mutual-commitment relations as the basis of control among local workers—to one of China's export-processing zones, where market discipline prevailed, the employer was able to rely successfully on the rural, locality-based social networks of women employees for recruitment and social discipline. A further example of pyramiding is to be found in outsourcing strategies that devolve workplace control to workshops and family businesses where personalistic and kin-based discipline proves more effective than factory-based market controls.

Third, governments and formal sector employers have in some instances sought to restabilize labor relations by instituting union-based collective bargaining and other forms of employee consultation and representation. While encouraging unions is always problematic, particularly as it may confront contrary state effort to contain, control, or preempt rather than to institutionalize conflict,[69] it is clear that China has chosen this option, as the government has sought to expand the reach of an increasingly marginalized ACFTU to private and nonorganized enterprises.[70] And, as noted earlier, the Chinese government has sought to encourage collective contracts[71] as a way of reducing growing levels of industrial conflict. Similarly, in 1998, the Korean government established a tripartite commission to ensure more equitable burden sharing during the economic crisis, to negotiate labor support for economic restructuring and increased labor-market flexibility, and to develop new forms of worker protection through discussion and consensus among representatives of government, employers, and trade unions (a move seen by more militant unions as partially displacing collective bargaining).[72] Under the Tripartite Accord of 1999, schoolteachers and civil servants were granted new political and collective bargaining rights, while unemployed workers were permitted to form trade unions.[73] In Thailand, the State Enterprise Labour Relations Act of 2000 seeks to reestablish stable labor relations in the state sector by replacing banned unions with newly formed "associations" to represent employees in collective bargaining.[74]

A fourth approach to reconstructing the labor process addresses the problem of normative conflict among diverse, unlike labor systems. It was noted earlier that the coexistence of different labor systems within workplaces generates disruptive conflicts and inhibits information sharing and cooperation between core and noncore workers. This conflict may induce efforts to institutionally segregate these diverse labor systems, or at least to find a better balance between the often-opposed needs for functional integration on the one hand, and institutional segregation on the other. In some cases, segregation of incompatible labor systems is rooted in government policy, as illustrated by differential treatment and protection accorded to immigrant and domestic workers. Another example of institutional segregation is provided by the clear demarcation in Chinese job-placement services between labor markets for ordinary workers ("labor" markets) and markets for technical school and university graduates ("human resource" markets).[75]

But efforts at institutional segregation are most evident at the level of the firm, where managers may seek to institutionalize and legitimate labor-market segmentation and associated differences in employment conditions, pay, and benefits. In Thailand, where contract workers or workers from supply firms often work alongside regular workers, distinctions are highlighted by differences in uniforms or hat color.[76] Alternately, efforts may be made to physically separate different categories of workers but to reintegrate their work through computer networking. And the very act of outsourcing service and manufacturing tasks to other firms, or of hiring contract workers, utilizes organizational boundaries to demarcate differentially rewarded groups of workers, although coordination may be compromised in such cases.[77]

Enhancing Social Protection

There is some debate regarding the extent to which governments should provide compensation for displaced or disadvantaged workers within deregulated labor markets. Some envision a progressive privatization of worker protections through the instituting of employment-based social security systems and reliance on private sector insurance providers. Other more entitlement-based[78] approaches urge state-organized social safety nets to protect workers from labor-market deregulation and the social disruptions of privatization and trade liberalization. Indeed, and contrary to the usual association between market reform and reduced social provision, the argument is sometimes made that economic reform requires such cushioning so that the "losers" under liberalization[79] do not pose a political threat to continuing reform,[80] as has in fact already happened in several countries in the region. Asian regional governments have traditionally avoided providing such cushioning. Social insurance and livelihood protection has been limited to public servants, state enterprise workers, and some formal sector employees. Those unable to support themselves at a minimal standard of living receive a very basic set of guarantees,[81] especially during times of economic crisis.[82] Nevertheless, for the most part, Asian regional governments have relied heavily on families and communities for social protection.

In the formal sector, the social distress associated with market reforms in China, and with economic crisis in Thailand and South Korea, has triggered new efforts to institute social safety nets for workers. In China, the beginnings of a rudimentary national pension scheme and social security system for urban formal sector workers[83] are now in place to supplant failing workplace-based systems,[84] and some local governments now seek to raise minimum wage levels in order to support the workers in their regions.[85] In Thailand, the populist former Thaksin government increased severance pay requirements for firms, and introduced a low-cost universal health care program while also expanding the coverage and scope of the social security fund, soon to include unemployment compensation alongside existing benefits.[86] It is still unclear how effective or sustainable these programs will be.[87]

South Korea, with its more open endorsement of principles of social protection,[88] offers the most extensive and successful model of new worker protections. In 1988, following dramatic labor uprisings the year before, the government established a national pension program[89] intended eventually to cover nearly the entire workforce. A new unemployment insurance program introduced in 1995 was expanded in 1998 to include employees in small firms as well as temporary and part-time workers, a change resulting in provision of benefits to 12 percent of unemployed workers in 1999.[90] And in response to union pressure for employment-linked social protections, the Korean government has sought to expand social security and welfare coverage under the Basic Livelihood Protection Law (BLPL), which provides an umbrella framework for most health, unemployment, pension, and worker compensation programs for workers. As many as one million of Korea's working, low-income individuals are expected to receive government subsidies in the form of an income tax aid package in 2008.[91]

If social insurance and pension programs, strongly encouraged by the International Labour Organization and funded largely through payroll taxes on employers and employees, provide some protection for formal sector workers, they fail to reach the large numbers of informal sector and rural workers whose needs are often far greater.[92] This problem is amplified during economic crises when large numbers of workers move from formal to informal sector employment. In principle, it is possible to extend social security programs to partially embrace these informal sector workers. In China, the new pension plan now includes rural workers on a voluntary basis. Moreover, the Chinese government is putting into effect new regulations that require employers to enroll migrant workers in the insurance program and to pay all of the mandated costs such enrollment entails.[93] In recognition of growing unemployment and expansion of casual, nonprotected employment, South Korea's BLPL coverage was extended in 1999 to include "atypical," irregular, part-time, and dismissed workers. More recently, the Korean government has pushed legislation that would compel companies to employ contract workers as regular workers if they are to be hired for over three years, and that would fine any employer found to be discriminating against nonregular workers in terms of salary or dismissal.[94] Another important step is that migrant workers are to have access to government-funded counseling, education, and health care services.[95] In Thailand, social security coverage has now been extended to very small (typically informal sector) firms.[96]

Given the problems of providing coverage to informal sector workers under social security systems designed for registered and regulated workplaces, there is growing pressure to establish or expand alternative social protections.[97] The World Bank has encouraged and supported a variety of needs-based income support schemes, public works projects, rural and small business assistance, and microcredit programs to address this problem.[98] Such programs converge with and build on parallel efforts by NGOs to encourage cooperative ventures, microcredit programs, and other informal sector livelihood projects among the rural poor. As these various top-down and bottom-up initiatives have commingled, they have encouraged a new understanding of informal sector social protection as the augmentation of "social capital."[99] A social capital approach sits easily with corporate and reform agendas, despite its necessary up-front costs, by enhancing the ability of external agencies and institutions to absorb social costs and risks while also absolving the state of major long-term responsibility in this area. This may, in part, explain the strong support recently given by the World Bank[100] and the Asian Development Bank[101] to community development programs, microcredit schemes for rural business, self-sufficiency projects, village fund programs, public works projects, diversified agriculture, cooperatives, and other efforts to reinvigorate rural towns and villages. Indeed, this very compatibility between social capital programs and market reform is reflected in critical attacks on such programs as constructing a new "economy of the poor," within which the poor manage themselves on the economic margins and thus absolve state and capital of responsibility for social livelihood.[102]

Thailand best illustrates the social capital-building approach. Here, a number of circumstances favor this approach: a moderately autonomous, economically viable rural community base and networks of local social institutions, including NGOs, able to assume a heightened social role in the postcrisis recovery. Drawing on substantial assistance from World Bank's and Asian Development Bank's "social investment" funding, the Thai government has initiated community-based infrastructure and village development projects including block development grants to 78,000 villages, support for agricultural diversification (to hedge market risk), provision of debt relief for farmers, establishment of community banks, strengthening of "self-sufficiency communities" under an expanded community forestry program,[103] and expansion of microcredit and small and medium enterprise (SME) business development programs. A newly established Ministry of Social Development and Human Security oversees these and other similar programs.[104] Thailand's king has strongly supported this approach as part of his "self-sufficiency" movement. Most importantly, the populist-nationalist Thai-Rak-Thai government of the former Prime Minister Thaksin placed community and social development at the top of its legislative agenda.

The Developmentalist Option: Enhancing Economic Competitiveness

Governments and firms may seek to reduce social dislocation and workforce vulnerability by enhancing the economic competitiveness of local firms, workers, and farmers.[105] This may entail renewed efforts to improve education and training, institute new forms of work organization in firms, support corporate R&D and new methods of management, encourage backward supplier linkages from export-processing zones to domestic firms, and create the social and physical infrastructure for technology-intensive industry.[106] The discussion here is largely confined to policies relating specifically to labor.

It is generally understood that South Korea has most vigorously pursued the developmentalist option, through government subsidies for job creation,[107] firm-based work reorganization,[108] education and skill development programs,[109] regulation of foreign direct investment, and low interest credit-based industrial policy.[110] Thailand has more recently adopted the developmentalist option to accommodate the pressures of reform and crisis. An important element of current Thai developmentalism is a program of targeted assistance and support for SMEs, especially those linked as industrial suppliers to large foreign client companies.[111]

In a sense, the Thai SME program comprises an effort to address social as well as developmental tensions of reform. Many SME development programs, especially those targeting rural and small businesses, focus especially on employment creation and poverty reduction.[112] These programs include labor-intensive, infrastructure-creating public works projects, credit schemes for self-employment, and other income replacement efforts. While not as comprehensive as comparable programs of employment creation in South Korea, where public works programs employed roughly 76 percent of the 1.7 million workers who were unemployed in 1999,[113] Thailand's employment policies have nonetheless provided important assistance to rural communities during the crisis.

From the standpoint of labor, our discussion of various responses to the social tensions of reform has suggested a number of ways in which governments may both construct social policy in the interests of development and pursue development in socially beneficial ways. In South Korea, Singapore, Taiwan, and Hong Kong, human capital formation in education, training, health, and housing promotes development by enhancing the qualities and skills of workers. At the same time, those policies enhance and more broadly distribute economic resources and capabilities, thus linking growth with shared social progress.

At corporate levels, governments and companies may address both developmental and social tensions of reform by encouraging and expanding what were earlier referred to as developmental labor systems. It is commonly accepted that those systems function best where workers enjoy adequate pay and benefits, reasonable job security, equitable conditions of employment, and mutual commitment employment practices. As noted earlier, these conditions may encourage human resource and training investments, participative management, work reorganization, and other employer practices supportive of competitive, high value, high wage employment. Of course, one must recognize that high wage, developmental labor systems comprise but one of several alternate pathways, some developmental, some not, to enhanced competitiveness. From the standpoint of firms, competitiveness may be sought through intensified cost cutting, improvements in technology, inter-firm cluster strategies, increased reliance on the discipline of markets in the labor process, and other policies that may fail to address (or even exacerbate) the social and institutional tensions of reform. Indeed, conditions of intensified, reform-driven competition may often encourage socially less-desirable paths.

Conclusion

A variety of policy initiatives in East Asia reflect growing attention to social and institutional tensions and requirements of economic reform. That changing social policy and reform agendas are in part driven by political opposition from workers and other popular sector groups, as well as from disadvantaged business groups, is beyond question. There is a clear link between growing social disorder and China's relative emphasis on coercion and retreat; between formal sector labor politics (a "politics of production")[114] and social insurance in South Korea; and between cross-class, NGO-based social mobilization (a politics of collective consumption?) and social capital programs in Thailand.

What has been less recognized, however, is the importance of institutional tensions that have threatened the interests and strategies of economic and political elites themselves. While political opposition, particularly in the three countries dealt with here, can typically be contained by some combination of economic coercion, market disorganization, tactical retreat, and police suppression, the institutional tensions that both parallel and underlie such opposition pose a more fundamental economic challenge.[115] A labor-systems approach permits us to locate and contextualize those tensions and to understand how they are experienced by various social groups and classes. In this context, political conflict and the play of interests and power may be understood both as manifestations of underlying institutional tensions (sometimes perceived, sometimes not) and as political contests through which those tensions are managed or resolved. Our account of emergent stresses in labor systems, particularly as they become visible during times of economic crisis, seeks to move to this deeper institutional level of analysis.

We finally suggest that corporate, national, and global elites may now, as in the past, be introducing social reforms that effectively blunt emergent challenges to an evolving global capitalist order. Of great importance is the increased influence of global regulatory institutions in addressing social as well as economic agendas. In particular, the World Bank's return to an earlier emphasis on livelihood security and social stability[116] signals at least a modest departure from its recent privileging of global market reform, although it must be recognized that this carefully circumscribed agenda shift is ultimately rooted in new efforts to enhance the social and political sustainability of the reform program itself. From this perspective, and contrary to a widely held view that the Asian economic crisis has posed a fundamental challenge to economic reform, the crisis may paradoxically have given reform a new lease on life in this economically dynamic region.

Notes

1. In 1993, the World Bank acknowledged the important role of developmental state guidance in East Asia's "economic miracles." World Bank, *The East Asian Miracle: Economic Growth and Public Policy* (New York: Oxford University Press, 1993).
2. Kwong L. Tang, *Social Welfare Development in East Asia* (Basingstoke: Palgrave Macmillan, 2000); Ramesh Mishra, *Welfare Capitalism in Southeast Asia* (New York: St. Martin's Press, 2000).
3. These three countries are selected to permit exploration of the diverse social effects of and policy responses to market-oriented reforms in markedly different political and economic contexts.

4. The discussion must be placed in the larger context of the beginnings of a fundamental rethinking of programs of economic reform in developing countries. This rethinking is reflected in growing political contestation, changing understandings and agendas on the part of governmental and multilateral agencies, and redirections of social and economic programs and policy at global and national levels.
5. A labor systems approach is rooted in labor process theory. See Michael Burawoy, *The Politics of Production* (New York: Verso, 1996). Labor process theory provides a comprehensive understanding of the transformation of labor, but emphasizes processes of control and expropriation in the production itself. A labor-systems approach offers a more balanced account of the full range of labor-transforming processes including but extending beyond the site of production itself.
6. "Labor" is here broadly defined to include the work of nonsupervisory employees, small farmers and farm workers, and self-employed and unpaid family workers.
7. See Frederic Deyo, "Reform, Globalisation and Crisis: Reconstructing Thai Labour," *Journal of Industrial Relations* (Australia) 42, no. 2 (2000) for discussion.
8. Joseph Stiglitz, *Globalization and Its Discontents* (New York: W. W. Norton, 2002).
9. See Meng Jianjun, "Economic Structural Reform and Labor Market Formation in China," *Research Institute of Economy, Trade, and Industry* (RIETI), Columns (April 2, 2002), http://www.rieti.go.jp/en/columns/a01_0037.html, accessed March 1, 2006.
10. For discussion, see Iyanatul Islam and Anis Chowdhury, *The Political Economy of East Asia: Post-Crisis Debates* (Oxford: Oxford University Press, 2000), 147–48.
11. Stiglitz, *Globalization and Its Discontents;* See Medhi Krongkaew, "Social Consequences of the East Asian Economic Crisis," in *Globalization and the Asia Pacific Economy,* ed. Kyung Tae Lee (London: Routledge, 2002), 60.
12. The World Bank notes a transformation and even growth, rather than diminution, of the role of the state under globalization and economic reform. World Bank, *Globalization, Growth, and Poverty: Building an Inclusive World Economy* (New York: Oxford University Press, 2002), 16.
13. The World Bank reviews research suggesting that trade liberalization is typically associated with a period of declining wages. See World Bank, *Globalization, Growth, and Poverty,* 104–8.
14. Phillip McMichael, *Development and Social Change* (Thousand Oaks, CA: Pine Forge Press, 2000), 125.
15. Equivalent, by definition, to a progressive informalization of employment.
16. For the increasing levels of industrial accidents in China as a consequence of inadequate safety standards, see *Al Jazeera,* "China's Boom Takes Toll on Safety," November 25, 2005. In South Korea, too, the government eased restrictions on layoffs and on the hiring of temporary workers as part of corporate restructuring to increase labor flexibility and reduce labor costs. See *Korea Times,* "Industrial Accidents Haunt Migrant Workers," January 17, 2005; *Korea*

Herald, "Labor Key to Success amid Intensified Global Competition," June 5, 2002; *Korea Times,* "Plight of Non-Regular Workers," December 28, 2005.

17. There is a tendency to conflate the formal sector (characterized by state regulation and oversight) with social protection. In fact, state regulation may enforce (sometimes coercively) precarious employment conditions for workers in export zones.
18. In the case of Chinese export-processing zones, in addition, officials have encouraged flexible employment arrangements as a further inducement to foreign investment.
19. For recent debates on the establishment of export-processing zones in Thailand, see *The Nation,* "Special Economic Zones: Concern Grows over Impact," April 11, 2005.
20. World Bank, *Globalization, Growth, and Poverty,* 24.
21. Frederic Deyo and Richard Doner, "Introduction: Economic Governance and Flexible Production in East Asia," in *Economic Governance and the Challenge of Flexibility in East Asia,* eds. Frederic Deyo, Richard Doner, and Eric Hersberg (Lanham, MD: Rowman & Littlefield, 2001). For discussion of the externalization of risk and cost to independent subcontractors, see Richard Appelbaum and G. Christerson, "Cheap Labor Strategies and Export-Oriented Industrialization: Some Lessons from the Los Angeles/East Asian Apparel Connection," *International Journal of Urban and Regional Research* 21, no. 2 (1997).
22. Large numbers of workers in China's expanding construction and manufacturing sectors are sometimes denied pay for months at a time, forcing them to resort to public demonstrations and even threating suicide to receive their back pay.
23. World Bank (1998), 15, cited in Islam and Chowdhury, *Political Economy of East Asia,* 173. The difficulties facing poor families is further exacerbated by related reforms of social insurance schemes (where they exist) through marketization, social service out-contracting, and user-pay approaches to social service delivery that shift the rules of access and eligibility from citizen entitlement to ability to pay. Similarly, the transfer of public goods and utilities from state responsibility to market provision at market-determined prices further reduces social service access on the part of many poor families.
24. See Ching K. Lee, *Gender and the South China Miracle* (Berkeley and London: University of California Press, 1998).
25. Zhao Yaohui, "Labor Migration and Earnings Differences: The Case of Rural China," *Economic Development and Cultural Change* 47, no. 4 (1999): 767. Also see Denise Hare, "'Push' versus 'Pull' Factors in Migration Outflows and Returns: Determinants of Migration Status and Spell Duration Among China's Rural Population," *Journal of Development Studies* 35, no. 3 (1999): 45.
26. Lee discusses the importance of such networks for young "maiden workers" in China's export-processing zones.
27. For a more positive assessment of the capacity of rural communities to reabsorb displaced workers, see Krongkaew, "Social Consequences of the East Asian Economic Crisis," 73, 77.
28. We draw a crude but useful distinction here between "cost-driven" labor systems in routine, standardized and labor- (vs. skill-) intensive production on

the one hand, and "developmental" labor systems requiring constant upgrading of skill, motivation, and employee involvement in critical, core economic activities within and across firms on the other.

29. Hagen Koo, "The Dilemmas of Empowered Labor in Korea: Korean Workers in the Face of Global Capitalism," *Asian Survey* 40, no. 2 (2000). Koo notes in this regard the emergent problems associated with reduced job security in Korea, where such security had long been seen by workers as a "payback for devoting themselves wholly to their company."
30. Bill Taylor, "Privatization, Markets, and Industrial Relations in China," *British Journal of Industrial Relations* 40. no. 2 (2002): 249–72.
31. In 1991, Thai trade unions were banned in the state-enterprise sector under the then military rule.
32. See Deyo's discussion of the market-disciplined "hyperproletariat" among export-processing workers. Frederic Deyo, *Beneath the Miracle: Labor Subordination in the New Asian Industrialism* (Berkeley, CA: University of California Press, 1989), ch. 6.
33. Koo, "Dilemmas of Empowered Labor in Korea."
34. Bill Taylor notes the uneven and often only symbolic nature of SOE reform (personal communication).
35. Korean labor disputes have more than doubled between the mid-1990s and 2001. *Korea Herald,* "Labor Key to Success amid Intensified Global Competition," June 5, 2002.
36. Ibid.
37. Here, "static efficiencies," displace those "dynamic" efficiencies that may defy considerations of current comparative advantage but that impel long-term development. See Deyo and Doner, "Introduction: Economic Governance and Flexible Production," 6–7.
38. For results from a recent survey of family firms, see *Bangkok Post,* "Family-run Businesses under Stress," February 28, 2002.
39. World Bank, *Globalization, Growth, and Poverty,* ch. 4; and Islam and Chowdhury, *Political Economy of East Asia,* 196–98 note a growth in inequality in Thailand during the 1980s. Also see Ethan Kapstein, *Sharing the Wealth* (New York and London: W. W. Norton, 1999), ch. 4.
40. Robert Reich, *The Work of Nations* (New York: Vintage Books, 1991), ch. 24.
41. Andrew Brown, Bundit Thonachaisetavut, and Kevin Hewison, "Labour Relations and Regulation in Thailand: Theory and Practice," Working Papers Series No. 27, Southeast Asia Research Center, City University of Hong Kong, July 2002. Brown, Thonachaisetavut, and Hewison note a displacement of organized labor militancy by unfocused public demonstrations and protests in Thailand over recent years. Also see Shaoguang Wang, "Openness, Distributive Conflict, and Social Insurance: The Social and Political Implications of China's WTO Membership," in *New Challenges for Development and Modernization,* ed. Yue-man Yeung (Hong Kong: Chinese University Press, 2002).
42. Market reform and trade liberalization are often accompanied by increased "churning" of firms, as noncompetitive firms are displaced by more competitive firms. Such churning in turn augments high rates of job mobility among workers. See World Bank, *Globalization, Growth, and Poverty,* 20.

43. Dorothy Solinger, "The Impact of the Floating Population on the Danwei: Shifts in the Pattern of Labor Mobility Control and Entitlement Provision," in *Danwei: The Changing Chinese Workplace in Historical and Comparative Perspective,* ed. Xiaobo Lu and Elizabeth Perry (New York: M. E. Sharpe, 1997), 195–222.
44. *The Wall Street Journal,* "Chinese Protests Grow More Frequent, Violent," May 11, 2004. McMichael notes the tendency for high levels of labor redundancy to destabilize both labor markets and urban communities. See McMichael, *Development and Social Change,* 201.
45. Sarah Cook, "Readjusting Labour: Enterprise Restructuring, Social Consequences and Policy Responses in Urban China," in *Changing Workplace Relations in the Chinese Economy* (London: Macmillan Press, 2000). Also see Wang Shaoguang, Hu Angang, and Ding Yuanzhu, "Behind China's Wealth Gap," *South China Morning Post,* October 31, 2002.
46. As seen in the World Bank-International Labour Organization collaborative project on the impact of the Asian economic crisis on labor markets. See Gordon Betcherman and Rizwanul Islam, ed., *East Asian Labor Markets* (Washington, D.C.: The World Bank and the International Labour Organization, 2001).
47. *The Economist,* "Room at the Top?" March 1, 2003, 39–40.
48. The last three of these—labor market policy, social protection, and reorganization of the labor process—are of most direct relevance to our study of labor systems.
49. Koo, "Dilemmas of Empowered Labor in Korea."
50. Ibid.
51. In Thailand, government purchase programs to shore up agricultural commodity prices have continued despite official commitments to eliminate such market-distorting policies.
52. *The Financial Times,* "Foreign Investors Desert South-East Asia for China," October 12, 2000.
53. See *Pattaya Mail,* "Government Asked to Help Curb Influx of Chinese-Make Products," February 27, 2002; *Bangkok Post,* "BOI says Tariff Cuts Must Not Be Delayed," January 16, 2002.
54. Economic nationalism in fact comprises an important basis for the success of the new government in cobbling together (if only temporarily) a populist coalition of local business, farm groups, students, trade unions, and NGOs.
55. World Bank, *Globalization, Growth, and Poverty,* 115.
56. Andrew Reutersward, "Labour Market and Social Benefit Policies," in *China in the World Economy* (Paris: OECD, 2002). Also see May Wong, "Popular Education and Labour Training in China," *Asian Labour Update,* no. 54 (January–March 2005), http://www.asianlabour.org/, accessed March 1, 2006.
57. *Korea Times,* "Migrants Want Flexible Employment System," December 30, 2005.
58. Catherine C. H. Chiu and Bill Taylor, "Shuchangdi jilyu: zhongguo hexin giyeneide hezuo" [The Discipline of the Market: Consent in Core Firms in China] in *Haixia Siangan sandide lauzu guanxi yu laugong zhongtse: yanjiu zhuansmi diliuhao* [Labor Relations and Labor Policy in China, Hong Kong, and Taiwan: Research Monograph No. 6]. ed. Y. S. Cheng, S. Yu, K. Chang, and

B. L. Leung (Hong Kong: Xiang gang Haixia liangan guanxi yanjiu zhongxin [Hong Kong Two-Coasts Relations Research Center], 2001).

59. Deyo and Doner, "Introduction: Economic Governance and Flexible Production."
60. *The Nation,* "Boost for Vocational Training," February 3, 2006.
61. *Korea Times,* "More Job Training Programs Offered," January 5, 2006.
62. Costly due to the labor inflexibility and material benefits with which it is associated.
63. Brown, Thonachaisetavut, and Hewison, "Labour Relations and Regulation in Thailand."
64. *The Nation,* "Drive to Register Foreign Workers," July 30, 2001.
65. Dong Bauhua, "Labor Law and Reform in China," International Labor Standards Conference, Stanford Law School, May 19–21, 2002, http://ils.stanford.edu/conferencc/papers/Dong%20Baohua.pdf, accessed March 23, 2003. Also see *The Economist,* "Does China Have 10m Slaves?" February 1, 2003.
66. See Koo, "Dilemmas of Empowered Labor in Korea" for discussion.
67. Bill Taylor, "Patterns of Control within Japanese Manufacturing Plants in China: Doubts about Japanization in Asia," *Journal of Management Studies* 36, no. 6 (1999).
68. Lee, *Gender and the South China Miracle.*
69. Depending in part on the extent to which this approach is taken in response to pressure from below rather than preemptively from above. See Bauhu, "Labor Law and Reform in China." Also see Islam and Chowdhury, *Political Economy of East Asia,* 152. Also see *China Labor Watch Press Release,* "Will Pushing Companies to Set Up Trade Unions Really Protect Workers' Rights?" November 25, 2004, http://www.chinalaborwatch.org/en/web/article.php?article_id=50224, accessed March 1, 2006.
70. *Wall Street Journal,* "China to Press More Firms to Unionize," October 13, 2006.
71. But without yet establishing collective bargaining machinery. See Dong, "Labor Law and Reform in China."
72. Betcherman and Islam, *East Asian Labor Markets,* 454.
73. Koo, "Dilemmas of Empowered Labor in Korea."
74. A very low rate of unionization, at roughly three percent of the workforce, undermines efforts to institute effective collective bargaining in Thailand. *The Nation,* "So Little to Celebrate on Labour Day," May 1, 2003.
75. Meng, "Economic Structural Reform and Labor Market Formation."
76. Frederic Deyo, "Competition, Flexibility and Industrial Ascent: The Thai Auto Industry," in *Social Reconstructions of the World Automobile Industry* (New York: St. Martin's Press: 1996), 149.
77. Global commodity chains and international subcontracting go yet one step further by utilizing national boundaries to demarcate differentiated systems of labor regulation and the labor systems with which they are associated.
78. Islam and Chowdhury, *Political Economy of East Asia,* 199.
79. The World Bank emphasizes the importance of social protection and compensation for globalization's "losers" in order to ensure continued acceptance of reform. World Bank, *Globalization, Growth, and Poverty,* 14.

80. Kapstein, *Sharing the Wealth,* 134; Stiglitz, *Globalization and Its Discontents.*
81. Korea provides something of an exception to this statement, given greater provision there than elsewhere in developing Asia for formal sector job security and social insurance even before the crisis.
82. Islam and Chowdhury, *Political Economy of East Asia,* 230.
83. P. Saunders and F. Ping, "Social Security Development in a Context of Economic Reform and Social Change: The Case of Rural Social Insurance Program in China," paper presented at the International Conference on Social Transformations in the Asia Pacific Region (December 4–6, 2000). Also see Wei Yu, "Financing Unemployment and Pension Insurance," in *Dilemmas of Reform in Jiang Zemin's China* (London: Lynne Reinner, 1999). A major problem here relates to the decentralization of these systems to provincial and municipal governments unable to meet the financial costs of such programs.
84. Reutersward, Labour Market and Social Benefit Policies." Also see *The Economist,* "Urban Discontent," June 15, 2002.
85. For recent developments in minimum wages in China, see *China Labor Watch,* "Minimum Wage Standard Raised in Shenzhen," Press Release, June 1, 2005; and *China Labor Watch,* "Guangdong Province Raises Minimum Wage Level," April 4, 2004, http://www.chinalaborwatch.org/en/web/article.php?article_id=50226, accessed March 1, 2006.
86. *The Nation,* "So Little to Celebrate."
87. See *Bangkok Post,* "Budget Chief Wants Wealthy out of Scheme," January 4, 2002. Also see *Bangkok Post,* "Labour Leaders Dead Against Government Social Security Plan," February 2, 2002; and *Bangkok Post,* "Second-class Scheme for Poor Picked," February 16, 2002. For a more general assessment of the sustainability of these programs, see *Bangkok Post,* "Government Given Thumbs-Down," February 4, 2002.
88. Tang, *Social Welfare Development in East Asia,* 17.
89. Ibid., 17 and 138.
90. Betcherman and Islam, *East Asian Labor Markets,* 9. In 2005, more than 200,000 people received unemployment benefits. *Korea Times,* "Jobless Benefit Applicants Surpass 500,000 in 2005," January 2, 2006.
91. *Korea Times,* "1 Million Poor Workers to Get Government Subsidies," July 15, 2005.
92. MacPherson (1987), cited in Tang, *Social Welfare Development in East Asia,* 154. For Thailand, see *The Nation,* "Informal Economy: 23m Workers Need Help," June 25, 2004.
93. *Beijing Youth Daily,* "Beijing Releases New Regulation: Employers Must Give Migrant Workers Hospital Insurance," August 12, 2005; and *China Labor Watch,* "Rural Retirement Insurance Program for Migrant Workers Underway Throughout City," Labor News, http://www.chinalaborwatch.org/en/web/article.php?article_id=50279, accessed March 2, 2006.
94. *Korea Times,* "Ruling Party to Pass Bill on Non-Regular Workers This Month," November 30, 2005.
95. *Korea Times,* "Migrant Workers Support Center Opens Thursday," December 22, 2004; *Korea Times,* "Medical Aid Available for Migrant Workers, Homeless," May 19, 2005.

96. Which is to say these small firms have effectively been at least partially "formalized."
97. *The Nation,* "Poverty Reduction: The Long Line for a Better Life," December 7, 2003.
98. World Bank, *Globalization, Growth, and Poverty,* 87, 114, 150.
99. McMichael, *Development and Social Change,* 208–21. Also see Betcherman and Islam, *East Asian Labor Markets,* 31. For extensive discussion of this approach in Thailand, see Krongkaew, "Social Consequences of the East Asian Economic Crisis," 79–80.
100. The World Bank has generally promoted social security systems along with welfare assistance programs circumscribed by targeting, means testing, and confinement to basic essentials. The bank's China agenda strongly emphasizes rural and human resource development and poverty reduction in rural areas. See World Bank, "Country Assistance Strategy of the World Bank Group for the People's Republic of China," January 22, 2003, http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000094946_02112804184941, accessed March 1, 2006. For Thailand, see World Bank "Thailand Social Monitor: Social Capital and Crisis," January 2000, http://siteresources.worldbank.org/INTTHAILAND/Resources/Social-Monitor/2000jan.pdf, accessed March 2, 2006.
101. See, for example, Asian Development Bank, "China: Country Strategy and Program Update, 2005–2007," September 2004, http://www.adb.org/Documents/CSPs/PRC/2004/CSPU-2004.pdf, accessed March 1, 2006, and Asian Development Bank, "Thailand: Country Strategy and Program Update 2002–2004," July 2001, http://www.adb.org/Documents/CSPs/THA/2001/CSP_THA_2001.pdf, accessed March 1, 2006.
102. Jean-Marc Fontan and Eric Shragge, "Tendencies, Tensions and Visions in the Social Economy," in *Social Economy: International Debates and Perspectives* (Montreal: Black Rose Books, 2000). For a more extended critique of the social capital approach, see John Harris, *Depoliticizing Development* (London: Anthem Press, 2001).
103. The community forestry programs comprise a partial reversal of previous policies under which farmers were simply evicted from government forest reserves. *Bangkok Post,* "Alternatives Needed to National Parks: Hurting Villagers Living around Forests," January 6, 2002; *Bangkok Post,* "Displaced Farmers to Get Previously Allocated Land: New Approach to Reform Welcomed," January 7, 2002. The self-sufficiency movement has led to renewed interest in environmental protection of Thailand's dwindling forests as previously languishing community forestry programs have received growing official support.
104. *Bangkok Post,* "Three More Ministries to Join Line-up," January 10, 2002.
105. By "developmentalist" policies we refer here to the state-led approaches traditionally pursued among the Asian Tigers rather than to more recent policies of market-oriented structural reform.
106. For discussion of this World Bank preferred option, see World Bank, *Globalization, Growth, and Poverty,* 14, 19–20, 101, 149.
107. *Korea Times,* "Government to Subsidize Job Creation," March 9, 2004.

108. See Sarosh Kuruvilla and Christropher Erickson, "Change and Transformation in Asian Industrial Relations," *Industrial Relations* 41, no. 2 (2002): 171–228.
109. Betcherman and Islam discuss, for example, Korea's 1999 Skill Development Program. See Betcherman and Islam, *East Asian Labor Markets,* 278; and Tang, *Social Welfare Development in East Asia,* 3.
110. Alice Amsden, *Asia's Next Giant* (New York: Oxford University Press, 1989). Also see Chalmers Johnson "Political Institutions and Economic Performance: The Government-Business Relationship in Japan, South Korea, and Taiwan" in The Political Economy of the New Asian Industrialism, ed. Frederic C. Deyo, (Ithaca and London: Cornell University Press, 1987), 136–164, and *Korea Times,* "Firms Will Get Subsidy for Hiring Workers," July 7, 2004.
111. The World Bank sees a strong SME development policy as an effective way to create a good investment climate through provision of a strong local supply base for foreign investors. World Bank, *Globalization, Growth, and Poverty,* 156.
112. SMEs employ 60–70 percent of all industrial workers in Thailand. See Frederic Deyo, "The 'New Developmentalism' in Post-Crisis Asia: The Case of Thailand's SME Sector," in *New Challenges for Development and Modernization,* ed. Yeung, 17.
113. Betcherman and Islam, *East Asian Labor Markets,* 20–24.
114. Burawoy, *The Politics of Production.*
115. See White and Goodman (1998) as cited in Tang, *Social Welfare Development in East Asia,* 135.
116. Islam and Chowdhury, *Political Economy of East Asia,* 208 and 224.

11

The Strong Embrace of Weak Actors: Explaining Social Support for Economic Liberalization through the Case Study of Small Business Associations in the European Union

Kevin Young

One of the most important aspects of analyzing the political world is to understand the sources of social support for competing political projects at a given time. To understand what ideas are available to animate action is important; to understand where those ideas come from, and the material sources of support for those ideas, is vital. Ideas and political projects do not come from thin air; they come from real people in institutionally embedded contexts who act and think from a particular place, with recourse to how they perceive their own interests. A Polanyian perspective gives us a useful framework of analysis in this regard because it helps us to make sense of the inherent instability of radical projects of economic liberalism which, due to their disregard of a competing, nonmarket logic within social relations, tend to produce calls for economic regulation or a "reembedding" of the economy in nonmarket systems of valuation.

Inasmuch as the neoliberal experiment of the last three decades has meant a rebirth of "utopian" attempts to establish a "self-regulating market system," it has similarly stimulated forms of opposition.[1] The commodification of the world—what Marx had earlier called the process of

A. Buğra et al., *Reading Karl Polanyi for the Twenty-First Century*

"real subsumption," and what Polanyi identified with the rise of "fictitious commodities"—is what is at hand here. From a Polanyian perspective, "market society" is politically untenable in that it will produce a countermovement that, as Polanyi reminded us (but many cavalier popular accounts of Polanyi forget to consider), may potentially engender regressive forms of political closure (Polanyi considered Fascism and state Communism in his day).

As McMichael has noted, "There has been a veritable cottage industry concerning a second Polanyian cycle associated with late twentieth-century globalization, where globalization via multilateral institutions is generating an increasingly consequential protective countermovement."[2] As in all political inquiry, making use of an appealing theory means that we need to constantly check it against the concrete and complex facts of the world as we find it. While much research that uses a Polanyian lens examines instances of struggle against neoliberal restructuring, and thus seeks implicitly to confirm the continued salience of Polanyian notions of political agency, this study takes an alternative, more cautious approach. Are there any ways in which neoliberal restructuring actually subverts the presence of countermovements against it, whereby those disaffected by neoliberalism act to further intensify neoliberal reform instead of restraining it?[3]

This chapter argues that the political mobilization of the small and medium-sized enterprises (SME) sector, when properly understood, fits such a paradoxical description. Through an understanding of the qualities of, and reasons for SME sector support for a more neoliberal regulatory environment in the EU, we can better understand one of the truly unique qualities of neoliberal political economy: that it has an exceptional capability to turn potential critics into stakeholders, thus subverting opposition in the process. In other words, we can observe that in some instances, those disaffected by neoliberalism seek to further disembed the market through supporting neoliberal restructuring—and not the other way around. Understanding this dynamic process helps us to understand the contemporary dilemma of political agency in neoliberal conditions in which, contra a strong interpretation of Polanyi, many countermovements never emerge when we might expect them to. The goal here is to explain part of the political stability of neoliberal political economy, not its volatility. While the substance of this argument is largely theoretical, it draws on interview-based research conducted with representatives of SME interest organizations organized at the EU level, which was carried out for a larger project on regional integration and interest group formation.[4] While this particular case is presented in order to urge caution against a particular Polanyian reading of political agency, in order to understand the disposition of SMEs we nevertheless need to draw on a Polanyian notion of the economy as an instituted process, paying particular attention to how the social organization of many small firms may affect the positions their representative organizations take politically.[5]

This argument is elaborated in two sections. The first section examines the object of this study—the SME sector in the EU—and seeks to theorize the significance of its reemergence and its dynamism. It is argued that we can see this sector as a "risk bearer" and as a "sink" for some of the adverse effects of neoliberal restructuring. The second section describes the transnational structure of interest representation for SMEs, and shows that, at the EU level, this structure of interest representation seeks to intensify neoliberal restructuring, not to resist it. The conclusion considers the paradoxical nature of such a situation from a Polanyian perspective, since the feedback mechanism of the disenfranchised acting to protect society from the ravages of market society does not emerge. Instead, we find actors who seek to support neoliberal restructuring.

The SME Sector in European Political Economy

The European Commission adheres to a relatively broad definition of what constitutes an SME. Since 1996, the Commission has defined SMEs as firms with less than two hundred and fifty employees and less than forty million Euros in annual turnover or a total less than twenty seven million Euros in its annual balance sheet.[6] It is crucial to recognize, however, that most EU SMEs don't even come close to the upper threshold of this definition. The vast majority of firms in the EU fall under the category of "micro" and "small" enterprises: the average number of employees within SMEs in the EU is seven, although this varies considerably across EU member states.[7] Also, the number of SMEs and their importance to different national economies also shows considerable national variation throughout the EU.

The considerable contributions that SMEs make to employment and economic growth and dynamism will not be reviewed here. What is important to emphasize is that the SME sector represents a risk bearer in the economy and acts as a sink[8] for the negative effects of capitalist restructuring in the neoliberal period. Characterizing the SME sector in this way helps us to understand SMEs as agents that might have reason to become engaged in protecting society from the ravages of the market, as a strong Polanyian account might indicate.

The SME Sector as a Risk Bearer

While the SME sector *as a whole* may appear economically dynamic and robust, significant numbers of SMEs may be, at any given time, in considerable economic turmoil. From the perspective of its totality, the SME sector is strong; from the perspective of its composition (i.e., looking at many of its individual members), it is vulnerable. What is true of the whole is not necessarily true of its parts (the fallacy of division). Indeed, the rates of business failure and (re)birth are very high in the EU.[9] Interestingly, this is something the European Commission is trying to promote through its visions for engendering an "entrepreneurial" culture in order to compete in terms of innovation and economic flexibility with the United States.[10] Think what we may about this kind of economic policy strategy, when seen in risk allocation terms, it means the following: that economic dynamism is purchased partly at the cost of the *individualization* of economic risk. Intensified economic competition with the integration of the Internal Market, and the recent entrance of twelve new Members States to the EU means that the already vulnerable SMEs are subject to more economic pressure than before, and subsume more risk than before. As a sector, SMEs will of course survive. Yet this survival is at the expense of individual SMEs; some will face serious hardship, others will face business death, and meanwhile some new SMEs will be born. While images of a persistent and hard-nosed "petty-bourgeoisie" may remain in our minds, the point here is that at the unit level the SME sector often remains a sector full of weakness and vulnerability, not of strength.

It should be acknowledged, of course, that Polanyi did not specifically cite small businesses as being part of the double movement: his emphasis was usually on "labor" or on a metaphysical, undifferentiated notion of "society."[11] What he did cite, again and again through the subject of the labor*er,* was the existential condition of being subject to the whims and vagaries of the market.[12] Consider the typical SME in light of the following passage, in which Polanyi satirically attempts to engage with von Mises by stating the necessary docility of labor for price adjustment in labor markets to occur:

> extreme instability of earnings, utter absence of professional standards, abject readiness to be shoved and pushed about indiscriminately, complete dependence of the whims of the market.[13]

This description quite accurately fits the condition of many SMEs: a condition within the market whereby they are utterly subject to its will, forced to be responsive to its dictates. In intensified forms of competition, many individual SMEs in some ways experience an existence strikingly similar to Polanyi's description. While most workers in large enterprises in the advanced capitalist countries enjoy some degree of legislative protection from the "competitive frontier" of the market, this is typically less so for employees of SMEs. While analogies of this sort are obviously extremely limited, the existential condition of being exposed to the vagaries of the market and adjusting *for its ends* is still appropriate.

It is important to note *why* the SME sector has the capacity to act as a risk bearer in this way. One answer might be to understand the particular relationships that many SMEs tend to have with the communities within which they are embedded. The unique capacities of SMEs (especially the majority, the microenterprises) lie in their ability to rely on nonmarket priced inputs to production. It is thus a great irony that SMEs rely on networks of reciprocal exchange that are *not* commodified in order to produce commodities. As Becholfer and Elliot have pointed out, relying on the embedded structures of family and local community gives SMEs an economic advantage: it is "the secret of its capacity to regenerate itself."[14] Drawing heavily on locally situated networks of reciprocation, on "bridging" social capital, and such forms of nonpriced inputs, is thus a constantly present buffer upon which the SME can rely as a way to flexibilize its budget constraint. Related to this is the fact that many SME owner-managers possess the capacity to superexploit their own labor (to say nothing of their employees' labor) in the event of a competitive squeeze.

These special characteristics of the SME sector are formally acknowledged in EU-level policies designed to promote SME sector development. For example, one of the reasons why the SME sector is looked upon as a panacea for unemployment is due to the fact that during periods of economic difficulty, SMEs engage in labor hoarding; it is implied that they find it more difficult to shed labor because of the more intimate relations between employer and employee.[15] In this way, Polanyi's consideration of the economy in its substantive sense as an instituted process of interaction between man and his environment is already formally acknowledged in the way that the SME sector is promoted and is in fact organized.

The SME Sector as a Sink

The resilience of the SME sector as a whole is often associated with the demands of increased flexibilization and state strategies of promoting economic development through employment generation.[16] In many contexts, the SME sector acts as a sink for the excess *unemployment* that capital concentration inevitably unleashes: state policies in many countries which promote SME development can thus be seen as projects to transfer structural unemployment back into the formal economy via the SME sector.[17] Within the EU, there are continual efforts, at both the national and EU levels, to manage perceived problems of *social exclusion* through turning economically marginalized groups into small entrepreneurs. Some statistical studies also point to a correlation between periods of unemployment and small business sector growth, suggesting an interrelated structural transformation.[18] Others suggest that the "popular perception of increasing uncertainty and instability in the wage and salary sector" has provided a "push" for the unemployed to establish their own business.[19]

We can also note that one powerful reason for the SME sector's employment expansion is not economistic/structural, but represents a cultural choice based on value orientations adverse to employment in large "heartless" businesses. In this regard the growth of the SME sector represents a reaction to the cultural alienation associated with commodification of human labor. As a result of their abhorrence of the (perceived or real) alienating character of work life in large companies, many people decide to work for, or decide to establish, an SME. The idea of self-employment gives many people "a feeling of being in control of their lives, to set their own goals and determine how to achieve those goals . . . a desire for personal autonomy . . . " the promises of "freedom from the constraints of supervisory control."[20] Understood in Polanyian terms, this represents a move to try to increase perceived autonomy from the market, and to achieve a modicum of social solidarity that is not to be found elsewhere in the formal economy, as it demonstrates that people are seeking to control the conditions of their own labor through their participation in a small company. Seen in this way, the growth of the SME sector thus signifies an aggregation of choices at the *individual* level to *avoid* commodification, and to maximize their perceived autonomy vis-à-vis the market.

Thus, for a variety of reasons it is possible to perceive the SME sector not only as a risk bearer, but also as a sink for the adverse effects of capitalist restructuring in the neoliberal period. But what of the political *agency* of SMEs as a group? How, then, do SMEs deliberate in their organizations of collective association?

In the Polanyian ontology, surely as social agents SMEs would be considered as possible candidates for participation in the countermovement. Their economic vulnerability would suggest that they would seek *protection from* intensified market competition (and more so than the kind of instrumental protection that Polanyi called the "usual defensive behaviour of a society faced with change"[21]). Surely the SME sector would not (and could not) behave politically in the way that Polanyi depicted, of nineteenth-century industrialists demanding special property protection not "from the market" but "from the people."[22] They are not as powerful as their large-scale counterparts—this is certain. However, one might expect the SME sector to have a political interest in regulating the market in their interests, in reembedding the market in sets of nonmarket social values. Yet in their deliberation at the EU level, just the opposite seems to occur: on the whole SMEs lobby for *more* neoliberal restructuring, not less.

The Transnational Structure of Interest Representation for SMEs

SMEs face a favorable opportunity structure at the EU level. The extent of their organization at the supranational level in Europe today is unparalleled in world history; the political mobilization of SME groups at the EU level represents the most extensive structure of interest representation for small firms in the world today. Since the 1990s, a number of SME groups have organized effectively at the EU level in response to the increased importance placed on SME development in the EU since the 1992 Delors Report, which identified SME development as a strategic goal for building regional competitiveness.[23] Today, there are seven different SME groups claiming to represent SME interests at the EU level. It is unnecessary to go into detail about who these organizations are and how they were formed, but the important thing to emphasize here is that the SMEs are well organized and represented at the EU level through a dense network of cross-national representation.

There are several reasons for the prominence of these SME groups organized at the EU level, all of which are outside the scope of this chapter to discuss. It is sufficient to say, however, that they have responded to the political opportunities provided by a Commission enthusiastic about SME policy, and attempting to forge institutional links with the SME community. Coen and Danneuther's comment that "SMEs have been more actively supported in accessing the European Union than almost any other group" is appropriate in this regard.[24] The European Commission has in many ways politically aggrandized the SME sector, by creating institutionalized relationships between the Enterprise Directorate-General and SME groups.

How does this structure of interest representation for SMEs at the EU level lobby? Specifically, in regards to the balance of support for different visions of European integration—what Hooghe and Marks call the balance between a more regulated capitalism and a more neoliberal Europe—where do SME groups stand?[25] Given the characterization described above, we might expect that the SME sector would show support for a more regulated, institutionally "embedded" capitalism to be promoted through the EU, one that could perhaps reconcile the demands for economic efficiency with regulatory regimes which are aimed at objectives other than aggregate economic performance. Yet the opposite appears to be the case: the SME groups organized at the EU level appear to be quite vociferous supporters of a more neoliberal EU. SME groups are strong supporters of using the European integration process to stimulate tax and regulatory competition between European states. Policies and institutional orientations to promote labor market deregulation are heralded as overwhelmingly positive and necessary. The idea of "Social Europe" is often treated with great suspicion.[26] "Most small businesses are pursuing a deregulatory agenda," one interview participant stated, yet because of concern over "political correctness" they would never state this publicly.[27] The call for labor market deregulation is particularly poignant amongst the SME groups. Recalling Polanyi on the issue of employer demands for labor market flexibility, what is really at stake here is the extent to which human labor can be commodified. This is, of course, contrary to Polanyi's notion of "the natural aim of all social protection [which] was to destroy such an institution and make its existence impossible."[28]

Interestingly, SME groups' posturing tends to take on what might be called a "defensively aggressive" character, in that their support for a more neoliberal EU usually comes with the proviso that such a position is necessary because large corporations already possess such powerful economic advantages. To properly compete and prosper within the European internal market, SME groups claim, they should get rid of the burden of "overregulation" coming from both Brussels and the regulatory regimes existing at the national level.

Why do SME groups seem to support neoliberal restructuring? There is of course, a structuralist-based explanation, which suggests that because SMEs are situated in a hypercompetitive economic environment, regulation imposes a substantial cost, which is difficult to shoulder. In understanding this, the Polanyian notion of "substantive economy" is also useful here, because there are several indications that it is the particular way that SMEs are embedded in social relations that actually engender their support for economic liberalization.[29] Their structural location in the (substantive) economy often leads to a disposition calling for regulatory autonomy:

> It is a very normal thing that . . . SMEs are stricter. Regulations are bad. I mean, in general deregulation is good . . . SMEs in general just only want to be left alone. And that's the reason why SMEs are stricter in their demands, in what they ask for.[30]

It is perhaps instructive to note that the share of labor costs as a percentage of value added is on average higher for SME than for that of large-scale enterprises.[31] The reasons for SMEs' higher labor costs are not simply the result of smaller economies of scale, but because of lower labor productivity—which is itself attributed to the fact that inputs to production are themselves often *unpriced* (overworked self-employment, family labor).[32] In other words, SMEs have higher relative labor costs because their workers are less productive; they are less productive because of the particular social organization of their firms that often allows them to draw from labor "outside of the market."

While this perhaps helps explain part of the phenomenon, it does not help us to understand why SMEs then do not seek to regulate the market in a way to suit their interests. In nearly every interview conducted, the support for neoliberalism was not only articulated in terms of SMEs' economic vulnerability in increasingly competitive markets due to their size, but also because of the particular *social organization* of these firms. SME groups interviewed claimed that due to the small scale of most firms in the SME sector, regulation represents a burden and a business cost that is "felt" much more "intimately" than within larger firms, who can manage regulation more impersonally and more effectively through a much more rationalized and bureaucratic division of labor. While this position was strikingly uniform across SME groups interviewed, one representative for UEAPME,[33] the largest of the SME groups organized at the EU level, put it quite eloquently:

> They (SME owner-managers) are confronted with the consequences of legislation . . . very directly . . . the CEO will never be confronted with the concrete—he will only see it in his balance sheet . . . it has a direct effect to the daily life of this entrepreneur.[34]

Representatives from "mixed" EU organizations, who represent both SME and large-scale enterprises offered the following reflections based on their observations about how different scales of business deliberate from a different experientially derived perspective:

> The magnitude of problems is different for SMEs than perhaps for big business—hence their populist, in your face approach—because it becomes extremely emotional for them. It's a question of life or death for their company.[35]
>
> I think it's a very simple thing . . . If you are immediately, personally effected by something, you will pay a lot more attention to it. And so small and largely family-owned firms you know they see taxation as a direct income tax, not a corporation tax, whereas the CEO is going to be thinking strategy, and what he wants in Brussels is the right broad economic thinking coming out in Brussels . . . and the way that they direct their people in Brussels will be along those lines.[36]

For the SME, regulation imposes a burden that extends owner-managers' time in the formal labor process. Concretely, it means filling out more forms, spending more resources on safety regulations perhaps, obeying costly standards, reporting on particular quotas, and such measures. Because SME owner-managers are often under serious competitive economic pressure *and*, as we noted above, they can draw upon nonpriced resources for inputs to production, the consequence is that the superexploitation of their own labor supply may often become the dominant strategy to deal with the cumulative effects of both regulation and competitive market pressures. Put another way, more and more labor can be can be seen to be drawn into the process of commodification as an economic survival strategy. This is an "involutionary" business survival strategy.[37]

The SME sector thus remains a complex social force to examine in Polanyian terms. While the embeddedness of the SME sector and their distinct social organization are unique and essential to their survival and their ability to serve as risk bearers, they nevertheless act *politically* to support economic liberalization at the EU level. While the SME sector acts as a sink (i.e., into which some of the vagaries of neoliberal restructuring flow), they nevertheless seek to promote a politics which, in Polanyian terms, adds force and legitimacy to attempts to make the "stark utopia" of market society closer to a reality, not a politics which seeks social protection *from* the market. Thus, a sector that in many ways represents a *reaction to* the adversities of market society has become, at the EU level at least, an enthusiast for market society. In different national and local contexts, the case may be different, but variation from this general case seems to be more the exception than the rule. In a sense, the weak are embracing the market, not resisting its vagaries. What's more is that their strong embrace is not necessarily driven primarily by ideology—as we have noted, there are very real and concrete material pressures impelling them to seek the kind of protective strategies they are pursuing.

Conclusion

What, if anything, does this case study teach us about contemporary political dilemmas? And what might this case mean for the saliency of a Polanyian analysis of neoliberal restructuring? While this should remain an open question subject to debate, it might be said that the case of the SME sector's political support for neoliberalism at the EU level says something about the particularity of neoliberal political economy. From a Polanyian perspective, the character of the political agency we would expect from this group has not emerged; but rather its antithesis has. While this does not necessarily discount the capacities of a Polanyian perspective to analyze other situations, it does caution us to consider carefully the causality between resistance to commodification and market society and a political project that seeks to subvert or transform it through protective countermovements. We can see through the aforementioned descriptions of the SME sector as a risk bearer and as a sink that neoliberal restructuring has a dynamic ability to turn critics into stakeholders. One promising hypothesis for explaining this ability is that neoliberal restructuring is able to individualize risk in such a way that collective action problems associated with addressing matters of social protection become much greater than before, while the incentives to support incremental benefits through supporting economic liberalization become the dominant strategy of economic coping. In this regard Cerny's notion of globalization increasing collective action problems is wholly relevant.[38]

Those adversely affected by neoliberal restructuring aren't always on the side of those seeking to resist it. As Halperin has pointed out, Polanyi sometimes characterized political agency in a somewhat peculiar way, whereby an anthropomorphic "society" acts to protect itself against the vagaries of the market.[39] But "society" as a whole never acts—different groups do.[40] And they sometimes act in unexpected ways. Future research might consider the relevance of other examples of a similar nature to that explored above, such as tax revolts lower income groups, or support for neoliberal reform among workers in deindustrializing cities and regions. Surely an ongoing dilemma lies in ensuring that countermovements to reembed the market in society are coordinated in such a way that they can successfully achieve their aims, and that their aims take a character that is not socially regressive, in that they seek what in Habermasian terms we might call a "universalistic closure of the lifeworld."[41] Polanyi's analysis of the regressive reembedding of the market in Fascism is a stark reminder in this regard.[42]

However, what is of equal importance is to understand that some agents, which we would expect to act subversively against the extension of market society do not do so. The SME sector, at least when it is organized at the EU level, appears to have policy preferences that one might not expect—and this should give us pause when considering the correspondence between the narratives of political agency that our theories employ and the more complex and contradictory empirical reality of the real world as we find it.

Notes

1. Karl Polanyi, *The Great Transformation,* (Boston, MA: Beacon Press, 1944), 29.
2. Philip McMichael, "'Anti-Globalization': Polanyian Countermovement or Not?" Paper delivered at the annual conference of the International Studies Association, New Orleans, March 24–27, 2002, 7. Cited in Sandra Halperin, "Dynamics of Conflict and System Change: The Great Transformation Revisited," *European Journal of International Relations* 10, no. 2, (2004): 263–306, 298, endnote 4. This is not to say that applications of Polanyi have been diluted or are uncritical—see Hannes Lacher "The Politics of the Market: Re-reading Karl Polanyi," *Global Society* 13, no. 3 (1999): 313–26; Vicki Birchfield "Contesting the Hegemony of Market Ideology: Gramsci's 'Good Sense' and Polanyi's 'Double Movement,'" *Review of International Political Economy* 6, no. 1 (1999): 27–54; Michael Burawoy "For a Sociological Marxism: The Complementary

Convergence of Antonio Gramsci and Karl Polanyi," *Politics & Society* 31, no. 2 (2001): 193–261.

3. This is an important question, not only because it helps establish the limits of a strong Polanyian view of political agency, but also because many Polanyian-inspired, similar assumptions exist within other works of political economy. See, for example, Erik Ringmar, *Surviving Capitalism: How we Learned to Live with the Market and remained Almost Human* (London: Anthem Books, 2005); Linda McQuaig, *All You Can Eat: Green Lust and the Triumph of the New Capitalism* (Toronto: Penguin Canada, 2002).
4. Some of the results of this research have been published in Kevin Young, "How Neoliberalism Reproduces Itself," *Philosophy of Management* 5, no. 2 (2005): 79–88. The main results, which document the political agency of SMEs more broadly, are forthcoming.
5. See Karl Polanyi, "The Economy as an Instituted Process," in *Primitive, Archaic and Modern Economies: Essays of Karl Polanyi,* (ed. G. Dalton (New York: Anchor Books, 1968), 139–74.
6. Within this definition, there are three tiers of enterprises: there are "microenterprises" (less than ten employees), "small enterprises" (less than fifty employees and less than seven million Euros in annual turnover or a total less than five million Euros in its balance sheet), and medium-sized enterprises (less than two hundred and fifty employees and less than forty million Euros in annual turnover or a total less than twenty seven million Euros in its balance sheet). These definitions changed slightly on January 1, 2005. See European Commission Enterprise Directorate-General, *The New SME Definition: User Guide and Model Declaration* (Brussels: European Commission, 2003), 14.
7. "On average, a European enterprise provides a job for seven persons; this measure of enterprise size varies between 3 in micro enterprises and over 1,000 in large-scale enterprises. So, the typical European firm is a micro firm." "According to research carried out by the European Commission in 2003, 92 percent of firms in the EU15 are microenterprises; 7 percent are medium-sized enterprises; 1 percent are medium-sized enterprises; and .25 percent are LSEs (large-scale enterprises)." See European Commission Enterprise Directorate-General (in association with KPMG, EIM Business and Policy Research), *2003 European Observatory of SMEs No. 7* (Brussels: Enterprise, 2003); European Commission, *SMEs in Europe 2003* (Luxembourg: European Commission, 2004), 26 and 33.
8. The term sink is invoked here to connote a means of absorbing or removing a dynamic or energy from a system.
9. See European Commission, Eurostat, *European Business Facts and Figures: Data 1998–2002,* (Luxembourg: European Commission, 2004), 18.
10. See, for example, European Commission Enterprise Directorate General, *Summary Report: The Public Debate Following the Green Paper 'Entrepreneurship in Europe,'* (Luxembourg: European Commission, 2003), 15. At the beginning of the Lisbon process, a major European Commission conference on entrepreneurship was focused on this issue of an entrepreneurial culture. See European Commission Enterprise Directorate General, *Entrepreneurship for the Future—Final Report (published conference proceedings)* (Luxembourg: European

Commission Press, 2001). Since then, the European Commission and the Enterprise Directorate General have focused increasingly on the issue of "fuelling entrepreneurial mindsets," highlighting best practices and conducting specific studies and launching specific initiatives. See European Commission Enterprise Directorate-General, *Report on the Implementation of the European Charter for Small Enterprises in the Countries of the Western Balkans* (Luxembourg: European Commission, 2004), 8–9. For an overview of the Commission's attention to "best" practices in regard to entrepreneurial culture promotion through education reform, see European Commission Enterprise Directorate General, *Helping to Create an Entrepreneurial Culture: A Guide on Good Practices in Promoting Entrepreneurial Attitudes and Skills Through Education* (Luxembourg: European Commission, 2004).

11. Polanyi did differentiate between different groups acting in descriptive accounts of some historical events, but we might note that he did this in addition to often referring to a metaphysical "society" willing and acting. He also actively defended a notion of "society as a whole" in his critique of class-based theories of political agency, since he regarded the successes of particular classes to be reliant on cooperation and support with groups greater than their own. See Karl Polanyi, "Class Interests and Social Change," in *Primitive, Archaic and Modern Economies: Essays of Karl Polanyi,* ed. G. Dalton (New York: Anchor Books, 1968), 38–58.
12. In this way, he was following the same continental humanist tradition as Marx in understanding social alienation—and the political agency flowing from it—as the result of the modern divide between the will we can impose on the world, and the will that is imposed on us by the world.
13. Polanyi, *Great Transformation,* 176.
14. Becholfer and Elliot's comments are particularly instructive for smaller SMEs: "In the struggle to keep the business afloat, husbands, wives, children, and often a wider network of kin and friends are drawn into the routines of the workplace. The insulation of work and home, family from job—so familiar to most people in a modern capitalist society—is neither possible nor, in many instances, desired. Their work is their life. The sense of self-hood, the day-to-day domestic relationships take their character from the rhythms and routines of the shop the bakery or the small farm. The relationships between the owners of the productive resources and those who work alongside them are seldom simply those of boss and worker. Commonly the worker is also a spouse, or a son or daughter, for the greatest number of petit bourgeois businesses are family businesses." See F. Bechholfer and B. Elliot, "The Petite Bourgeoisie in Late Capitalism," *Annual Review of Sociology,* 11 (1985): 199, 201.
15. European Commission, *2003 European Observatory of SMEs,* (Luxembourg: European Commission, 2003), 26.
16. P-A. Haynes and E. S. Hauge. "SMEs and Co-operation," *Observatory of European SMEs,* No. 5 (Belgium: Directorate General for Enterprise, European Commission, 2003): 1–65, 13. See also Z. J. Acs and B.Yeung, "Conclusion: Small and Medium-Sized Enterprises in the Global Economy," in *Small and Medium-Sized Enterprises in the Global Economy* (Ann Arbor: University of Michigan Press, 1999).

17. In Russia, for example, SME growth is explicitly linked to "the restructuring of large enterprises and the financial system" which have surpluses of labor that cannot otherwise be absorbed; unemployment more generally has meant that people are "pushed into entrepreneurship." The same has been the case in countries like Poland, and especially in the former East Germany. See I. Astrakhan and A. Chepurenko, "Small Business in Russia: Any Prospects After a Decade?" *Futures* 35 (2003): 341–59, 357. On the East German case, see B. Musyck, "Institutional Endowment, Localized Capabilities and the Emergence of SMEs: From Mining to Recycling, the Case of Freiberg (Saxony)" *Entrepreneurship and Regional Development* 15 (October–December 2003): 273–98, 273.
18. Consequently, what some have observed as a growth in the "petty bourgeoisie" has been contested as simply a counter-cyclically induced growth in self-employment. See M. Linder and J. Houghton, "Self-Employment and the Petty Bourgeoisie: Comment on Steinmetz and Wright" *American Journal of Sociology* 94, no. 3 (1990): 727–35; G. Steinmetz and E. O. Wright, "Reply to Linder and Houghton" *American Journal of Sociology* 96, no. 3 (1990): 736–40.
19. On this dynamic, see Z. Lin, J. Yates, and G. Picot, "Rising Self-Employment in the Midst of High Unemployment: An Empirical Analysis of Recent Developments in Canada" in *Statistics Canada Business and Labour Market Analysis No. 133* (Ottawa: Statistics Canada, 1999): 1–29, 12.
20. See O. Uneke, "Ethnicity and Small Business Ownership: Contrasts Between Blacks and Chinese in Toronto," *Work, Employment and Society,* 10, no. 3 (1996): 529–48; citations are from page 533, 534, and 535.
21. I understand Polanyi here to mean sectoral interests vying for protection based on a sectional economistic calculus, not society as a whole. See Polanyi, *Great Transformation,* 130.
22. Ibid., 225.
23. See J. Greenwood, "Organized Business and the European Union" in *Organized Business and the New Global Order,* eds. Henry Jacek and Justin Greenwood (New York: St. Martin's Press, 2000), 90.
24. See David Coen and Charles Dannreuther, "Differentiated Europeanization: Large and Small Firms in the EU Policy Process," in *The Politics of Europeanization,* eds. Kevin Featherstone and Claudio M. Radaelli (Oxford: Oxford University Press, 2003), 253–75, 264.
25. L. Hooghe and G. Marks, *Multi-Level Governance and European Integration* (New York: Rowman & Littlefield, 2001).
26. It is noteworthy that not only did such support for neoliberalism in the EU come across in the interviews conducted, but also in the reports of consultations conducted by the Commission. According to a 2003 report, the SME community heralds a flexibilization of labor markets, and a simplification of labor law. Additionally, there is a grave need expressed to reduce administrative and regulatory burdens for SMEs. See European Commission, *Summary Report: The Public Debate Following the Green Paper,* 5, 19.
27. Anonymous interview.
28. Polanyi, *The Great Transformation,* 177.
29. On Polanyi's notion of "substantive economy" and his rejection of the notion of *homo-economicus,* see G. Baum, *Karl Polanyi on Ethics and Economics*

(Montreal: McGill-Queen's Press, 1996), 46–48. See also Karl Polanyi "The Economy as an Instituted Process."

30. General Secretary, CEDI, Neunkirchen, in discussion with the author, August 24, 2004.
31. This appears to be true for SMEs in the micro, small, and medium-sized manifestations. While the average labor cost as a percentage of value-added in large-scale enterprises is 47 percent in the EU19, in SMEs the average figure is 56 percent. Thus the average labor costs as a percentage of value-added are approximately 19 percent higher in SMEs than in large-scale enterprises. This might signify that labor costs as a percentage of their marginal utility are higher in SMEs, thus perhaps contributing to their disdain for labor market regulation that might increase the costs of labor. Note: the figures used here are for the EU 19, as calculated by the Enterprise DG in their publication, European Commission, *2003 European Observatory of SMEs,* 26.
32. See European Commission, *European Observatory of SMEs,* 27.
33. UEAPME stands for "Union Europeenne de L'Artisanat et des Petites et Moyennes Enterprises" which, in English translates to European Association of Craft, Small, and Medium-Sized Enterprises.
34. Interview, Enterprise Policy and External Relations, UEAPME. Brussels: February 23, 2005.
35. Senior Advisor with Dossiers in Entrepreneurship and SMEs, UNICE, in discussion with the author in Brussels, February 24, 2005.
36. Deputy Secretary General, Eurochambres, in discussion with the author in Brussels, August 26, 2004.
37. P. Huang, "The Peasant Family and Rural Development in the Yangtzi Delta, 1350–1988: A Reply to Ramon Myers," *The Journal of Asian Studies* 50, no. 3 (August 1991): 629–33; K. Pomeranz, *The Great Divergence: China, Europe, and the Making of the World Economy* (Princeton: Princeton University Press, 2000): 98–101.
38. See P. Cerny, "Globalization and the Changing Logic of Collective Action," *International Organization* 49, no. 4 (1995): 595–625.
39. Halperin, "Dynamics of Conflict and System Change".
40. In Polanyi's defence, he acknowledged this when he wrote, "The 'challenge' is to society as a whole; the 'response' comes through groups, sections, and classes." Also, some of his emphasis on broad-based social agency was the result of his desire to explicate that groups didn't act politically because of a purely economic utilitarian calculus. Yet there was clearly a tension here in Polanyi's work that suggests that he did utilize anthropomorphic notions of "social" agency against "the market." Consider, for example, the same essay where Polanyi tries to argue for the reasons why we should consider "general interests" to "become effective" because of overlapping functional associations. See K. Polanyi, "Class Interest and Social Change," 40.
41. J. Habermas, *The Postnational Constellation: Political Essays* (Cambridge, MA: MIT Press, 2001).
42. For an excellent short note on this often overlooked aspect of Polanyi's work, see D. Hall, "Double Movement," in *Encyclopaedia of Globalization,* eds. R. Robertson and J. A. Scholte (London: Routledge, 2006).

12

Corporate Social Responsibility and Market Society: Credit and Banking Inclusion in Brazil

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Introduction

The impact of the Brazilian modernization process on the expansion of market relations can be understood by considering the ways in which the economy relates to social organization and culture, and the implications of economic and political institutions on human livelihood.[1] Brazilian national development advanced in the framework of the international order of the Bretton Woods era and strongly influenced the conditions of social inclusion through the modernization of institutions and the emergence of new forms of individual mobility. In the period between the 1950s and the 1970s, socioeconomic transformations associated with industrialization and urbanization reflected the efforts made to consolidate a particular pattern of industrial accumulation by investing in necessary areas. In this context, state intervention supported the conditions of economic growth and harmonized the tensions between the traditional and modern institutional setups in order to promote quantitative and qualitative transformations in the economic structure. The idea that economic growth would benefit the society as a whole led to attempts to create new conditions of social inclusion and a new pattern of individual mobility. Against this background, social and civic dimensions of the development strategy called for the mobilization of public resources to galvanize the Brazilian economy.

A. Buğra et al., *Reading Karl Polanyi for the Twenty-First Century*

At the beginning of the 1970s, despite the crisis in international investment, economic expansion continued to consolidate the industrialization pattern of Brazil's Second Industrial Revolution. Nevertheless, the process of social inclusion proved to be heterogeneous and revealed tensions between the possibilities of social mobility and profit-led accumulation pattern. In other words, the process of market integration turned out to be restricted as traditional values and practices have survived in the modernization settlement. In this historical setting, the meaning of social participation in the modernization efforts was redefined.

In the late 1980s, transformations in the conditions of market integration revealed tensions inherent in the crisis of the postwar investment pattern: the sustainability of public debt and the accumulation capacity of big corporations as the principal actors of national capitalism were disclosed. After the 1980s, modernization efforts increasingly subordinated social life to the fiction of money as a commodity. As a result, tensions between productive investment and financial assets limited the implementation of economic policies aimed at achieving economic growth. In this context, traditional spheres of social interrelations and civic behavior became increasingly disorganized.

In the 1990s, economic measures that centered on price stabilization, privatization, and liberalization of all markets were put in place. This response, which aimed at overcoming the constraints created by the increasing public indebtedness, defined a new form of integration in the international financial circuits. As a matter of fact, the Brazilian state redefined its social and economic role in an attempt to reduce the pressure of the foreign exchange and investment crisis. The state induced socioeconomic transformations that privileged financial assets in the composition of private and social wealth. As the process of investment lost its social dimension, employment and social inclusion became subordinate to the financial nature of private decisions. Recent social and economic trends reveal a tension between the absence of commitment to economic growth and the claims of employment and citizenship.

Current investment decisions are overwhelmingly dictated by speculative financial activities where the growth of financial assets redefines the dimension of time and space, shortening the length of decision periods and broadening the spectrum of possibilities of valorization. In such a context of financialization, the return of public bonds has strengthened a fluid horizon of yield for short-term investment decisions. The expansion of the financial sphere delimited the scope of productive investment and new perspectives of social inclusion have been configured by means of the process of banking inclusion. Against a macroeconomic background that is characterized by recessive adjustments and guided by the deflationary monetary rules imposed by the accumulation pattern, the expansion of the market economy is facilitated by the enhanced flexibility of financial activities where access to credit becomes possible for the low-income population. The commodification of money tends to dominate the social sphere where banks come to assume new roles. Thus, by making personal loans easily accessible to those hitherto outside the financial sphere, the banking system becomes a key actor in the movement of expanding the market economy.

The notion of "corporate responsibility" as well as institutional changes in the financial sector to assure credit access to the underprivileged segments of the population constitute recent attempts to stimulate banking inclusion as emphasized in the transformation of the institutional setup of the Brazilian market system, particularly after 2003. Under the guidelines of the multilateral institutions, the new role and scope for public social policies was reinforced, and corporate responsibility practices were considered as important elements to stimulate not only economic growth but also social stability in that "new civic" interrelations were established with shareholders, clients, employees, suppliers, communities, and governments of future generations. Considering the advance of the self-regulated markets and the centrality of private agents in economic growth, social interrelations and "new patterns of civic involvement" would be mediated by the conceptions of entrepreneurship and corporate social responsibility. The participation of new actors in solutions to social challenges would create new forms of solidarity in a globalized market system. This new approach to "social solidarity" would complement the concept of the minimum state that privileges the private management criteria of efficiency, efficacy, and effectiveness in the allocation of resources.[2]

Taking into account the current implications of corporate responsibility practices of banks in social inclusion, Karl Polanyi's criticism of the liberal myth and of the disruptive forces of market society is inspiring for an analysis of the impact of neoliberal policies on conditions of livelihood. The centrality of the market entails that "nothing must be allowed to inhibit the formation of markets, nor must incomes be permitted to be formed otherwise than through sales."[3] In other words, labor, land, and money are seen as commodities and are produced for sale. As the commodity fiction becomes the vital organizing principle, self-regulated markets demand the institutional separation of society into economic and political spheres, that is to say, in a market society, social relations are embedded in the economy rather than the economy embedded in social relations.

In the Brazilian experience, the commodification of money is an important expression of recent economic and cultural changes because it makes possible further subordination of sociability conditions to the market economy: social relations increasingly become an "accessory of the economic system."[4] Nevertheless, according to Polanyi, the evolution of markets was always accompanied by safeguards to protect society from the interference of market practices. The deliberate intervention both to "institute" the market economy and to protect the society from its harmful effects expresses

> the action of two organizing principles in society, each of them setting special institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market . . . ; the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization[5]

The current historical setting of the Brazilian modernization process suggests that the idea of "corporate social responsibility" is promoted as an important mechanism of social protection in an otherwise market-dominated society. In particular, the credit policies of financial institutions—which are expected to enlarge loans to low-income and small borrowers who have always had limited chances of credit access through regular channels—are supposed to be effective toward social inclusion. The transformations observed in the financial institutional setup—changes in the banking sector legislations as well as the definition of strategies pursued by the Brazilian banks regarding personal loans and microcredits—do not serve, however, to protect the society, but contribute to further commodification of social relations. People are drawn into the cash nexus as consumers in a market economy where the financial sector dominates economic life. Thus, the new institutional arrangements and practices in the banking sector that could be seen as a mechanism of "self-protection of society," in fact contribute to social exclusion by means of the increasing commodification of social life.

From Industrialization to Financialization

The Brazilian industrialization process after the Second World War was characterized by the notion of national development in which state intervention made it possible to overcome the restrictions on the volume of investment necessary to consolidate the structural transformations. Thus, the solution given to private investment fragility expressed the decisive role of the state actions that aimed to achieve long-run investments and the articulation of the financial conditions.[6] The expansion of public banks and the role of capital foreign flows were decisive in the industrialization process.

The period between 1950 and 1973 was marked by the idea of national development whereby state intervention would guarantee the sustainability of this process. In this context, enterprises defined their strategies, and the construction of citizenship became a constitutive aspect of national development. In this way, in the Bretton Woods period, the behavior of private economic agents in Brazil was influenced by the evolution of monetary, fiscal, and exchange-rate policies in an international context that favored the implementation of policies characterizing the so-called Keynesian era. Huge public investments in industry were justified in a social context where the process of development and the extension of the modern republican citizenship were thought of as two faces of the phenomena of social inclusion.

At the beginning of the 1970s, in the context of the investment crisis of the industrialized economies, the Brazilian economy continued to expand and its links to the international financial system were strengthened in order to overcome the financial constraints on the implementation of public investment projects. In the period between 1965 and 1977, industries such as manufacturing and civil construction were among the most dynamic sectors of the Brazilian economy, and the growth of the credit system supported the expansion of housing loans and the consumption of durable goods (table 12.1). It was the impact of income disparities on the structure of aggregate demand and hence on private investment decisions that reinforced the constraints on further economic expansion.[7]

The conditions of inclusion in the industrial society were decisively influenced by the institutional setup that made viable the long-run perspectives of development by means of industrial employment expansion (table 12.2). Nevertheless, this accumulation pattern led to the emergence of a fragmented social structure. On the one hand, specific capitalist development features advanced through the coexistence of traditional and modern forms of production and reproduction of material life.[8] On the

Table 12.1 Economic sectors, participation in economic growth: Brazil, 1965–1977

Sectors	*1965–73*	*1973–77*	*Average 1965–77*
1. Agriculture	2.5	6.4	3.9
2. Industry	97.5	93.6	96.1
2.1 Manufacturing	80.2	61.3	73.2
2.2 Civil construction	17.3	32.3	22.9

Source: Maria da C. Tavares. *Ciclo e crise: o movimento recente da industrialização brasileira* (Campinas, Coleção Teses: Instituto de Economia, 1978).

Table 12.2 Gross domestic product, population, distribution of labor incomes, and creation of new jobs: Brazil, 1960–1980, in percentage

Period	*GDP rates of growth (1)*	*Population rates of growth (1)*	*Distribution of labor incomes, rates of variation in the period (2)*		*Creation of new jobs (3)*		
			50% poorest	*5% richest*	*Agriculture*	*Industry*	*Services*
1960–1970	6.17	2.89	−14.37	20.5	11.9	34.6	53.5
1971–1980	8.63	2.44	−15.47	11.14	0.2	37.8	62.0

Sources: (1)Banco Central do Brasil, *Indicadores Econômicos* (Brasília: 2005); (2) José Serra, "Ciclos e Mudanças estruturais na economia brasileira do pós-guerra," in *Desenvolvimento capitalista no Brasil,* ed. Luiz G. M. Belluzzo and Renata Coutinho (SP. Brasiliense, 1984); and (3) Edmar Bacha and H. Klein, *A transição incompleta: Brasil desde 1945* (RJ. Paz e Terra, 1986).
Note: (3) elasticity industrial product/employment.

other, although there was the expectation of social inclusion by means of the expansion of employment in the formal sector, this process turned out to be restricted, stimulating the informal sector through the process of industrialization.

In Brazil, the exhaustion of the pattern of public financing was expressed in its domestic and foreign dimensions (the crisis of the foreign debt and the expansion of the domestic public indebtedness), and revealed the challenges to articulate policies toward long-term growth. The crisis of the long-term investment pattern meant disorganization of industrial investment, restrictions to investment in traditional sectors, pressures on exchange, high inflation, and unemployment.

Since the late 1980s, critics of the nature of the postwar pattern of development started to raise their voices under the multilateral institutions' auspices, and their faith in the potential of the global markets to achieve economic growth influenced the policy choices. In order to follow the guidelines of the Washington Consensus, the domestic economic and social policies in Brazil were adjusted to the requirements of the global economy in such a way as to ensure the expansion of the self-regulated market, which was perceived as the only way to achieve economic growth. The centrality of private agents to the new perspectives of development overwhelmed all institutional transformations. Considering this background, the new economic role of the state would involve the definition and protection of private property rights offering efficient legal, judicial, and normative systems. In relation to the imperfections or insufficiencies of the markets, the multilateral institutions—particularly the World Bank—recognize two areas that must be the object of state actions: infrastructure and essential services, including financial services to poor people.

Nevertheless, the attempts to adapt the national structure to the neoliberal model had an important impact on the accumulation of wealth and perspectives of social inclusion. The crisis of the public financial pattern had serious implications concerning the policy choices available to the state in relation to the economic reproduction conditions. The redefinition of the role of the state in the evolution of investments and the weight of the financial commitments related to public debt in the orientation of public resources express the changing nature of the current accumulation pattern. In truth, the overcoming of the public and social investment crisis has involved the configuration of a private decision-making process centered on the preference for financial liquid assets.

Consequently, the process of market flexibility has been connected to a new configuration of social reproduction conditions in terms of employment and income. The centrality of the financial logic of investment creates tensions between the perspectives of economic and social reproduction. As a matter of fact, in recent years, there has been broad recognition that the current operation of the self-regulated markets provokes economic instability. The evolution of the recent economic performance in Brazil confirms that this financial centrality prevents the possibility of sustainable economic growth.

Current macroeconomic policies have privileged price stability instead of preserving productive investments and employment. The logic of short-term private decisions that impose volatility on the evolution of investment and product provokes stop-and-go movements in economic growth (table 12.3). The pace of productive investment tends to slow down in a framework characterized by the preference for financial rather than industrial capital accumulation. Besides, the economic openness restricted the options of investment through the destruction of productive chains and the regression of industrial structure while the importance of exporting

Table 12.3 Economic sectors, rate of growth: Brazil, 1995–2002, in percentage

Economic sector	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*
1. Agriculture	4.1	3.1	−0.8	1.9	7.4	3.0	5.7	5.5
2. Industry	1.9	3.3	4.7	−1.5	−1.6	4.9	−0.3	2.6
2.1 Manufacturing	2.0	2.1	4.5	−3.7	−1.6	5.4	1.0	3.6
2.2 Civil construction	−0.4	5.2	7.6	1.4	−3.2	3.0	−2.6	−1.8
2.3 Industrial services of public utility	7.6	6.0	5.9	3.8	2.5	4.1	−5.6	3.0
3. Services	1.3	2.3	2.6	1.1	1.9	3.7	1.9	1.6

Source: Instituto Brasileiro de Geografia e Estatística (IBGE), *Contas Nacionais* (Rio de Janeiro, 2004), http://www.ibge.gov.br.

integration advances and the performance of domestic product became dependent on the dynamics of the international economy.

In this context of structural changes, the soaring of unemployment and the flexibility of labor relations shaped new patterns of social resistance. Commercial and financial openness restricted the space of industrial accumulation, with decisive social outcomes in the form of the reduction of industrial jobs, the displacement of productive plants, and new forms of organization of labor. In the process of the transformation of productive and social structures, the distribution of workers by economic sectors changed: between 1992 and 2001, a reduction of jobs in agriculture and industry was observed, falling from 25 and 21.1 percent to 18.3 and 20.4 percent, respectively.[9] The service sector grew, as a result of the expansion of jobs and incomes, not only in the formal sector, but also in the informal sector. Such movements in the labor market were also characterized by the decline in the rate of formal wage employment and an increase in the number of the self-employed. Thus, in this framework, the relations and interactions between the formal and informal sectors were affected in different ways by means of the transformations in the circuits of current income, credit, and expenditure.

Current changes observed in the conditions of livelihood in Brazil have been shaped against the background set by the national institutions that were historically constructed and consolidated in the postwar period. The evolution of labor and capital incomes since the mid-1990s reflect the transformations in the investment and employment trends that tended to aggravate social exclusion and inequality. In the last decade, the share of labor incomes in gross domestic product fell and total unemployment increased in a context where the policy options were centered on price stability and the liberalization of trade and finance. The composition of capital incomes—dividends and interests—also revealed the redistributive effects of the current financial accumulation pattern (table 12.4).

Table 12.4 Capital incomes, labor incomes, and unemployment: Brazil, 1999–2003, in percentage

Year	*Capital incomes—dividends**	*Capital incomes—interests**	*Labor income as % of GDP*	*Total unemployment, in % of economically active population*
1999	234.8	237.3	41.3	9.0
2000	172.3	223.0	42.48	9.6
2001	252.5	276.5	41.74	9.4
2002	340.4	275.7	40.57	9.2
2003	323.6	251.4	39.71	9.7

Source: Instituto Brasileiro de Geografia e Estatística (IBGE), *Contas Nacionais* (Rio de Janeiro, 2005), http://www.ibge.gov.br.
*base = 1995, deflator IPCA.

As a result, the market integration process can be understood in the context of the redefinition of the labor market conditions where direct contract relations ultimately have grown and mechanisms of social protection have tended to shrink. Considering this background, the expansion of the financial access to underprivileged people was intended to stimulate the market economy whose expansion was restricted by deflationary policies and low rates of economic growth. In this framework, the pressures generated by social disparities could be dampened through the expansion of the process of banking inclusion.

Credit and Social Life

The tensions emanating from the market zone—the decline of production, employment, and wages—expanded to the political sphere.[10] The recent institutional changes in the Brazilian financial sector could be understood as an expression of the specificities of the neoliberal adjustment where the challenge presented by the social tensions generated by unemployment and the loss of purchasing power has been faced with the enlargement of credit access to almost forty-five million low-income people with no access to regular bank services because of the lack of income certification.[11] In other words, the problems created by the self-regulating market system have led to changes in legislation and regulation in a way to meet, at the same time, the necessary requirements to further financial expansion. Thus, the institutional changes that aimed to enhance social inclusion, in fact, also contributed to foster financial expansion.

To achieve the target of banking inclusion, the Brazilian government tried to transform the low competitive setup in the banking system in order to expand the volume of credit and to reduce the interest rate of loans.[12] Since the late 1980s, deregulation and price stabilization, privatization and internationalization, contributed to the transformations observed in the competitive features of the Brazilian financial sector.[13] The creation of universal banks in 1988, with consolidated financial statements and full capital mobility to operate in monetary, exchange, capital, and credit markets, stimulated the expansion of financial conglomerates. The opening of the banking sector to foreign capital, in the second half of 1995, was followed by a process of growing mergers and acquisitions in the banking sector. Since then, the place of Brazil in the global financial world can be apprehended by the presence of the biggest international banks and by its form of financial integration that has contributed to the liquidity of international financial system as a *locus* of valorization.

Consequently, adjustments to the financial system resulted in a more concentrated, privatized, and internationalized structure.[14] In Brazil, the contribution of bank credit to gross domestic product has historically remained below 30 percent. By the mid-1990s, the expansion of credit had come to mark an important change in the economic roles played by public and private banking institutions. Private banks turned out to be the leaders in the credit market, while the role of public banks declined.

After 2000, the government promoted institutional changes in banking inclusion by the expansion of credit loans to the so-called social segments by providing banking services to the low-income population. The government actions involved

- the alteration of the institutional setup to facilitate the operation of financial institutions in the "social" segments by means of the creation of simplified bank accounts that could be opened without income certification;
- an increase in the number of bank representatives and a broadening of the services supplied;
- the regulation of the consigned credit to waged workers and retired people of the public pension system;
- the reduction of credit risk through new legislation relative to the physical guarantees of loans granted to buy durable goods;
- an increase in the number of financial agents that could offer financial services to the low-income population by the creation and promotion of new financial agents—such as the Popular Bank of Brazil, microcredit institutions, bank cooperatives, and credit cooperatives—besides the regular credit channels;
- the configuration of a program of production-oriented microcredit and the definition of new sources to fund the expansion of microcredit loans (mainly based on bank deposits); and
- the reduction and elimination of transaction taxes and credit duties in simplified accounts and microfinance operations.

The new legislation and regularization setup is summarized in table 12.5.[15] This setup involves new social interactions underlying the corporate responsibility practices in the banking system. Against the Brazilian background characterized by economic and social disparities, the current modernization process has increasingly been dependent on the actions of financial institutions. The credit expansion overwhelmed not only the transformations in the market integration process and social reproduction, but also the configuration of new sociability conditions in the context of the crisis of the postwar patterns of productive investment.

When taking into account the social responsibility principles and policies in the Brazilian retail banking system, the image of the corporation is

Table 12.5 Main institutional changes in the financial system: Brazil, 2000–2005

Institutional feature	*Legislation and regulation*
Simplified accounts	CMN resolution 3211/04 (a)
Bank representatives	CMN resolution 3153/03 and 2707/00
Consigned credit	Law 10820/03, decree 4961/04, and CMN resolution 2718/00
Credit risks and guarantees	CMN resolution 3258/05, measure of the Central Bank: circular 3163/05, and provisional measure no. 2, August 2001
Popular Bank of Brazil (Banco Popular do Brasil)	Law 10738/03
Cooperative banks	CMN resolution 3188/04 and 2788/00
Credit cooperatives	Law 10865/04, CMN resolution 3106/03, and 2707/00
Microcredit societies (SCM) (b)	Law 10194/01, CMN resolution 2874/01, and 3182/03
Microcredit special deposits	Law 10735/03, 11110/05 and CMN resolution 3310/05
National program of productive-oriented microcredit	Law 11110/05, decree 5288/04, CMN resolution 3310/05, and CODEFAT resolution 449/05 (c)
Taxation on credit loans	Laws 10865/04, 11110/05, and measure of the Minister of Finance: Portaria 244/04

Source: Ministério da Fazenda. *Microcrédito e Microfinanças: Cooperativismo de Crédito no Governo Lula* (Brasília: 2005).
(a) CMN—National Monetary Council
(b) SCM—Microcredit societies
(c) Codefat—Council of defense of workers

generally associated with values—honesty, integrity, and a sense of intense responsibility—that emphasize the necessity of balancing corporate profitability with community-oriented social action.[16] Banks consider that economic performance in the long term demands a solid commitment to sharing trustworthy information with shareholders and maintaining high-quality products and services. Besides, global principles ruled by the International Labor Organization and the Global Compact would be followed, because of concerns over eliminating job discrimination and all forms of forced or child labor. The main idea is that these management strategies would lead to economic growth, maintaining, at the same time, a balanced relation between profitability on the one hand and the protection of human beings and nature on the other. These objectives would be achieved through projects developed in partnerships with institutions and nongovernmental organizations (NGOs), and also involve governments and suppliers in social actions. In order to express social responsibility, banks would bolster the importance of the financial institution in the community, supporting social, environmental, and educational projects and the decisions related to lending needs.

Nevertheless, the management of credit risk in the banking sector has changed in the recent past in order to support the segmentation strategy of banking inclusion. As a result, credit operations have expanded the market economy because of the adoption of less-strict requirements in terms of income certification and guarantees in the process of lending. Since 2003, the initiatives that aimed to increase the level of banking inclusion in Brazil have involved the public retail banks, Caixa Econômica Federal (CEF) and Banco do Brazil (BB), that have reinforced, through competition, the incorporation of the lower-income clients' segment.[17] This strategy of banking access was followed by private retail banks, with the objective of enlarging their segmentation strategies through simplified accounts, microcredit, and personal loans (table 12.6).

Despite the increase in the scale of microcredit operations after the entrance of the retail banks in the segment of microfinance, the volume of loans remains less than that required by the federal government.[18] The objective of microcredit policies is to extend credit among formal and informal microentrepreneurs, agricultural and urban, aiming at the generation of income and jobs. This process would contribute to the development of enterprises located in small cities or microregions, besides extending access to financial services (banking accounts, saving, insurances) to low-income population.

Taking into account the destination of credits, the microcredit loans for consumption (or free use) surpassed the loans to the microentrepreneurs (table 12.7). As a matter of fact, as far as microcredit is concerned, social goals have not been achieved because credit operations of banks have remained guided by profit targets. In fact there is evidence that banks are not interested in the operations of regulated microcredit because their perception of it is one of low return, given the high levels of risk and costs of transactions. The

Table 12.6 Main indicators of the financial system: Brazil, December 2002–August 2005

Indicators	*Absolute variation in %*
Number of clients (a)	17.8
Deposits	34.0
Loans	55.1
Equity	60.9

Source: Ministério da Fazenda, *Microcrédito e Microfinanças: Cooperativismo de Crédito no Governo Lula* (Brasília, 2005).
Note: (a) The number of clients refers to the total accounts of time, saving, and short-term deposits.

Table 12.7 Microcredit loans: Brazil, December 2004

*Direction of the loans**	*Loans (balances in 12/04) (in US$ 000s)*	*Flow of loans in 2004 (in US$ 000s)*	*Number of contracts in 2004*	*Average value of contracts (in US$ 000s)*	*Average maturity in months*
Consumption (or free use)	2,342,314	3,321,980	3,678,187	903	9.9
Microentrepreneur	216,667	889,103	360,409	2,467	7.0
Total	2,558,981	4,211,083	4,038,596	1,043	8.4

Source: Ministério da Fazenda, *Microcrédito e Microfinanças no Governo Lula* (Brasília, 2005).
* monthly rates limited to two percent.

banking system considered that the lack of real guarantees and the cost of deposits were inadequately recompensed by the charge of a 2-percent monthly interest rate in microcredit loans that the federal government policy had established. Thus, the expansion of microcredit loans remained limited both because of high operational costs and credit risks highlighted by the banking system and because of the fact that the low-income segment does not consume many of the products and services supplied by banks.

While considering the management of free resources in the credit market, which amounted to barely 15 percent of the gross domestic product at the beginning of the 2000s, the financial institutions in Brazil focused on credit segments that would yield higher returns in shorter durations thus preserving capital mobility for a quick change of investment strategy. The short-term maturity of personal loans is allowed to redefine the allocation of assets in case of abrupt reversion of expectations about the future development of the economy (expenses and profits) and the validation of accumulated debts. As a result, strategic decisions have been oriented to expand personal loans that present higher spreads (table 12.8). The level of spreads is partly justified by the banking sector as due to the macroeconomic instability that provokes increased risk of borrower insolvency. However, the concentrated structure of the banking system and its effects in the determination of the level of spreads is crucial to understanding the price rigidity of personal loans in Brazil.

The recent Brazilian experience shows that the expansion of short-term loans market by means of differentiation of interest rates in the retail banking system involved segmentation strategies with innovations in credit contracts and credit-risk management, personal loans supplied by other specialized financial agents belonging to the same conglomerate, as well as the retail banks' partnerships with retail commerce.[19] For example, in the period between May 2004 and May 2005, the retail banking system amplified its personal credit operations based on consigned credits that are guaranteed by future wages and pensions and, thus, are considered less-risky loans, and its percentage in the total personal loans demonstrated a positive variation of 10 percent due to lower interest rates (table 12.8).

Financial-access strategies support the economic reproduction of the banking system through the transformations they have brought about in the composition of revenues.[20] The high level of profitability of the Brazilian retail banking sector turned out to be based not only on the rate of return of public bonds, but also on the performance of credit revenues nurtured by high spreads and the expansion of fees and commissions.[21] Profitability has been decisively influenced by the financial accumulation pattern centered on the expansion of the public debt that offers high yields (table 12.9).

The short-term personal credit policies centered on profit seeking express the limits of the state to establish a strategy of long-term development.[22] The new institutional setup aimed at financial-access flexibility could not modify banking strategies in a way as to foster growth and contribute to social inclusion. Those changes could only contribute to further financial sector expansion.

Table 12.8 Spreads, free resources: Brazil, 2003–2005, annual average in percentage

Period	*Total credit loans**	*Personal loans—free resources**	*Corporate loans—free resources**	*Spread in personal loans*	*Spread in corporate loans*
June 2003	−7.0	−7.7	−14.7	58.5	14.6
December 2003	−0.5	5.8	−8.6	50.8	14.4
January 2004	0.3	7.0	−7.3	50.0	14.3
June 2004	10.0	14.5	8.2	45.0	14.3
December 2004	3.6	13.5	8.0	43.3	13.0
January 2005	11.3	21.5	10.3	45.2	13.3

Sources: Banco Central do Brasil, *Relatório Anual* (Brasília, 2003); Instituto de Estudos para o Desenvolvimento Industrial (IEDI), *Análise IEDI,* February 2004; and *Carta IEDI* no.148, 2005.
Note: * variation considering the same month of the preceding year.

Table 12.9 Interest rate and bank profitability: Brazil, 2003–2004, in percentage

Year	*Nominal interest rate**	*Bank profitability** (return on equity)*
2003	23.32	18.1
2004	16.24	17.6

Sources: Banco Central do Brasil, *Relatório Anual* (Brasília, 2003); and *Indicadores Econômicos* (Brasília, 2005); Valor Grandes Grupos (Valor online, 2005).
Notes: * SELIC, public bonds, annual average.
** In 2003, includes 35 financial groups; and in 2004, 33 financial groups.

As a result of the commodification of money, in the form of personal loans and microcredit operations, the financial institutions have established the dominance of market exchange over the forms of reciprocity and redistribution that had characterized the background of developmentalism in Brazil until the neoliberal era. Evidence from the recent Brazilian microcredit experience suggests transformations in individual behavior toward the economic motive and the disorganization of traditional forms of reciprocity and redistribution. In the framework of financial flexibility, microcredit loans have nurtured market-oriented survival strategies through the expansion of commercial activities in the informal sector without a significant productive perspective.[23]

These strategies involved changes in the redistributive policies that characterized the industrialization period by means of public banks, credit allocation policies, public investment, and social policies.[24] Besides, microcredit loans turned out to contribute to the loss of social ties because relations of reciprocity had been substituted by individual claims. This behavior threatens the interrelations developed inside families and neighborhoods that aim to ". . . safeguard both production and family sustenance."[25] In other words, the commodification of money and the expansion of indebtedness threaten the preservation of collective interests.[26]

Conclusions

The systemic and institutional analysis proposed by Polanyi enables us to better understand the tensions inherent in the implementation of the current policies defended by multilateral institutions. The tensions emanating from the market zone—deflationary pressures on expenses, employment, and earnings—extended to the political sphere. The resulting institutional transformations tended to involve the whole society and enhance further financial expansion.

It is thus possible to situate the analysis of financial deregulation in the context of the current expansion of the Brazilian capitalism where the commodification of money reshaped social life. The commodification of social relations is an important aspect of the financial transformations of the contemporary Brazilian economy characterized by tensions between the desired values of corporate responsibility and the outcomes of the strategies of banking inclusion. The idea of "corporate social responsibility," presented as an important organizing principle in the protection of society interrelations, in fact serves to expand the market economy by extending personal loans.

The profit-seeking objectives that promoted credit strategies to "social segments" in fact increased the indebtedness of the low-income group and enhanced the reproduction of the financial system. Thus, the commodification of money threatens the previous interrelations based on reciprocity and redistribution; in truth, it provokes fragmentation and disruption of traditional conditions of livelihood. In other words, corporate banking responsibility practices have been unable to overcome the disruptive effects inherent in the organization of the market society. The attempts at social inclusion by means of new banking practices preserved and intensified the heterogeneous process of market integration. The recent process of banking inclusion proved to be a decisive feature of the current modernization process that tends to consolidate those values founded on the motive of gain so as to dismantle traditions and subordinate society to the fiction of money as commodity.

The notion of corporate bank responsibility, while synthesizing the reconfiguration of the capital accumulation dynamics, revealed a qualitative change in civic proceedings and in the possibilities of economic growth and social inclusion. The foundation of citizenship is redefined because of the changing conditions of social interrelations that had characterized the coordinates of urban industrial workers' livelihood. The new possibilities of individual mobility are thought to be contingent upon the successful pursuit of individual interest and the neoliberal ideology fosters consensus around the identification of financial profitability with the social good. Profit-oriented banking activities that expand the circulation sphere prove to create tensions between the possibilities of economic and social reproduction. Consequently, the nexus between credit flexibility and inclusion in the financial system encloses different conflictive aspects in the frame where the social dimensions of investment and labor tend to be dismantled and personal financial management dominates everyday life. In this way, the analysis of the Brazilian banking inclusion is an expression of the contemporary manifestations of disembeddedness and the commodification of life and livelihood. The adoption of social responsibility values means supporting profit-seeking objectives by the extension of financial access as a social-segmentation strategy, leading to growing indebtedness of the low-income group—that is to say, increasing the financial commitments of household incomes by the payment of amortizations and interests in a context of falling labor incomes and employment crisis.

In the boundaries of the expansion of the Brazilian financial system, banking-inclusion strategies guided by performance criteria tended to subordinate society to the market economy. In a critical perspective of the neoliberal credo, the notion of corporate banking social responsibility could be assessed as part of the attempt to institute a market economy through the commodification of credit in an expanding financial sphere. In truth, corporate banking social responsibility emerges as a safeguard of the self-regulated markets in the twenty-first century.

Notes

1. Karl Polanyi, *The Livelihood of Man* (New York: Academic Press, 1977).
2. As a result, the provision of basic services such as health, education, energy, water, among others, would lead to diversified arrangements among the public power, the corporate responsibility, and nongovernmental organizations and communities. For more details see World Bank, *Making Services Work for Poor People* (World Development Report, Copublication of the World Bank and Oxford University Press, 2004).
3. Karl Polanyi, *The Great Transformation,* 11th ed. (Boston, MA: Beacon Press, 1971), 69.
4. Ibid., 75.
5. Ibid., 132.
6. The specificities of the Brazilian industrialization were developed in Maria da C. Tavares, *Da substituição de importações ao capitalismo financeiro* (Rio de Janeiro: Zahar, 1972); and João M. Cardoso de Mello, *O Capitalismo Tardio* (São Paulo: Brasiliense, 1982).
7. See Maria da C. Tavares, *Ciclo e crise: o movimento recente da industrialização brasileira* (Campinas, Coleção Teses: Instituto de Economia, 1978).
8. Karl Polanyi, *Primitive, Archaic, and Modern Economies: Essays of Karl Polanyi,* edited by George Dalton (Boston, MA: Beacon Press, 1971).
9. Instituto Brasileiro de Geografia e Estatística (IBGE), *Pesquisa Nacional de Amsotra Domiciliar,* http://www.ibge.gov.br (Rio de Janeiro: IBGE, 2002).
10. Polanyi, *Great Transformation,* 211.
11. The federal governmental agenda oriented toward the definition of a new legal institutionality include credit market, stock market, access to the financial system, pension funds, insurances, and real estate financing. For further details, see Secretaria de Política Econômica, *Principais avanços na implementação da agenda de poupança e investimento* (Ministério da Fazenda: Brasília, 2002).
12. From the government perspective, the agenda relating to long-term finance involved measures concerning a) the regulation of credit and capital markets; b) the flexibilization toward banking access; c) the development of private pension funds, insurances, and residential mortgage loans. The securitization of credit, the new law of open corporations, the new payment system, the flexibilization and expansion of the financial system through electronic channels and bank representatives, besides the new rules of investment and risk management of pension funds and insurance companies, are some of the examples of the new regulatory context. See World Bank, *Brazil: Access to Financial Services,* Report no. 27773-BR. (New York: World Bank and Oxford University Press, 2004); and Secretaria de Política Econômica, *Principais avanços na implementação da agenda de poupança e investimento* (Ministério da Fazenda: Brasília, 2002).
13. The banking system redefined the strategic plans that included mergers and acquisitions, search for new sources of revenues, implementation of segmentation strategies, supply of investment products (mutual funds), insurances, pension funds, and products of convenience (debit and credit cards). As a matter of fact, in the context of the adjustment of the banking sector, technology

and staff have been reoriented. Efficiency strategies were shaped to achieve cost reductions that lead to new labor relations since labor mobility must be compatible to capital mobility. See José R. B. Gonçalves and Maria A. Caporale Madi, "*Financialization and Employability: The Future of Bank Workers' Union Movement in Brazil,*" paper presented at the conference "After 'Deregulation': The Financial System in the 21st Century," Center for Global Political Economy, University of Sussex, Brighton, England, May 26–28, 2005.

14. The concentration in the banking system accelerated after the Real Plan. In 1994, there were 243 financial institutions: the ten biggest had 60.2 percent of total actives and 66.1percent of total deposits. In 2002, there were 180 banks; the ten biggest had 68.3 percent of total actives and 75.7 percent of deposits. For a long-run perspective, see José R. B. Gonçalves and Maria A. Caporale Madi, "The Performance of Foreign Banks in Brazil: International Liquidity Cycles and Financial Regulation, 1870–2000," paper presented at the European Business History Association (EBHA) Conference, Copenhagen, 2006.
15. The measures adopted by the Brazilian National Monetary Council (Conselho Monetário Nacional) and the Central Bank can be found in Secretaria de Política Econômica, *Principais avanços na implementação da agenda de poupança e investimento;* and José G. A. Reis and Sílvia Valadares, "Reforma do Sistema Financeiro: implementação recente e perspectivas," in *Série Estudos Econômicos e Sociais,* Discussion Paper (Brazil: Banco Interamericano de Desenvolvimento, 2004).
16. The worldwide values and principles of corporate responsibility would constitute universal parameters that would be followed to fulfil minimum behavior patterns so as to achieve better management and operational practices in the context of the creation of an enterprise culture. Consequently, corporate responsibility would be related to the financial valuation of institutional image and brands, loyalty of consumers, capacity to hire and maintain human resources, as well as higher returns to shareholders. For further details, see Observatório Social, "Responsabilidade Social Empresarial," *Observatório Social em Revista,* Ano 2, no. 4, (2003); and Organisation for Economic Cooperation and Development (OECD), *The OECD Guidelines for Multinational Enterprises* (Paris: OECD, 2000).
17. The official bank, Caixa Econômica Federal, using the advantage of the experience of dealing with lower-income segments, initiated operations with simplified bank accounts in May 2003, totaling, in December 2004, 2.5 million new accounts. The public retail bank, Banco do Brasil, established a separate bank from its administrative structure, the Banco Popular do Brasil, in order to implement a segmentation strategy including the low-income market. Hindering the quality of loans oriented toward this market could have negative effects on its global performance.
18. At the end of 2004, the total volume of sight deposits in the Brazilian economy reached US$ 250 billion approximately, being two percent compulsorily oriented to microcredit loans. However, the retail banks did not achieve the microcredit goals aimed at by the federal government.

19. This behavior is reinforced in the settlement of the new capital standards (Basle Agreements): riskier credits have to support more capital and provisions that would affect the bank profits adjusted to risk.
20. See *Valor Online,* "A descoberta de um novo e muito lucrativo cliente," 2006, http://www.valoronline.com.br/especiais/valorgrandesgrupos/adescoberta.aspx.
21. Data from the Foundation Instituto de Pesquisas Econômicas (FIPE) showed that, in 1994, the revenues originated by services represented 6.25 percent in the total of revenues, going up to 11.21 percent at the end of 2003. The revenues obtained with services have covered the expenditure of staff. Between 1994 and 2003, the participation of these revenues in relation to staff expenditures, in average, evolved from 26 percent to 93.3 percent.
22. The personal loans' maturity is not longer than 365 days.
23. See Maria A. Caporale Madi and José R. B. Gonçalves, "Microcredit and Market Society: Challenges to Social Inclusion in the 21st Century," paper presented at the conference "After 'Deregulation': The Financial System in the 21st Century," Center for Global Political Economy, University of Sussex, Brighton, England, May 26–28, 2005.
24. See José R. B. Gonçalves and Maria A. Caporale Madi, "From Industrialization to Financialization: Changes and Challenges in the Process of Urbanization in Brazil, 1950–2000," paper presented at the Canadian Historical Association (CHA) Annual Meeting, Toronto, May 1–3, 2006.
25. Polanyi, *Great Transformation,* 48.
26. Ibid., 46–47.

Conclusion

Ayşe Buğra and Kaan Ağartan

The assumption that the expansion of self-regulating markets is the only possible path to the prosperity and flourishing of the human race, and is indispensable for its moral and material well-being, deserves a careful analytical reappraisal if it is to be impugned and refuted. This is what Polanyi did in *The Great Transformation.* He studied the incompatibility of the capitalist arrangements of the nineteenth century with the fabric of society in England and elsewhere, and provided critical insights that demonstrated the flaws in the attempts to demonize political interventionism in the defense of society while glorifying the self-regulating market. The present book, inspired by Polanyi's thought, also takes up the challenge and explores in various ways the contemporary *nonspontaneous* political attempts to institute the market economy and to contain the disruptions caused by these attempts. We believe that Polanyi's analysis remains highly relevant to the reassessment of the socioeconomic situation in many parts of the world, as faith in "free markets" has been restored in various ways since the 1970s.

Despite the hegemonic rhetoric of the "retreat of the state" that dominates the contemporary international policy environment, all chapters in this book bear out that what we currently observe is the systematic intervention by the state in economic affairs as markets depend more on the state for deregulation (and reregulation) of labor regimes, liberalization of trade and currency, and protection of property rights. Despite all efforts to disguise it, the apparent government intervention sets the stage for the market to reign in all forms of social relations through a vigorous performance of commodification, consequently subordinating the subsistence of society to the laws of the market. The great irony here is that the economic model envisaged—to be governed by self-regulating markets without any intervention other than the market forces themselves—could only be instituted through intense administrative and legislative activity.

A. Buğra et al., *Reading Karl Polanyi for the Twenty-First Century*

This irony should not be surprising to the readers of Karl Polanyi. In fact, the following passage from *The Great Transformation* binds all the contributions to this volume in a coherent message:

> There was nothing natural about laissez-faire; free markets could never have come into being merely by allowing things to take their course . . . Laissez-faire was enforced by the state . . . The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism[1]

What is of paramount importance in our view is the similar “political” character of the socioeconomic transformation of our age. Following Polanyi’s steps in his analysis of the institutional separation of politics and the economy in the context of the nineteenth-century market society, it is crucial to accentuate again and again that the market economy is not a spontaneous process, but a “political project” realized through the full institutionalization of labor, land, money, and, currently, knowledge as commodities. Today, after decades of privatization and marketization, very few spheres of human life remain unaffected from the extensive efforts of commodification for the pursuit of economic profit. This is reflected in the quantitative growth in legislative changes that aim at the recommodification of money and labor, and the ways in which these changes condition the political environment (Bienefeld, Devine, and Standing in this book). One also needs to consider the geographical expansion of the capitalist world market and the deepening commodified interaction within the networks of countries of both the North and the South (Deyo and Ağartan, Young, and Madi and Gonçalvez in this book). In this regard, it is also important not to overlook the fact that the contemporary market economy is significantly based on the subordination of areas of human activity to market forces (such as intellectual property, works of scientific community, and other forms of knowledge), which, until now, were not commodified in any real sense of the word (Jessop, Irzık, and Brown-Keyder in this book).

The state takes the leading role—through continuous political manipulation—in removing old restrictive regulations and instead building new political administrative bodies to unleash the market forces.[2] The disembedding of economy from society is thus a political process accompanied and engineered by certain ideological incentives. The outburst of legislation and the enormous increase in the regulatory functions of the state to institute the main foundations of the market economy and market society is informed by the ideological agenda of and the active political engagement by the market apologetics. In this regard, presenting this process as the “natural evolution of humanity towards its final destination” itself entails a political/ideological stance. Today, as in the past, “the market has been the outcome of a conscious and often violent intervention on the part of a government which imposed the market organization on society for non-economic ends."[3]

These "noneconomic ends" should not be perceived simply as a set of economic strategies designed and implemented by a group of economic power holders, but rather be regarded as a whole new set of incentives for instituting—through various policies, institutions, and governance structures—a totally different mode of social regulation and a model of society in which the market emerges as the most important determining factor in all spheres of life. The ideology behind this political motive, despite its rhetoric, does not hesitate to mobilize any political (and coercive) means to establish the necessary institutional environment for the rule of a self-regulating market economy that would ultimately create its own "market society." In other words, behind the disguise of the politics-free market, contemporary attempts, via deliberate interventions by the state, serve to, echoing Polanyi, sketch the blueprint of the "laissez-faire" of our times.

Polanyi did not necessarily rule out the possibility that a self-regulating market could be achieved temporarily within an economic setting disembedded from social relations. What he demonstrated was that this would not be a "stable" state of the society, and would ultimately lead to society's collapse as a result of the "strains" and "impairments" caused by the countermovement. His was a cry to draw our attention to the legislative and administrative efforts to create such an environment. Such efforts could be devastating not merely because of their direct influence on humanity but also because of the very nature of the protective responses from the society, which would be incompatible with the system itself.

Indeed, once Polanyi's emphasis on the "political" aspect of such efforts becomes a departing point for further reassessments of their impact on individual freedom, and on society as a whole, we get a clearer picture of the recent devastating consequences of treating human activity, nature, and politically created purchasing power as commodities. The institutionalization of self-regulating markets leads to political and institutional tensions, which are more intensely felt at local, national, and international levels, disturbing the world's social stability. In this regard, a thorough understanding of the present requires an assessment of the past institutional setting of the post–Second World War welfare state as well as the ways in which it is now being dismantled. A crucial question that emerges in this context concerns the extent to which welfare state practices of the post–Second World War era could be successful in reembedding the economy in society (compare the contributions by Bienefeld and Devine to Lacher's in this book). The discussion of the limits of postwar decommodification, which Polanyi had announced as a "great transformation," is not only significant as a contribution to historical analyses of the period but is also important for inquiries into the political possibilities for the future. While there is obviously a difference between the capitalism of the post–Second World War era and the current neoliberal world order, attempts to design a political agenda to take us beyond neoliberalism could hardly be limited to a nostalgia for the lost golden decades of welfare capitalism.

The 1980s were the times when a blind eye was turned to the social consequences of market reforms. In a seemingly ideological realignment, which aims to put a human face to the attempts of commodification of certain aspects of our lives, the 1990s witnessed more recognition and acknowledgment of the failures of the market-based economic system. Political and economic power holders now seem to be more sensitive than the nineteenth-century ones to the inevitability of social resistance against the self-regulating market system. Hence, the attempts of the establishment, led by international organizations and translated into national policy choices, to prevent such *spontaneous* resistance from culminating in a countermovement that could block the endeavors to disembed the economy from its social setting. The remedy is sought in nonstate realms in which the marketing of such ideas as "good governance," "corporate social responsibility," or other forms of "civic engagement" through public-private partnership to accommodate the detrimental consequences of market relations gain importance (Buğra, and Madi and Gonçalvez in this book).

Today, with democratic engagement through political institutions ceasing to be the primary means of power with which popular demands are articulated, the challenge of political democracy to the existing social order also ceases to be important. Firing back "against the tyranny of the market" thus requires resisting the "policy of depoliticization" by restoring the "politics," that is, by bringing the political to the fore, reclaiming its relevance, and giving back its dignity against the neoliberal understanding of the market as the sole determinant of human relations.[4] This can be achieved by demonstrating the fatal consequences of the alleged "liberation" of society through submission to economic determinism, and unveiling the fact that the realization of "self-regulating markets" is more a political project than a natural course of social development.

We are now in a position to consider whether the double movement could meet these objectives. To do this, one needs to look beyond the politics of the dismantling of welfare states to the ways in which state-society relations are being reshaped throughout the world under the influence of international financial institutions. Such influence is exercised not only to limit the extent of state intervention but also to modify its form in a way to contain and to control the resistance to the market economy. In other words, the concept of double movement should be revisited to explore the recent political and institutional changes brought about by neoliberal globalization. How do these changes attempt to resolve the tensions brought along by the commodification of economic and social life? Are the tensions in question translated into acts of resistance or do they remain controlled by diverse mechanisms that support and sustain the expansion of the self-regulating market? What are the factors that limit resistance to the expansion of market relations? These are the crucial questions waiting to be answered in the context of the present attempts to sustain and to counter the escalating process of disembedding in each and every corner of the world today.

Notes

1. Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston, MA: Beacon Press, 1947), 139–140.
2. Fred Block and Margaret Somers, "Beyond the Economistic Fallacy: The Holistic Social Science of Karl Polanyi," in *Vision and Method in Historical Sociology*, ed. Theda Skocpol (Cambridge: Cambridge University Press, 1994), 56.
3. Polanyi, *Great Transformation*, 250.
4. Pierre Bourdieu, *Firing Back: Against the Tyranny of the Market 2*, (New York: New Press, 2003).

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