

# Karl Polanyi and the antinomies of embeddedness

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While Polanyi argues that all economies are embedded and enmeshed in social relations and institutions, he tends to see market economy as disembedded, which reveals a tension in his thought. The main motivation for this paper is to understand the origins of this tension. On the basis of a systematic formulation of Polanyi's work, it is argued that Polanyi employs embeddedness in a dual manner: (a) as a methodological principle akin to methodological holism, and (b) as a theoretical proposition on the changing place of economy in society. These two formulations of embeddedness contradict each other. After tracing out the origins of this contradiction, this paper concludes by considering the implications of this analysis for economic sociology. It is argued that embeddedness as a methodological principle is the only acceptable usage of the term. Yet, in this capacity, embeddedness falls short of economic sociology's goal of providing a theoretical alternative to neoclassical economics.

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## 1. Introduction

Schumpeter (1954, p. 21), in a frequently quoted passage, presents the intellectual division of labour between economics and economic sociology in the following manner: 'Economic analysis deals with the questions how people behave at any time and what the economic effects are they produce by so behaving; economic sociology deals with the question how they came to behave as they do'.

Karl Polanyi would disagree. He would argue that the real distinction between economics and any other social science concerned with economic life is that economics dictates an image of the economy derived from a utopian ideal on

all empirical economies in history. Such an ideology, according to Polanyi, is not only obsolete but also destructive in its promotion of self-regulating markets, simply because economies—past and present—are embedded and enmeshed in social relations and institutions. Economics and its ‘obsolete mentality’ are valid as long as one is sufficiently myopic to see the unsustainable market system of the 19th century in all economic life. The ‘self-acting device’ of the 19th century—the market system—cannot be the reference point for grasping ‘the reality of society’ in economic life because, before its rise, markets were isolated and regulated by other social institutions.

Polanyi’s critique of economics is enduring; his embeddedness concept is the foundation for social scientists’ criticism of the *homo economicus* in neoclassical analysis. Block (2001) argues, in his introduction to the 2001 edition of *The Great Transformation* (p. xxiii), ‘The logical starting point for explaining Polanyi’s thinking is his concept of embeddedness. Perhaps his most famous contribution to social thought, this concept has also been a source of enormous confusion’. The second part of Block’s assertion can easily be witnessed by the number of interpretations that the concept of embeddedness has provoked (Reddy, 1984; Granovetter, 1985; Stanfield, 1986; Zukin and DiMaggio, 1990; Lie, 1991; Barber, 1995; Beckert, 1996; Krippner, 2001; Le Velly, 2002; Block, 2003; Krippner *et al.*, 2004). In this article, I argue that the confusion follows from a central fracture in Polanyi’s thought. While Polanyi offers a vision of all economies ‘embedded and enmeshed in institutions’ (Polanyi *et al.*, 1957), he tends to see market exchange and market economy as self-regulating and disembedded.<sup>1</sup> This is an ostensible contradiction, and it leads to ‘what Marx really meant’-style debates. We can never know what Marx, Keynes or Polanyi thought when they were composing their ideas; hence, such debates are sterile, fruitless and—most importantly—endless. In this article, instead of taking an approach that professes to know what Polanyi really meant, I address the confusion over embeddedness through a close textual analysis of Polanyi’s writings.

Such a textual analysis reveals that the ambiguity in the embeddedness concept is genuine to Polanyi’s thought; the confusion springs from the double role the concept plays in Polanyi’s oeuvre. On the one hand, Polanyi uses embeddedness as an analytical construct to discern the changing place of economy in society throughout human history. Polanyi, in an unequivocal manner, employs the concept to specify the degree to which economy is ‘separated’ from the rest of society. Here, embeddedness is a historical variable; the market economy is an anomaly since it is the first ‘disembedded’ economic system in history. On the

<sup>1</sup>The following abbreviations are used for Polanyi’s works: GT, *The Great Transformation*; TM, *Trade and Market in the Early Empires*; PAME, *Primitive, Archaic, and Modern Economies: Essays of Karl Polanyi*, edited by George Dalton; LM, *The Livelihood of Man*.

other hand, embeddedness is a methodological principle positing that economy and society can only be analysed through a holistic approach; economic life can be analysed only through the examination of how it forms a part of social relations and institutions. Here, embeddedness is neither a variable nor a changing characteristic of economic systems in history. Accordingly, Polanyi oscillates between a holistic and a restrictive institutionalism. He derives his famous vision—all economic life as embedded in social relations and institutions—from a holistic view of economy and society. However, he switches to a restrictive institutional analysis when he compares the market system with other economic systems throughout history (i.e. household, reciprocity and redistribution); here, he reduces economic life to socio-spatial patterns in the circulation of goods and services. This results in conceptualizing embeddedness as a gradational concept, one that varies throughout history, which is in clear contradiction with embeddedness as a universal methodological principle.

This paper unravels the discord in the following manner. In the first section, I present the dual role embeddedness plays in Polanyi's work. The second section traces the origins of the embeddedness concept to some of Polanyi's key preoccupations early in his intellectual career and analyses how these preoccupations influence the conceptual precursor of embeddedness in *The Great Transformation*, the notion of institutional separation of the economy from the rest of society. I then focus on how Polanyi formulates his thesis on the changing place of economy in society through his studies of past and present economic systems. In the fourth section, I look at Polanyi's formulation of embeddedness as a methodological principle akin to methodological holism. I then explain the antinomy between the two conceptualizations of the embeddedness concept by a shift between a holistic and a restrictive view of economy and society. I conclude with a critical discussion of Polanyi's two notions of embeddedness and their use in contemporary economic sociology, arguing that embeddedness as a gradational variable is a misleading venue for studying economic life and that the only acceptable usage of the concept is as a methodological principle.

## 2. The duality of the embeddedness concept in Polanyi's work

*The Great Transformation* and Polanyi's later comparative studies of economic systems throughout history suggest two different interpretations of the embeddedness concept. On the one hand, Polanyi puts forward a thesis about the impossibility of separating economy from society because all economic systems are embedded in social relations and institutions (TM, p. 250; GT, pp. 60, 73, 279). On the other hand, he envisions, in numerous places, the market economy as separate from social institutions, functioning according to its own rules; therefore, markets and market economy are disembedded (PAME, pp. 120–22; LM, p. 47;

GT, pp. 60–61). It is not the case that one interpretation grasps what Polanyi really meant; there is sufficient support for both.

The contrast between embedded and disembedded economic systems arises in the most dichotomous manner in the writings of Polanyi's followers in economic anthropology. Their research programme exerted considerable influence in the 1970s and 80s and was marginalized in the 1990s in economic anthropology (Dalton, 1968, 1971, 1981; Firth, 1972; Godelier, 1972, 1986; Jenkins, 1977; Sahlin, 1981 [1972]; Dalton and Köcke, 1983; Plattner, 1989; Somers, 1990; Narotzky, 1997; Gudeman, 2001). Substantivism, as it is advanced by the Polanyi group, posits that the differences between pre-modern and modern economies are substantial enough to render the vocabulary of modern economic life and economics inaccurate and misleading in studying ancient and tribal societies (Dalton and Köcke, 1983, p. 26).<sup>2</sup> In such societies, technology, productive equipment and accumulation are limited; the division of labour is determined by social patterns such as age, sex, kinship and marriage; competition is social rather than economic; exchange exists, even under competitive markets, but the goods offered are produced for subsistence rather than for sale. Therefore, the integration of economic life takes place through patterns of reciprocity and redistribution (Forde and Douglas, 1967, pp. 15–22; Nash, 1967). There is no separate sphere of economic activity. While the economy inhabits a separate and autonomous sphere under capitalism, it is enmeshed in society under pre-modern economies in such a manner that studying the economy apart from 'the tissue of relationships' that constitutes 'the reality of society' would be erroneous (PAME, p. 117; Dalton, 1968; Dalton and Köcke, 1983, pp. 26–27). Thus, economic anthropology inspired by Polanyi portrays a highly dichotomous view of different economic systems in history (see Table 1).<sup>3</sup>

Although Polanyi's own analysis is more refined than this dichotomous view of economic systems throughout history, his comparative studies of ancient and

<sup>2</sup>However, as early as the first half of the 1970s, the emerging consensus rejected the more extreme assertions by the followers of Polanyi. As Firth (1972, p. 470) observes: 'It has now become clear that the original issue, as it took shape between "substantivists" and "formalists" ... as to whether economic theory could be applied to primitive economies, was largely sterile. The issue was rather where, how far, and with what modifications and additions economic theory could be found appropriate to interpret "primitive" systems'.

<sup>3</sup>Polanyi and his substantivist approach to economic life exerted an even larger and more important influence in classical studies, especially through Finley's adoption of Polanyian analysis (Finley, 1973, 1975). A discussion of Polanyi's influence, particularly in the analysis of the ancient Greek economy, would be of considerable value in highlighting the fertility as well as the shortcomings of his research programme. See Humphreys (1978), Moseley and Wallerstein (1978), Figueira (1984), Mann (1986), Nafissi (2004) and Morris and Manning (2005).

**Table 1** The dichotomous view of different economic systems throughout history

	The place of economy in society	
	Embedded	Disembedded
Type of economy	Pre-modern	Modern
Integrative system	Household/reciprocity/redistribution	Market

modern economies offer a similar thesis on the changing place of economy in society: the market economy tends to self-regulate and become separated from the rest of society. There is a movement and an ideological project to disembed the economy from society, but it is met with a protective response from society (GT). Here, embeddedness arises as a gradational concept; the disembedded economy is not possible, but some economic arrangements are more absorbed in social institutions and relations than others.

However, programmatic statements on the study of economic life present a different conceptualization of embeddedness. Polanyi proposes the thesis that all empirical economies are ‘embedded and enmeshed in institutions, economic and noneconomic’ (TM, p. 250). Furthermore, he emphasizes the importance of grasping ‘the reality of society’ (i.e. that it is an instituted relationship of persons) in studying economic life (PAME, pp. 117–119). This reveals the two conceptualizations of embeddedness simultaneously at work in Polanyi’s thought (see Table 2). The first is a universal statement on the relationship between economy and society. It suggests that all economic life is subject to the ‘reality of society’. The second, which sees embeddedness as changing from one economic system to another, entails a gradational concept of embeddedness; although it is impossible to disembed the economy fully from the rest of society, an economy can be relatively disembedded. Clearly, the two conceptualizations contradict

**Table 2** Two notions of embeddedness in Polanyi’s thought

Always embedded	Gradational embeddedness
All economies are embedded since economic life is a socially instituted and organized process	The degree of embeddedness changes from one type of society to another, depending on how the economy is integrated. If integrated as a result of operations with non-market ends, it is embedded. If integrated as a result of operations with strictly market ends, it moves towards being disembedded through the commodification of labour, land and money

each other, which reveals a 'central ambiguity' in Polanyi's approach to studying economic life (Jenkins, 1977, p. 70).

Several commentaries on Polanyi observe this ambiguity (Garlan, 1973; Jenkins, 1977; Dupré and Philippe-Rey, 1978; Lie, 1991; Booth, 1994; Barber, 1995; Krippner, 2001; Block, 2003). Krippner (2001, p. 782) deems it a reconcilable contradiction; it arises from Polanyi's objective of refuting analysis based on *homo economicus* while at the same time 'portraying the market ... as an inextricably social object'. Barber (1995) criticizes Polanyi's gradational embeddedness notion, and he advocates the always-embedded view of economic systems.<sup>4</sup> Lie (1991, p. 219) notes that, despite emphasizing 'the embeddedness of economic activities and institutions', Polanyi 'fails to embed the market concept'. Yet, these authors do not investigate the cause of the ambiguity itself, nor do they see the ambiguity as symptomatic of a deeper fracture in Polanyi's thought.<sup>5</sup>

To comprehend the origin of the ambiguity requires investigating the intellectual sources from which Polanyi derives the embeddedness concept.<sup>6</sup> For this purpose, I investigate how Polanyi conceptualizes the relationship between economy and society in different parts of his work.

### 3. The early formulation of the embeddedness concept

Embeddedness is not a pivotal concept in *The Great Transformation*; Polanyi only uses the term twice (Barber, 1995, p. 401; Krippner, 2001, p. 779). Furthermore, he chooses to employ other terms such as 'absorbed' and 'submerged' to describe the relationship between economy and society, even when he could readily utilize the term embeddedness (Barber, 1995, p. 401). *The Great Transformation*, despite

<sup>4</sup>Barber (1995, p. 400) offers the following comment on the gradational view of embeddedness: 'While Polanyi's analysis of the different types of economic exchange is very valuable, as we have seen, he is less helpful, indeed misleading, when he goes on to discuss the matter of their differential embeddedness. Polanyi describes the market as 'disembedded,' the other two types of economic exchange as more 'embedded' in the other social-structural and cultural-structural elements of society'.

<sup>5</sup>I should mention four additional works in this context: Jenkins (1977), Dupré and Philippe-Rey (1978), Booth (1994) and Block (2003). These authors develop important lines of criticism and anticipate some of the arguments I advance. Yet, with the exception of Block (2003), none of the articles investigate the origins of the ambiguity in the embeddedness concept.

<sup>6</sup>It is remarkable that despite the importance of embeddedness, I know of no analysis that investigates the development of the term in Polanyi's thought. Barber (1995) gives a history of the concept, but he does not delve into where Polanyi's idea originates. Krippner (2001) advances an 'historical sociology of concept formation' but her argument is a critique of how the concept is used in new economic sociology; thus, she just traces out how Granovetter (1985) builds his own formulation.

its centrality in Polanyi's oeuvre, contains neither a definition nor an extended discussion of embeddedness. However, Polanyi's intellectual preoccupations in the years before the publication of *The Great Transformation* and his argument in the book indicate that the underlying idea of embeddedness is there. Indeed, the notion of institutional separation, an important component of Polanyi's argument in the book, contains the essence of embeddedness as a historical variable.

### 3.1 The Great Transformation and the notion of institutional separation

As early as the 1920s, Polanyi writes about the 'self-regulating market economy', 'separation of society into political and economic spheres' and "economistic prejudice" that confused economy with a self-regulating economy—themes that mark his scholarship in the later part of his life (Mendell, 1990, pp. 71–73).<sup>7</sup> However, Polanyi's encounter with an ailing capitalism during the 1930s in England, after the Polanyi family left Vienna in 1933 due to the rising tide of fascism in Austria, equally seems to have influenced the tone and themes of the book.<sup>8</sup> *The Great Transformation* is a book devoted to historical analysis not solely for the sake of understanding the past, but also for making an argument about the present and future. The nature of fascism and socialism, the causes of their rise and what lies after unfettered liberalism

<sup>7</sup>The intellectual roots of Polanyi's thought would take a study in themselves. See Drucker (1979), Polanyi-Levitt (1987), Vezér (1990) and Duczynska (2000) for the influence of family on Polanyi's intellectual development and a general sketch of his life. It should be observed that these sources are not always consistent on the details of Polanyi's life. See Humphreys (1969) and Gábor (2000) for Polanyi's activities in the Galilei Circle. Polanyi's socialism in his school years and in exile in the early part of his life is discussed by Litván (1990, 1991) and Múcsi (1990). Humphreys (1969) remains the best discussion of the origins of Polanyi's thought in his early utopianism and romanticism (despite the relations, her suggestions are not universally accepted). Congdon (1990), Mendell (1990) and Rosner (1990) trace the influence of G. D. H. Cole's Fabianism and guild socialism on Polanyi; they further offer highly informative readings of Polanyi's writings and participation in the socialist planning debate during his stay in Vienna in the early 1920s. Additional sources on Polanyi's Vienna years can be found in McRobbie and Polanyi-Levitt (2000). The impact of Polanyi's years in England on the subsequent development of his thought can be found in Somers (1990), Hann (1992) and Duczynska (2000). The relation between Polanyi's ethics and his historical scholarship is analysed in detail by Baum (1996). See Polanyi-Levitt (1990) and Salsano (1990) for a discussion of the place of *The Great Transformation* in Polanyi's thought.

<sup>8</sup>As his wife, Duczynska (2000, p. 311) writes: 'Stronger than any intellectual influence was the trauma which was England. It was his encounter with full-fledged capitalism—of which he had imagined that we knew all that is worth knowing! Yet the houses which Engels had described were still standing; people still lived in them. Black hills of slag stood in the green landscape of Wales; from the depressed areas, young men and women who had never seen their parents employed, drifted away to London.'

are interpreted through the historical forces that led to the rise and fall of the market system.<sup>9</sup>

In *The Great Transformation*, Polanyi undertakes an interpretation of the transformation of modern civilization in the 19th century and its inevitable collapse in the 20th century.<sup>10</sup> Polanyi's main thesis is that the institutional foundations of 19th century civilization (i.e. the balance-of-power system, the international gold standard, the self-regulating market and the liberal state) stood on two contradictory forces: (a) the organization of production by the market, and (b) society's countermovement to protect itself against the intrusion of the market. These contradictory forces constitute Polanyi's famous double movement, around which he constructs the historical narrative of the book.<sup>11</sup> Thus, the narrative traces (a) the extension of the market to spheres of social life previously untouched by it, (b) the materialization of society's self-protection in the form of interferences with market mechanisms, and (c) the consequences of the clash of the two contradictory forces. Polanyi analyses the expansion of the market and the regulatory countermovement in the context of England because 'market society was born [there]' (GT, p. 32). He shifts his attention to the international arena to examine the consequences of the double movement and the ultimate collapse of 19th century civilization.

Polanyi operates with a particular theory of industrialization, commodification and society. In his theoretical framework, the rise of the factory system, liberal market ideology, of state intervention and the concurrent commodification are focal points in understanding the expansion of the market. The merchant in the 18th century foments the factory system through the introduction of

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<sup>9</sup>See Hexter (1945), Williams (1945), Hildebrand (1946) and Humphreys (1969). The following quote from Drucker (1979, p. 136) is illuminating in understanding the role of historical analysis in *The Great Transformation*, despite its slight exaggeration: 'Economic history was, however, only the vehicle for Karl's search for the alternative to capitalism and communism, and for a society that would provide at the same time economic growth and stability, freedom and equality'. Further evidence on this point is given by Polanyi himself in *The Great Transformation* (p. 4): 'Ours is not historical work; what we are searching for is not a convincing sequence of outstanding events, but an explanation of their trend in terms of human institutions. We shall feel free to dwell on scenes of the past with the sole object of throwing light on matters of the present'.

<sup>10</sup>Since there are excellent discussions of the historical narrative of the book, I focus on the structure of Polanyi's theoretical analysis at the expense of simplifying the historical analysis. See especially Block and Somers (1984). Sievers (1949) has a very detailed account of Polanyi's historical analysis.

<sup>11</sup>In his words (GT, p. 135): 'For a century the dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in definite directions. 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'.



‘elaborate . . . specific machinery and plant’ (GT, pp. 77–78). This intensifies specialization; thus, it requires long-term investment for the continuation of production, which leads to the evolution of the merchant into the industrial capitalist. Industrial production with specific machinery and plants requires a continuous supply of factors of production, the most important of which are land, labour and money. Such necessity implies that the ‘elements of industry’—land, labour and money—are subject to market mechanisms: production for sale, exchange through the contact of buyers and sellers and supply and demand finding equilibrium through prices (LM, p. 6; GT, pp. 71–72, 75).

The commodification of land, labour and money occurred through state intervention and the influence of liberal market ideologies in 19th century England. Hence, industrial production that resulted from the introduction of the factory system redounded to a new organization of production based on the commodification of land, labour and money. Concomitantly, it led to the shift from isolated markets to a market system (pp. 59–60).<sup>12</sup> Industrial production, state intervention and liberal market ideology elevated the logic of the market—otherwise isolated, simply ‘a meeting place for the purpose of barter or buying and selling’—to the entire sphere of economic activities, creating ‘one big market’ (pp. 59, 75, 280–285).

The peculiar character of this change in the organization of production is that it draws labour, land and money—which are not produced for sale—into its sphere. But, ‘Labor, land, and money are obviously not commodities’, according to Polanyi: labour is ‘human activity in life’, land is ‘nature’ and money is ‘a token of purchasing power’. Labour, land and money serve a multitude of other purposes in life; constricting their essence to ‘production for sale’ is fiction (GT, pp. 74–76). Yet, under the market system, it is exactly upon this fictitious ground that the organization of production functions. Production in the market system exhibits a character markedly different from other systems, because the market is self-regulating. Under the market mechanism, the distribution of goods and services—hence of factors of production—is automatic: the exchange of goods and services follows the law of supply and demand. Seeking profit, the gain motive, ensures that the contact of buyers and sellers moves towards an equilibrium through fluctuations in supply, demand or prices (GT, pp. 71–72, 75, 210). In such a system, ‘Order in the production and distribution of goods is ensured by prices alone’ (GT, p. 72). Thus, the

<sup>12</sup>Historical developments that led to the rise of the market system—the creation of ‘one big market’—are complex, as can be seen in Polanyi’s historical analysis. However, commodification is the hub of the rise of the market system. Polanyi makes this point clear in his posthumously published *The Livelihood of Man* (1977, p. 10) by identifying commodification of land and labour as ‘the crucial step’ in the transmutation from ‘isolated markets’ into ‘a self-regulating system’.

organization of production under the market system does not rely on the interference of other social institutions such as household and manor; accordingly, it is not 'regulated' by social institutions other than the market.<sup>13</sup> The economy becomes 'institutionally separated' from other social institutions (GT, pp. 74, 205, 220).

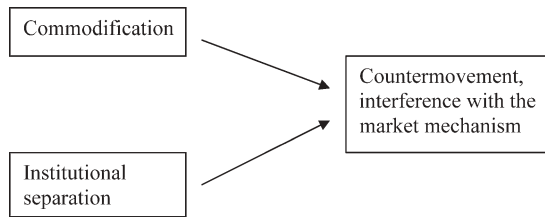
Such an organization of production—which is self-regulating, based on the commodification of labour, land and money, and separated from other social institutions—is destructive to 'the fabric of society' (GT, p. 135). Labour, land and money being subject to the market mechanism through commodification is fiction that violates the essence and substance of society; its full realization entails the annihilation of society. Accordingly, the expansion of the self-regulated market to fictitious commodities spurs self-protection in society. Movement in the form of the market's expansion finds its opposite in protective regulation and interference—self-protective countermovement. The rise of the market system thus involves a double-movement; the self-regulated market always engenders regulation by other spheres of social life. It never materializes in the utopian form envisaged by classical economists such as Malthus and Ricardo. However, regulation of the market mechanism impedes its proper functioning; it is against the nature of the market system. Thus, the expansion of the market and society's self-protection are contradictory and their clash is destructive.

On the basis of this discussion, Figure 1 presents the relation between commodification, institutional separation and the protective countermovement. To recapitulate, institutional separation rests on the idea of the market being dominated by the gain motive, cleared by the price mechanism, and being free from the interference of other social institutions. The destructive effect of the market is derived mainly from the commodification of labour, land and money; their meeting point—fictitious commodities being subject to the market mechanism—leads to the protective countermovement.<sup>14</sup>

Commodification does not in itself imply separation of the market economy from other institutions, but the idea of the self-regulating market entails such

<sup>13</sup>See Garlan (1973) for an excellent reconstruction of the self-regulation idea in Polanyi. In her colourful language (1973, p. 120): 'L'économie est, dans ce contexte [l'économie de marché], comme une machine qui tourne par elle-même et pour elle-même: nous vivons à son heure'.

<sup>14</sup>See Hildebrand (1946), Humphreys (1969), Kindleberger (1973), Block and Somers (1984), Baum (1996), Hejeebu and McCloskey (1999) and Block (2001) on the importance of the concept of commodification in explaining the market system's destructive impact on the fabric of society. Baum (1996, p. 4) is especially clear on this point; as he puts it: 'Polanyi analyses the destructive impact of the new economic system by focusing on the transformation of labour and land into market commodities'. See also his comments on the centrality of the idea of the self-regulating market in Polanyi's thought (p. 5).



**Figure 1** The determinants of protective countermovement.

separation. For Polanyi, markets always clear and they are dominated by the gain motive, with the important qualification that its mechanism functions only in the case of ‘real’ commodities (Block, 2001). Accordingly, markets for real commodities are separated from other social institutions. In other words, the institutional separation does not directly result from commodification, but from the logic of the market. The moment of institutional separation in modern society comes when isolated markets become ‘one big market’ incorporating labour, land and money as fictitious commodities; this is when the economy is disembedded from society. Yet, such separation is a utopian project rather than the reality. The classical political economy of Ricardo and Malthus wanted to attain this ideal of markets governing all areas of social life, but the idea never reached maturity since society interferes through regulation. The separation of the market system from society was never complete. Table 3 summarizes Polanyi’s argument in *The Great Transformation*.

#### 4. Embeddedness as a variable: the changing place of the economy in society

The idea of institutional separation occupies a central position in Polanyi’s thought, and this explains why a central part of *The Great Transformation* and Polanyi’s later research programme explore the exceptionality of markets in history. However, the notion of institutional separation itself is vague in *The Great Transformation*. As argued in the previous section, Polanyi sees the market as self-regulating through the institution of supply and demand; nonetheless, it is not clear yet why this system is separated from the rest of the society. Only later does Polanyi offer a clear foundation for the idea of institutional separation.

Polanyi approaches this task by developing an analytical framework to compare and contrast different economic systems in history. The fundamental aspects and elements of his approach are developed in *The Great Transformation* (chapters 4–6), but the detailed theoretical development through comparative

**Table 3** The historical movement towards an institutionally separated economy

Economy embedded in other social institutions	Double movement	Institutionally separated economy
Non-market ends dominate economic life	Expansion of self-regulated market to fictitious commodities (labour, land and money)	Production for sale, gain motive, scarcity-induced rational calculus of means and ends dominate economic life
Integration through reciprocity and redistribution	Protective response from society	Integration through market exchange
Land, labour and money (purchasing power) regulated through non-economic institutions		Labour, land and money subject to self-regulating market
		Destructive to the social fabric; thus, full realization is impossible

historical studies occurs in his later work. Here, unlike in *The Great Transformation*, embeddedness takes a central role.

4.1 *Status-community, contract-society and embeddedness*

Polanyi’s first analytical attempt to expand on the relationship between economy and society appears in the essay *Our Obsolete Market Mentality*, originally published in 1947:

The market mechanism, moreover, created the delusion of economic determinism as a general law for all human society. Under a market-economy, of course, this law holds good. Indeed, the working of the economic system here not only “influences” the rest of society, but determines it—as in a triangle the sides not merely influence, but determine, the angles. Take the stratification of classes. Supply and demand in the labor market were *identical* with the classes of workers and employers, respectively. The social classes of capitalists, landowners, tenants, brokers, merchants, professionals, and so on, were delimited by the respective markets for land, money, and capital and their uses, or for various services. The income of these social classes was fixed by the market, their rank and position by their income. This was a complete reversal of the secular practice. In Maine’s famous phrase, “contractus” replaces “status”; or, as Tönnies preferred to put it, “society”

superseded “community”; or, in terms of the present article, *instead of the economic system being embedded in social relationships, these relationships were now embedded in the economic system*. (PAME, p. 70, original emphasis)

The above passage elucidates the conceptual pillars upon which Polanyi builds the embeddedness concept. Polanyi begins his exposition with the question of economic determinism, explaining it as a ‘delusion’ originating from generalizing the market economy to ‘all human society’. He contrasts social stratification in market societies with ancient societies: while a market society rests on the supply-demand mechanism that operates through contracting, pre-market societies operate through status in determining social position and income. The prevalence of status or contract indicates how economic life is institutionalized and organized in a given society. Status establishes the rights, duties and economic behaviour of individuals through their belonging to a social group (Graveson, 1941; PAME, p. 197; LM, p. 48; Maine, 1970 [1864]). In status societies, economic transactions are determined by sundry motives arising from social position: ‘The individual’s *motives*, named and articulated, spring as a rule from situations set by facts of a non-economic—familial, political or religious—order’ (PAME, p. 85, original emphasis). Accordingly, economic transactions proper do not exist where status is the predominant mode of social organization. Polanyi calls the exchange and movement of goods and services under such social organization ‘status transactions’ and argues that they have a different nature than the ‘economic transactions proper’ of the modern era (PAME, pp. 90–91, 160).

Polanyi contrasts status with contract as bases of social organization, where the movement of goods and services is freed from the rigid rights, obligations and customs of status societies. Contract is individualistic; it subjugates economic transactions to the free will of individuals that are manifested in a legal agreement (Tannenbaum, 1950, pp. 186–187). It supposes that ‘the legal situation of the individual is no longer dependent upon his social status in a hierarchic system of order but, instead, is determined by his efficiency and capabilities in a capitalistic economy, an economic order that places the institution of contract at his disposal as the instrument of free and responsible determination of legal relations’ (Rehbinder, 1971, p. 942). Polanyi sees the development from status to contract in social structure as ‘enslavement’: ‘Our animal dependence upon food has been bared and the naked fear of starvation permitted to run loose’ (PAME, p. 72). Thus, under contract only two motives—‘fear of hunger and hope of gain’—determine the course and nature of economic exchange (PAME, p. 82; LM, p. 47). The economic system under contract is ‘motivationally distinct’; individuals’ motives in economic transactions do not originate from the

social tissue and position, but from the bare motives of hunger and gain (PAME, p. 82; LM, Chapter 4).

Furthermore, under the influence of Tönnies (1957 [1887]), Polanyi views status as characteristic of community (*Gemeinschaft*) and contract as characteristic of society (*Gesellschaft*) (PAME, pp. 82–84; LM, pp. 48–49). As a result, Polanyi establishes an equation between status/community, contract/society, and the level of embeddedness: ‘*Status* or *Gemeinschaft* dominate where the economy is embedded in non-economic institutions; *contractus* or *Gesellschaft* is characteristic of the existence of a motivationally distinct economy in society’ (PAME, p. 84, original emphasis).

#### 4.2 *Economic systems, past and present*

Polanyi builds his famous analysis of different economic systems—household, reciprocity, redistribution and exchange—on the above outlined analytical approach (Garlan, 1973; North, 1977).<sup>15</sup> He sees different systems of allocation as ‘forms of integration’ that bring unity and stability to an empirical economy (TM, p. 250). These forms of integration are themselves ‘a combination of a very few patterns’ (TM, p. 250):

Reciprocity denotes movements between correlative points of symmetrical groupings; redistribution designates appropriational movements toward a center and out of it again; exchange refers here to vice-versa movements taking place as between “hands” under a market system.

Reciprocity, redistribution and exchange as forms of integration all depend on distinct ‘institutional supports’. Each institutional support is a combination of distinct patterns (TM, p. 251). Polanyi (TM, p. 251) also uses the term ‘institutional arrangement’ to characterize a combination of patterns. In each case, what defines an institutional arrangement is not a type of individual behaviour but the characteristics of the ‘structure’. Thus, reciprocity integrates an empirical economy not because of interpersonal relations characterized by mutuality, but because of ‘symmetrically organized structures’, such as a ‘system of kinship groups’ (TM, p. 251). In redistribution, it is the existence of the centre and its role in coordinating the movement of means to satisfy wants (TM, pp. 248, 251); in exchange, it is the price-making market—an institutional arrangement with three determining characteristics (i.e. supply crowd, demand

<sup>15</sup> While Polanyi analyses the household as an economic system, it receives considerably less attention than reciprocity, redistribution and exchange. See *The Livelihood of Man* for Polanyi’s most detailed examination of the household as an economic system.

**Table 4** The foundations of the gradational embeddedness concept

	The place of economy in society	
	Embedded	Disembedded
Social structure	Community	Society
Basis of exchange	Status	Contract
Form of integration	Household/reciprocity/redistribution	Market
Motives	Motives arising from social position	Hunger and gain
Institutions	Family, kinship, polity and religion	Supply and demand

crowd and fluctuating rate of exchange)—that brings about integration (TM, pp. 251, 266–268).

The three forms of integration may coexist. What matters is which one leads to the integration of the empirical economy; the dominant allocation system or arrangement is the one that has the central role in achieving integration (TM, pp. 253, 256). Polanyi (TM, p. 256) also argues that ‘forms of integration do not represent “stages” of development’. There is no definite movement from one form of integration to another as societies evolve. Often, the three systems of integration coexist. However, reciprocity and redistribution have been the dominant forms of integration for the majority of human history. Market as the dominant form of integration is a relatively recent phenomenon (TM, p. 257), a point which Polanyi repeatedly stresses (GT, p. 40): ‘[Market] system is an institutional structure which, as we all too easily forget, has been present at no time except our own, and even then it was only partially present.’

In line with his thinking on different forms of integration, status corresponds to ancient economic systems (i.e. household, reciprocity and redistribution), whereas contract corresponds to a modern market economy (PAME, p. 84). Table 4 summarizes Polanyi’s development of the embeddedness concept using the above outlined logic.

## 5. Embeddedness as a methodological principle: the substantivist approach to studying economic life

However, the above outlined schema is not the only formulation Polanyi offers on the relationship between economy and society. Drawing on what he calls ‘the societal approach’ (PAME, pp. 122–123), Polanyi conceives of economic life as a *totality* of relations and institutions that goes beyond transactions of goods and services. Here, rather than investigating the changing place of economy in society, Polanyi offers a method for studying economic life that is

in contrast with the methodological individualism of economics. As a result, embeddedness emerges as a methodological principle, and not as an analytical proposition.

As early as in *The Essence of Fascism* (Polanyi, 1936), the philosophical underpinnings of Polanyi's predilection for a societal, institutionalist and historical approach can be ascertained. In this work, Polanyi (p. 365) develops a criticism of fascism, seeing it as a 'radically anti-individualist philosophy'. Fascism's fierce anti-individualism is based upon denying the essence of society, rejecting the notion that it is a relationship of persons. Instead of seeing society as a relationship of persons, fascism envisions society as an independent actor, with its own will and consciousness; it is above and beyond the individuals who ultimately constitute it. Polanyi is adamantly opposed to fascist philosophy, arguing that it is catastrophic precisely because it denies the reality of society as a 'relationship of persons' (Rotstein, 1990).

Methodologically, Polanyi is influenced by a diverse array of authors including representatives of The German Historical School, such as List and Schmoller, as well as Marx, Weber and Lukács. Polanyi sees these authors as exemplifying a societal approach—'the broad view that fixes on society as a whole' (PAME, p. 124). As Lukács (1971 [1923], pp. 9–10) famously states as the methodological principle of Marxism, such a view posits that '[isolated partial categories] can really only be discerned in the context of the total historical process of their relations to society as a whole'. The analysis in *The Great Transformation* is an example of this approach, with its focus on the institutions that underlie economic and political life. Block and Somers (1984, pp. 62–63) call this approach a holistic view of society:

Polanyi seeks to demonstrate the structural relationship among all parts of the social whole, while rejecting the genetic determinacy of any one aspect. For Polanyi, all human behavior is socially shaped and defined; whether a person is trying to make money or achieve inner peace, the source of the action is in a set of socially created definitions that make one or other goal appear rational or desirable. The proper distinction is not between different types of interests, but among different social arrangements that generate different belief systems and different structural possibilities.

Thus, the starting point for Polanyi's analytical approach is a conception of human beings that is in sharp contrast with *homo economicus*, a model of behaviour based on the postulates of material interest, rationality and atomism (LM, pp. 12–13). The economic model places all types of human behaviour 'in the frame of reference of the market' (LM, p. 14). Yet, a wealth of incentives, goals and means–ends relations characterizes human beings (LM, pp. 12–21; PAME,



pp. 68–69). In economic life, ‘The means, not the wants, are material’; human beings seek material gain and possessions for social purposes (PAME, p. 65; LM, p. 20; GT, p. 48).

To overcome the limitations of rationality and atomism, Polanyi distinguishes between substantive and formal meanings of the term ‘economic’. The distinction contrasts the use of the term to denote human activity in securing a living with economizing behaviour, where human beings face choices arising from scarcity, or ‘insufficiency of means’, to attain wants or needs (TM, pp. 243–245; LM, p. 13). The substantive approach, for which Polanyi finds inspiration in Aristotle (LM, pp. 29–30), rejects the idea of choice induced by scarcity and insufficiency of means; choice might as well arise from abundance or ‘the intent . . . to do what is right’ (PAME, pp. 78–115; LM, p. 25).<sup>16</sup> He explicitly states that only the substantive meaning of ‘economic’ is useful to social science, which takes the study of ‘all the empirical economies of the past and present’ as its subject matter (TM, p. 244). The formal meaning of ‘economic’ is useful only for the study of the market economy (PAME, p. 61). Thus, ‘economic’, in its substantive sense, refers to all interactions with nature and other human beings in the pursuit of livelihood, and not to a specific type of behaviour; therefore, the analysis of economic life should focus on this interaction. Polanyi proposes the concept of the empirical economy for this purpose.

The concept of the empirical economy is defined as ‘an instituted process of interaction between man and his environment, which results in a continuous supply of want satisfying material means’ (TM, p. 248). Hence, the notion of ‘economy’ that the substantive meaning of ‘economic’ is built upon puts the emphasis on the interaction with nature and other human beings in the supply of material goods and services: ‘The substantive meaning of economic derives from man’s dependence for his living upon nature and his fellows. It refers to the interchange with his natural and social environment, insofar as this results in supplying him with the means of material want-satisfaction’ (TM, p. 243).

Polanyi is partly inspired by Marx, as can be seen through his emphasis on the interaction with nature and human beings in economic activities. As is well known, the beginning point for Marx in conceptualizing economic life is production. In *The German Ideology*, Marx defines production with respect to the intercourse with nature and other human beings (Marx, 1978a, pp. 149–150). In *The Grundrisse*, the intercourse with nature and other human beings is depicted in reference to social organization and human needs (Marx, 1978b,

<sup>16</sup>For an interpretation of Aristotle from the viewpoint of modern economics, see Schumpeter (1954). Finley (1970), who agrees with Polanyi’s interpretation of Aristotle, rightly criticizes Schumpeter for reading Aristotle through the lens of modern economics.

pp. 226–227): ‘All production is appropriation of nature on the part of an individual through *a specific form of society*. . . . In production the members of society appropriate (create, shape) the products of nature in accord with *human needs*’ [my emphasis].

However, Polanyi also shows an attempt to move beyond the emphasis on material production by stressing that this activity is culturally instituted. He consciously dwells on concepts such as ‘social tissue’ in his characterization of the institutionalization of economic activities. Polanyi argues that ‘the social process is a tissue of relationships between man as biological entity and the unique structure of symbols and techniques that results in maintaining his existence’ (PAME, p. 116). Unlike the above noted narrow view of institutions as pertaining to how goods and services move within an economy, here Polanyi offers a broader—despite being underdeveloped—notion of ‘institutionalization.’ As a result, Polanyi’s holistic approach aims to study economic life as it is submerged in and intermeshed with social relations and institutionalized ways of interaction with nature.

Polanyi’s holistic approach posits the fundamental aspect of embeddedness as a methodological principle. The holistic approach does not specify the relationship of the parts to the whole, nor does it construct a scheme of how social relations and institutions constitute and structure economic life. Instead, this approach shows what the unit and object of analysis are in studying economic life; it argues that focusing on atomistic behaviour by discarding the influence of social institutions and relations is misleading. In Polanyi’s work, this methodological principle inspires the notions of livelihood and the substantive meaning of the economic. Table 5 shows the contrast Polanyi draws between formal economic analysis and his substantive approach.

6. Restrictive and holistic institutionalisms

While Polanyi leans towards a restrictive view of economy as comprising the exchange of goods and services in his formulation of embeddedness as a

Table 5 Polanyi’s conceptual framework: formal versus substantive analysis

	Formal analysis	Substantive analysis
Human nature	<i>Homo economicus</i>	<i>Homo socius</i>
Level of economic analysis	Individual choice	Supra-individual
Motivation in economic life	Scarcity-induced	Procurement of material means for wants and needs
Object of economic analysis	Market exchange, its regularities	Livelihood, empirical economy

proposition regarding the changing place of economy in society, he contradicts such a view in his historical analysis as well as in some of his programmatic texts. The result is a fundamental ambiguity regarding the relationship between economy and society. Under the restrictive institutionalism he adopts, economy and society emerge as separable spheres of activities; Polanyi's analytical efforts focus on the changing place of economy in society. Under his holistic institutionalism, economy is by definition enmeshed in social relations and institutions. Hence, the demarcation between economy and society is absurd; what changes in history as well as from society to society is how these activities are institutionalized and organized.

The source of Polanyi's views on the changing place of economy in society can be traced back to the influence of Henry Summer Maine and Ferdinand Tönnies on Polanyi's understanding of ancient and modern societies. Along with a great majority of 19th century social thinkers and academics, Polanyi contrasts ancient societies based on status with modern societies based on contract (Springborg, 1986). The contrast springs from a distinction made between two types of human will: one emanating from instinct, feeling and custom (*Wesenwille*) and one emanating from rational decision (*Kürwille*) (Heberle, 1937; Tönnies, 1957 [1887]; Aron, 1964 [1936]). *Gemeinschaft* corresponds to *Wesenwille*, and *Gesellschaft* corresponds to *Kürwille*. Tönnies (1957 [1887]), although cautious in noting that each social entity contains elements of *Gemeinschaft* and *Gesellschaft*, sees a historical evolution from *Gemeinschaft*-like (*Gemeinschaftliche*) social entities to *Gesellschaft*-like (*Gesellschaftliche*) ones. Polanyi's theory of the extension of the market to previously untouched spheres of social life borrows heavily from Tönnies' theory of historical evolution. As Heberle (1937, p. 20) puts it, 'Tönnies conceives capitalism as an outgrowth of trade, in particular of large scale and foreign trade . . . The infiltration of this kind of trade into the realms of industrial and agricultural production in the shape of the plantation-economy, home-industry, the sweat-shop and the factory, tends to burst all the old traditional, 'community' conditions of economic life'. The parallel to Polanyi's theory of the rise of 'one big market' is evident.

Polanyi develops Tönnies' evolutionary schema into a general proposition about the changing place of economy in society. There are two distinct problems associated with such a generalization. First, it implicitly assumes that capitalist societies are based on contract and interest, whereas ancient societies are based on feeling, custom and instinct. Contrary to this assumption, it suffices to point out that every contract contains non-contractual elements (Durkheim 1964 [1897]; Parsons 1960) and that the theoretical distinction between status and contract is misplaced. Consequently, it is not surprising to find that the hypothesized historical change from community to society is not corroborated by evidence. On the one hand, historical research shows that the common

acceptance of ancient societies as status societies is ill-founded and rather mythical; it discards evidence indicating that even friendship or familial relations could have been contractual in the ancient world (Springborg, 1986). On the other hand, comparative empirical examination of social entities at different levels of economic development presents a picture that is considerably more complex than the hypothesized movement from community to society as industrialization and capitalism develop (Clark, 2001).

Second, Polanyi's proposition on the changing place of economy in society—in the sense of the hypothesized institutional separation of the market economy from the rest of society—is valid as long as the economy is viewed solely in terms of the exchange of goods and services. It is only within this framework that the movement from status to contract—the movement from exchange embedded in other institutions to exchange separated from them—implies an economy institutionally separated from society. Hence, it is not surprising to see Polanyi utilizing a highly constricted view of economic life (Berthoud, 1990, p. 179) as he attempts further analytical refinement of the notion of the changing place of economy in society. In this view, institutions are defined in terms of 'physical operations' (PAME, p. 307): 'I prefer to deal with the economy primarily as a matter of organization and to define organization in terms of the operations characteristic of the working of institutions'. As Berthoud (1990, p. 181) notes, 'To consider an institutional form essentially as an 'operational device' leads to a restrictive institutionalism'.

By adopting a holistic approach, Polanyi arrives at a methodological principle that is at odds with the notions of 'institutional separation' and 'the changing place of economy in society', as such a principle suggests that the nature of the market economy is determined through the particular relations it has with other social institutions, not because it is separated from these institutions. Hence, Polanyi's conceptualization of the economy in terms of the exchange of goods and services is at odds with his detailed analysis of the organization of production in *The Great Transformation*. Furthermore, it contradicts his definition of livelihood as the institutionalized procurement of want-satisfying means as a result of continuing interaction with nature and human beings.

Thus, the fundamental fracture between the two formulations of embeddedness arises as a consequence of a shift in Polanyi's conceptualization of economic life. When he formulates embeddedness as a gradational variable, Polanyi's analysis rests on a restrictive institutionalism which understands economic life as the exchange of goods and services. On the other hand, embeddedness as a methodological principle is derived from a holistic view of society, from looking at the various ways economic life is structured and shaped by social institutions and relations. Table 6 gives a schematic outline of the fracture in Polanyi's analytical framework.

**Table 6** The fracture in Polanyi's analytical framework

	Elements of analysis	
	Theoretical approach	Conceptualization of the economy
Embeddedness as a variable	Restrictive view of institutions and society	Exchange of goods and services
Embeddedness as a methodological principle	Holistic view of economy and society	Livelihood, empirical economy, organization of production

This antinomy—that the embeddedness concept is used in two contradictory ways in Polanyi—clarifies a central shortcoming in Polanyi's entire oeuvre: that his powerful critique of *homo economicus* and his vision of economic life as 'embedded and enmeshed in institutions' do not apply to the market economy because he takes it as disembedded, institutionally separated from society. Indeed, the moment Polanyi steps out of his methodological principle of the economy being embedded in social relations, what he offers are categories of analysis constructed in opposition to a sociologically thin notion of market economy. As Mann points out (1986, p. 61), 'This is ironic, as Polanyi's principal mission was to liberate us from the modern market mentality!' Instead of being liberated from the concept of the market, Polanyi's thought is plagued by opposition to it.

## 7. Ramifications: the antinomies of embeddedness

This paper attempts to show that Polanyi operates with two different notions of embeddedness: embeddedness as a historical variable and embeddedness as a methodological principle. The duality that is at the heart of Polanyi's embeddedness concept manifests itself in the following manner. First, embeddedness as a gradational concept, as a variable pertaining to economic systems in history, is a theoretical proposition in the sense of arguing a separation between economy and society as the market economy becomes the dominant economic system in history. Second, the general and abstract concept of embeddedness—all economies being embedded in social institutions—is not a theoretical proposition, but rather a methodological principle. The metamorphoses of embeddedness—the two variations that are found in Polanyi's oeuvre—have important ramifications for contemporary economic sociology. First, embeddedness as a theoretical proposition on the changing place of economy in society is misleading, since it presupposes economy as an autonomous sphere without social content. This is paradoxical

since embeddedness is defined as a reaction to the economic model of behaviour that denies the social character of human action. Second, the usefulness of embeddedness is limited to its methodological function because it is not more than a 'conceptual umbrella under which one should look into and think about what are the connections between economic activity and the social, the political, the institutional, the historical, the cultural elements that economic activity is mixed up with', as Granovetter states in a symposium on embeddedness (Krippner *et al.*, 2004, p. 133). Yet it should be recognized that embeddedness in this capacity falls short of providing a theoretical alternative to mainstream economics.

The gradational concept of embeddedness, through which Polanyi offers a more elaborate picture of how he conceptualizes economic life, is erroneous because it reifies the market economy in the way mainstream economics conceptualizes it; it purports an image of past economies where all economic activities are carried out in the name of non-economic ends; it contradicts the general proposition that all economic activity is embedded in social life.<sup>17</sup> The problem is that this conceptualization of embeddedness naturally leads to the notion of social life consisting of separate spheres; the market becomes a social sphere devoid of social content. Such a view is untenable. The physical notion of a 'sphere' is a misleading way of thinking about economy and society because neither is a physical entity with a definite shape and boundary; rather, they are the accumulation and patterning of social relationships in a given time-space regionalization (Giddens, 1984). As such, any recourse into conceiving of these entities as physical spaces constitutes a form of reification. Strictly speaking, economy and society as bounded ontic entities do not exist. As a result, one cannot be embedded in the other, nor can the embeddedness level change over time.

Polanyi's gradational concept of embeddedness is a historical one because Polanyi sees the institutional separation of economic life from social life as a historical process. This historical dimension of the concept is lost in Granovetter's revival of embeddedness (1985), but conceptualizing 'economic' and 'social' as

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<sup>17</sup>See also Barber (1995, pp. 400–401) on this point: 'While the modern market system may appear to be more differentiated from other social system structures, somewhat more concretely separate, this image diverts attention from the basic fact of its multiple and complex interdependence with the rest of the social system. Calling the market "disembedded" leads analytic attention away from just what this interdependence is. Insofar as the market is considered coterminous with all economic exchange, it leads attention away, further, from looking for the existence of some amount of reciprocal and redistributive exchange in so-called market economies and away from understanding how the three types co-exist and interact. It gives the market a false kind of analytic as well as concrete independence. And this image of the market may lead to yet a further common error: that the market is not only disembedded and independent but also that it is the part of society which determines all the rest. This absolutization of the market, this implicit reductionism, leads on to the analytical and concrete errors of seeing the market and its close theoretical companion, rational choice, as the sole explanations of social behavior'.

belonging to different social spheres remains alive (Krippner, 2001). Unlike Polanyi, who is inspired by Maine and Tönnies' ideas on the historical evolution of societies, Granovetter's reformulation carries the influence of Parsons and action theory (Krippner, 2001). Curiously, although with a different logic, the mistake is the same. In arguing that 'economic action is embedded in structures of social relations' (1985, p. 481), Granovetter too elicits the physical imagery of economic and social spheres.

Evoking physical imagery has consequences. In a careful analysis of Granovetter's (1985) appropriation and reformulation of the term, Krippner (2001) demonstrates the antinomies of Granovetter's reformulation by pointing out: (a) how it assumes an ontological distinction between economic and social spheres, and (b) how this prevents economic sociology from asking important theoretical questions. She substantiates these points by showing how such a formulation cripples the study of the market in sociology (2001, p. 801):

In attempting to steer an intermediate course between the twin perils of under- and oversocialized views of action, Granovetter has run the ship aground on a conception – common to both – that insists on the separate nature of economy and society. This problem manifests itself in the perverse symmetry that exists in the discipline: researchers either study economic processes in social terms, in which case they abandon the sphere of the market; or, they study the market as a theoretical entity in its own right, in which case they purge all social content.

Krippner's astute observation on the study of the market in economic sociology is important; it implies that economic sociology motivated by the embeddedness concept faces considerable difficulties in showing how economic processes and outcomes are social. This is not surprising. Embeddedness, unintentionally assuming a demarcation between the economic and the social, leads researchers to ask questions in the form of how 'economic' is related to 'social'. As a result, it creates a tendency to analyse economic phenomena either *qua* social by de-emphasizing economic phenomena or *qua* economic by discarding social factors. This is paradoxical, since the main aspiration of the embeddedness concept is to reject the alleged demarcation between economic and social phenomena.

At its best, as a methodological principle, embeddedness invites the researcher to look for the social processes that structure and shape economic life. However, embeddedness itself is not a causal force or mechanism, nor does it specify how economic activities are structured by social factors. Hence, the quintessential limitation of embeddedness as a paradigm for contemporary economic sociology: while it provides a powerful critique of the neoclassical model of behaviour and while it points out how that model violates the true nature of economic activities, it does not provide an alternative theoretical framework capable of demonstrating

how social factors enable and structure human action.<sup>18</sup> At its worst, embeddedness misguides economic sociology if it is taken as anything other than an abstract methodological principle, as can be witnessed by the common interpretation of embeddedness as indicating that 'economic' is submerged in 'social'. The concept of embeddedness is thus limited.

To be sure, embeddedness is useful as a method of inquiry into economic life. All human activities are structured by social factors, and economic activities are not an exception to this rule. In this capacity, as Beckert (2003, p. 796) puts it, '[Embeddedness] points to the indissoluble connection of the actor with his or her social surrounding'. It is precisely in this manner that embeddedness opened venues for empirical research after the publication of Granovetter's classic article (1985), motivating economic sociologists to find social processes where neoclassical economists simply see self-interested behaviour. As a result, in contrast to what Schumpeter purported, economic sociology overcame the intellectual division of labour between economics and sociology by undertaking the task of determining what economic outcomes social processes produce. However, a theoretical vacuum characterizes economic sociology. Economic sociologists often stay on the familiar ground of 'social' and shy away from 'economic'; they focus their empirical studies on meso- and macro-level social processes (Collins, n.d.) and rarely ask the traditional questions that have preoccupied economics for centuries, despite being united in their criticism of mainstream economics.

Thus, simply assuming 'the indissoluble connection of the actor with his or her social surrounding' is not sufficient; rather, it is necessary to advance this methodological principle by developing theoretical frameworks that show how economic activities are social in the first place. Embeddedness does not have the potential for such theoretical progress, despite its importance as a methodological principle.<sup>19</sup> Consequently, the analysis presented in this article joins the recent calls in economic sociology (Krippner, 2001; Beckert, 2003) to underline the limitation of embeddedness as a paradigm for economic sociology and the necessity of developing new paradigmatic approaches.

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<sup>18</sup>See Beckert (2003, p. 796) on this point: 'It has been given little notice, however, that the critique of the economic model of action on one hand and the sociological concept of embeddedness on the other are situated on two different conceptual levels. While the former refers to the question of how to conceive of the structure of action, the latter tells us about external variables which influence the action process and outcome.'

<sup>19</sup>Hence, as Collins (n.d.) recognizes, the radical challenge to mainstream economics does not come from the embeddedness paradigm. Instead, it comes from economic sociologists such as Zelizer (1997) and White (1981, 1993), who 'go beyond embedding' and develop sociological frameworks on the 'home grounds' of mainstream economics (Collins, n.d.). Not incidentally, these are the rare approaches in sociology that can offer alternative answers to fundamental economic questions such as economic value and the operation of markets.



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