

## Market System as a “Stark Utopia”

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### Abstract

The paper attempt at showing, on the basis of the work of three important thinkers, namely, Marx, Schumpeter, and Polanyi, that the market society is a “stark utopia.” It is argued that the market system is unable to offer solutions to the three important problems: the economic problem of “coordination,” the ethical problem of individual freedom, and the social problem of “order,” without sliding into contradictions in the reproduction of the system. These “fault lines” are examined in the paper through utilizing Marx’s analyses of accumulation and fetishism, Schumpeter’s notion of the “creative destruction,” and Polanyi’s idea of “double movement.”

**Key Words:** *Marx, Polanyi, Schumpeter, Weber, coordination, instability, commodification, creative destruction, double movement.*

**JELCodes:** *B14, B15, B16, B24, B25, B31*

## Bir “Düpedüz Ütopya” Olarak Piyasa Sistemi

### Özet

Bu çalışma, piyasa toplumunun bir “ütopya” olduğunu, üç önemli düşünürün, yani Marx, Schumpeter ve Polanyi’nin çalışmalarına dayanarak, göstermeye çalışmaktadır. Çalışmada, piyasa sisteminin, modern toplumlarda çözüm bulunması gereken üç önemli soruna, toplumun kendisini başarıyla yeniden üretmesini sağlayabilecek çözümleri, çelişki ve çatışmalara düşmeden, ortaya koyamayacağı vurgulanmaktadır. Bu sorunlar sırasıyla, iktisadi nitelikteki “koordinasyon” sorunu, etik nitelikteki bireysel özgürlük sorunu, ve sosyal nitelikteki “düzen” sorunudur. Piyasa toplumunun bu “fay hatları”, Marx’ın birikim ve fetişizm analizleri, Schumpeter’in “yaratıcı yıkım” kavrayışı ve Polanyi’nin “ikili devinim” anlayışı kullanılarak incelenmektedir.

**Anahtar Kelimeler:** *Marx, Polanyi, Schumpeter, Weber, koordinasyon, istikrarsızlık, yaratıcı yıkım, metalaştırma, ikili devinim*

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It was an illusion to assume a society shaped by man’s will and wish alone. Yet this was the result of a market-view of society which equated economics with contractual relationships, and contractual relations with freedom. The radical illusion was fostered that there is nothing in human society that is not derived from the volition of individuals and that could not, therefore, be removed again by their volition. (Polanyi 1944, 257-58).

## **1. Introduction**

The present paper follows Karl Polanyi’s footsteps in his diagnosis that the market system is “a stark utopia” (Polanyi 1944, 3): contrary to the “invisible hand” paradigm, the market system is argued to have a limited ability to offer adequate solutions to the three important problems, namely, the economic problem of ‘coordination,’ the ethical problem of individual freedom, and the social problem of ‘order,’ to which any economic and social system must handle. These problems, it is argued, cannot be solved within the market system without creating contradictions that could even jeopardize the reproduction of the whole institutional matrix of the society. The aim of the paper is to show this tendency of the market system to undermine its own institutional structure through its own reproduction. That is to say, the market system is both self-enforcing and self-undermining at the same time (Hirschman 1982), and the basic cause of the failure of the system is its very “success” (Schumpeter 1976 [1943]). In other words, the reproduction of the market system is a contradictory process, sometimes producing “invisible hand,” and sometimes “invisible backhand” (Ylikoski 1995, 34) or “malign invisible hand” (Taylor 1985, 170), because of the existence of some institutional strains and contradictions inherent in the very constitution of the system.

In order to show that “Free Market is Impossible” (Dugger, 2005), first a general framework is developed by drawing upon the work of three important thinkers, who all emphasized this contradictory character of the market system. Marx, with the analyses of accumulation and fetishism, Schumpeter, with the notion of the “creative destruction,” and

Polanyi, with his idea of “double movement,” are all indispensable in the development of the thesis that the working of the market system undermines its own institutional structure, and thus make the reproduction of the capitalist society a contradictory process. On the basis of this framework, it is shown that the system cannot solve the three important problems of the social design because of the three structural strains, or ‘fault lines,’ inherent in the institutional matrix of the market system. These fault lines are the institutional separation of the economic sphere, namely the market sphere, from the ‘rest’ of the society, the breakdown of the human essence into individuality and sociality as if they are separate, with its corresponding Weberian distinction between “instrumental rationality” and “substantive rationality,” and a “double movement” between the extension of the market and the protective countermovement on the part of the society, respectively. Following Polanyi’s lead, the paper takes it for granted that the market system, as a project to be established,<sup>1</sup> is based on a separation of the market from the social and political structure of the society, whose result is a breakdown of the human essence into a “self-sufficient monad” (Marx 1975, 230), and a ‘social being’ whose behavior is guided by ‘non-economic’ motives. Against this ‘dehumanization,’ however, is a protective countermovement, reclaiming the social character of human beings, which could jeopardize the reproduction of the system. Therefore, any economic strain, emanating from the general problem of the coordination of economic activities, will be transferred into the political sphere, whose problems will be further aggravating the strains in the economic sphere, and eventually in the overall institutional structure of the market society.

## 2. The Three Problems of Social Design and the “Four Horsemen of the Apocalypse”

It can be asserted that any social ‘design’ to be devised in our modern world must solve three important problems. The economic problems of resource allocation and capital accumulation, or the problem of the coordination of the activities of individual decision units; the ethical problem of creating and maintaining individual freedom; and the social theoretic problem of the emergence of a social order that is capable of reproducing its own institutional structure by itself, as a result of individual actions. These are specifically ‘modern’ problems for two reasons. First, the formulation of them dates with the Enlightenment thought, whose basic thesis is that for every question there is only one true answer, and human reason is the best way to find these answers; and that, guided by their knowledge of the ‘laws of nature,’ human beings come to shape nature and society to their purposes in

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1 However, the argument of the paper is not dependent on the thesis that the establishment of the market system, or of any other economic and social system for that matter, is a matter of free choice and initiative, despite Polanyi’s own claim that the market system can be seen as a ‘project’ implemented by the liberal thinkers and the state. Here it is only argued that, irrespective of the question whether the system is established consciously or a product of a social and economic evolution, *any* social and economic system must solve these three problems at the same time in our “modern” world.

accordance with those laws towards a better state in which human beings would be more free. The three themes of the importance of human reason, freedom and the ‘perfectibility’ of society, have haunted almost all social philosophies since then, positively or negatively. That different social designs, from the market society to socialism, are all judged by their performance to solve these problems can be attributed to the importance of these modern ideas, even in our ‘post-modern’ epoch. In that sense, both Marxism and liberalism are the products of the Enlightenment. These problems are modern in another sense as well: they are first brought into the fore by the market system, whose emergence, or at least development, coincides with the Enlightenment. Market system, as its defenders argue, is the first system in history that could solve all three problems at the same time. On the other hand, economics, as we understand it today, is also a product of both the market system and the Enlightenment, and it is concerned specifically with these problems. Economics’ answer to them, as is well known, is a version of the social contract theory (Rosenberg 1992), which is developed by Hobbes and Locke, and perfected, in a sense, by Adam Smith in the idea of the invisible hand. By the use of the invisible hand economist is able to solve all three problems with one stroke: individual self-interested activities of different units in the society give rise to an order, as an unintended consequence of these intentional behavior, which is capable of maintaining both individual freedom and its own reproduction without any outside intervention. Critics of this understanding again focus on these problems, in order to show that the market system cannot solve the coordination problem without contradictions, or even periodic crises, and that the system is not capable of an efficient order within which individual freedom cannot be protected because of the very design of the system. Therefore it is not surprising that all economists, the critics and the adherents of the mainstream economics alike, should be concerned with these problems.

These three problems are the basic concern of the present paper too. A basic preconception of the present paper is that the three realms of the human existence, namely the economic, ethical, and social realms cannot be separated from each other, and therefore any attempt at isolating the economic realm from the other two realms, as the market system assumes, would have some disastrous consequences. This impossibility is emphasized heavily by the “four horsemen of the apocalypse”: namely, Karl Marx, Max Weber, Joseph A. Schumpeter, and Karl Polanyi. Even if the choice of these thinkers is by no means accidental, because almost all criticisms of the market system utilize more or less either some hypotheses, or the general framework, of one (or more) of these thinkers, the present paper does not focus on the (diverse) political implications of their views; the basic concern here is to draw on their work in order to have a general framework that can be used to assess the possibilities and the difficulties of the market system with respect to these three problems. All these thinkers maintain the view that the market system has an inherent tendency to create both economic and social instabilities, and that these instabilities are even necessary for the system to reproduce itself. For them, the ‘disintegration’ or even ‘collapse’ of the system emanates from its own institutional structure, a thesis most forcefully argued by Schumpeter (1976 [1943]). In fact, both Schumpeter and Marx emphasize the dynamic, and inherently unstable, aspect of the capitalist accumulation process (Elliott 1980; Catephores

1994). These structural instabilities, both contend, is not necessarily a weakness of the system; on the contrary, it is the existence of these instabilities in the economic sphere that makes the system as a dynamic one. Whereas Marx and Schumpeter focus on the inherent contradictions in the capital accumulation and competition processes, Weber and Polanyi adopt a more sociological position focusing on social institutions. However, a closer inspection reveals also that both Marx and Schumpeter's mechanisms of 'collapse' is of sociological nature as well. In this regard, as Elliott (1980) argues, two forms of the "creative destruction" process, one regarding the working of competition with its dynamic elements, and the other regarding the institutional collapse, can be found in both Marx and Schumpeter. A brief comparison of the respective understandings of the market system by them is given below, in Table 1.

Starting with Marx, it is easy to see that a basic criticism of capitalism in Marx's account is expressed in his crisis theory, which can be seen as a form of the "vanishing investment opportunities" (Schumpeter 1976 [1943], 111-120) approach. Especially in his formulation of "the law of the tendential fall in profit rates" (Marx 1981, 317-39; Sweezy 1942, 96-100 and 156-186) Marx argues that profit rate, which is the driving force behind capital accumulation process, will eventually fall so as to create "hitches" in the form of crises that will undermine the whole of capitalist society.<sup>2</sup> However, just like Schumpeter, Marx always sees the system as an inherently dynamic one displaying structural instabilities, be them economic or social. These structural instabilities, both Marx and Schumpeter contend, is not necessarily a weakness of the system; on the contrary, it is the existence of these instabilities in the economic sphere that makes the system as a dynamic one.

On Schumpeter's conception (Schumpeter 1934 [1911], 1989 [1928], 1976 [1943], 1989 [1946], 1989 [1947]), the process of competition and accumulation of capital is a dynamic and inherently unstable process. The process of accumulation, as a "creative destruction" process, requiring that new methods of production, new forms of industrial organization, new methods of transportation, and new markets must be found is pictured as the destruction the old methods and outlooks so as to give rise to new ones (Schumpeter 1976 [1943], 83). In both Schumpeter and Marx, capitalist accumulation process can be seen as recurrent periods of routinization that are interrupted by some radical innovations, which occur mostly in times of hardship, when the full potential of the old innovation is used within the process of diffusion of this innovation throughout the economy (Keklik 2003; Ebner 2006). However, with the advance of capitalism, innovations are 'institutionalized' through research and development activities in the oligopolistic, big corporation, which is capable of utilizing the potentialities of the mass production that cannot be realized within a perfectly competitive environment (Schumpeter 1989 [1946], 200). When these responses are institutionalized, the entrepreneur gives way to a bureaucratized "creative destruction" and this infuses a fundamental contradiction of the system because the "creative responses," as opposed to the "adaptive responses" (Schumpeter 1989 [1947], 222), on the part of the entrepreneur, will vanish. Schumpeter, following Weber's theory

2 For the Marxian crisis theories, see Shaikh (1978); Sweezy (1942); Jacoby (1975), Goldstein (1999).

of “charisma,” believes that capitalism’s dynamism comes from some extraordinary individuals, some “superhumans,” who are different from industrialist and the merchant (as being “static-hedonist” individuals). Bourgeoisie according to Schumpeter is an “unheroic” or “non-charismatic” class (Bottomore 1985, 38), in the sense that “there is surely no trace of any mystic glamour about him which is what counts in the ruling of men. The Stock Exchange is a poor substitute for the Holy Grail” (Schumpeter 1976 [1943], 137). But the “rationalization” and the routinization of the creative destruction process with the development of the big corporation means the dismissal of these heroic individuals from the system, which in fact needs them for its dynamism (Schumpeter 1976 [1943], 133).

Schumpeter’s indebtedness to Weber<sup>3</sup> reveals itself in his argument that “the capitalist process also attacks its own institutional framework” (Schumpeter 1976 [1943], 141), due to the process of rationalization and the resulting bureaucratization, or the “iron cage” (Weber 1930, 181), which causes charismatic individuals to give way to the productive and administrative machinery. Yet, the process of rationalization will also have destabilizing consequences in the very social fabric, or the institutional foundations of the capitalist society, since human beings also have the power to rebel against the iron cage. In order to see this, however, the duality inherent within the institutional structure of the capitalist society should be considered.

The Weberian, also the Marxian (Marx 1975, 225-30), idea that capitalist society is characterized by an institutional separation between the “economic” sphere, and the “political” sphere, as in the distinction between the “civil” and the “political” society, is also utilized by Karl Polanyi in his historical account of the market system in *The Great Transformation* (1944). Under the market system, the “political” sphere becomes separated from the “economic” one which is characterized by “*bellum omnium contra omnes*” (“war of all against all”) (Marx 1975, 101-2). Marx’s distinction between a “self-sufficient monad” (1975, 230) who is characterized by her egoism, and the abstract “citizen” in the political sphere (Marx 1975, 220), corresponds to two types of rationality, as in Weber, and thus two distinct types of behavior: An “instrumentally rational” behavior based on “formal rationality,” a hallmark of the market sphere, as opposed to the “value-rational behavior” based on “substantive rationality,” within the rest of the society (Mommsen 1989, 152-53; Weber 1947, 184-85). Whereas in the first type of rationality, the neoclassical conception of optimizing behavior in a way to ensure a maximum degree of performance and efficiency seems relevant (Mommsen 1989, 38), the other is based on the social system of shared values and meanings, in the sense that rationality implies that actions of individuals are to conform to social values, no matter how they seem as ‘irrational’ from the standpoint of formal rationality. Echoing this distinction is of course Polanyi’s claim that with the establishment of the market system, human beings are “believed to consist of two

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3 In fact, two other important sources of Schumpeter’s idea of “creative destruction” are claimed to be Nietzsche and Sombart (Reinert and Reinert 2006). Since Nietzsche is an inspiring source for Weber also, this should be no surprise. On the other hand, Schumpeter’s and Sombart’s views of capitalism seem to have developed independently (Chaloupek 1995). For a claim that the source of Schumpeter’s idea of development is Hegel, see Prendergast (2006).

components, one more akin to hunger and gain, the other to honor and power. The one was ‘material,’ the other ‘ideal’; the one ‘economic,’ the other ‘non-economic’; the one ‘rational,’ the other ‘non-rational’” (Polanyi 1947, 114).

However, such a breakdown of both the society into two separate institutional spheres, and human essence into two independent substances could not be maintained for a long time, because of a “double movement,” consisting of the extension of the market into the ‘rest’ of the society, and a countermovement based on the “principle of social protection aiming at the conservation of man and nature as well as productive organization” (Polanyi 1944, 132). That is, the process of double movement should be taken as “the self-organization of the society, sometimes with the help of the government and sometimes in spite of it, to protect people and land against the disintegrating forces of the market system” (Baum 1996, 10, 55). It represents the resistance of human spontaneity, creativity, and freedom that is imprisoned within the iron cage against the market as the locus of alienation, rationalization and bureaucratization.

**Table 1: The “Four Horsemen Of The Apocalypse” On The Market System**

MARKET SYSTEM	MARX	WEBER	POLANYI	SCHUMPETER
<i>Basic Feature of the system</i>	Labor power as commodity	“Rational Capital Accounting”	Fictitious Commodities: Labor, Land, Money	The Entrepreneur & Creative Destruction
<i>Institutional Tendencies</i>	“Self-sufficient Monad” vs. Impotent “citizen”	“Disenchantment” & Formal Rationality ↓ Economic vs. Political	“Disembodied Economy” (Economic – Political Separation)	Development of Formal Rationality ↓ Heroism vs. the Iron Cage
<i>The “Apocalypse”</i>	Alienation vs. Reclaiming Humanity: Tendency for Social Breakdown	Increasing Formal rationality: “Iron Cage” (“rationalization towards the irrational”)	Double Movement ↓ Disintegration of the Social Fabric	The “Iron Cage” & and Destruction of the “Creative Destruction

Source: Özel (2018, 117)

To sum up, all of these four thinkers adopt the view that capitalism is an inherently unstable process due to its very institutional structure. Since the system rests on an institutional separation between economic and the political spheres which also requires two distinct forms of rationality, “instrumental” and “substantive,” respectively, it becomes an embodiment of a ‘breakdown’ of the integrity, the ‘wholeness’ of the human essence. Furthermore, since the sphere of market continuously extends its reach over the ‘rest of

the society’ in a way to imprison human creativity and spontaneity within the boundaries of the market, it should be no surprise for human beings to resist this process of rationalization. This contradiction between the extension of the market and the protective countermovement will eventually lead to the disintegration not only of the social fabric, but also the market institution itself for it takes the form of direct, political interventions into the working of the market system, which will create constant tendencies for “hitches” (Schumpeter 1954, 565) in the accumulation process, if not for periodic crises. The irony here is that the more capitalism establishes itself firmly, the more it gets closer to the verge of the collapse. However, in order to explain this process in greater detail, we should consider the ‘economic’ problem first.

### **3. The Economic Problem: Coordination of Economic Activities in a Dynamic Setting**

An essential problem for any economic and social system to find a solution for its survival is of course the economic problems of resource allocation and capital accumulation in the long run. These problems are particularly acute in a market society which needs to have coordination of decentralized individual actions. That the coordination of the decisions made by different units in the economy, without any outside intervention on the part of any agency or authority, can be achieved best in a market society is a most-frequently heard claim of the mainstream economic thought. However, as different critics, from Marx to Keynes, emphasize, the system has some important deficiencies in respect of this coordination.

A cursory look at the history of economic thought reveals that the economic coordination problem has been examined by employing basically three analytical frameworks that also correspond to three equilibrium methods defining three varieties of the problem. First variety of the coordination problem is the ‘synchronic’ coordination, which focuses on the equality between aggregate supply and aggregate demand or between planned savings and planned investment at a specific point of time, and the corresponding analytical conception is static equilibrium. Second variety, the ‘diachronic’ coordination problem, considers the time dimension of this equality, as stemming from, say, the introduction of investment and money into a static framework, as in Keynes’s *General Theory*,<sup>4</sup> and the corresponding equilibrium analysis is a comparative static one, in the form of either “temporary equilibrium” which is conceived as the sequence of static short period equilibria (Ertürk 1996, 379), or “shifting equilibrium” which is conceived as alternative equilibrium positions of the system when some ‘shift’ variables change. The last variety, which can also be dubbed as the ‘dynamic order’ problem is concerned with extending the notion of coordination to a dynamic or even an evolutionary framework, as Marshall called the “Mecca of the economist” (Marshall 1920, 19), in which the system is characterized by changes in the “norms” of the system itself in a way that “this transition

4 For a discussion of these varieties of the coordination problem in Keynes’s *General Theory*, see Özel (2007).



cannot be decomposed into infinitesimal steps” (Schumpeter, 2005, 115), and by prolonged disequilibrium or even by ‘nonequilibrium’ positions emanating from competition and capital accumulation processes.

**Table 2: The Three Coordination Settings**

	SYNCHRONIC	DIACHRONIC	DYNAMIC/ EVOLUTIONARY
<b>ANALYTICAL FRAMEWORK</b>	Static	Comparative Static	Dynamic
<b>EQUILIBRIUM CONCEPTION</b>	Static Equilibrium “The State of the rest” / No Change	“Shifting” or “Temporary Equilibrium”	Absence of Structural Change
<b>METHODOLOGY</b>	Mechanical	Mechanical	Organic/Evolutionary
<b>CHANGE</b>	-	Continuous and Gradual	Discontinuous, Punctuative
<b>SOURCE OF CHANGE</b>	External to the System	External to the System (“Shift” Variable)	Internal/Structural “Creative Destruction”
<b>ORDER</b>	“Invisible Hand” (Stable)	“Invisible Hand”/“Invisible Backhand” (Unstable)	“Dissipative” (Chaotic) (Unstable)

Source: Özel (2013, 228)

Such a classification may help us to distinguish between two different and alternative visions towards the market system. A “hitchless” conception, which is reluctant to accept that the market system tend to suffer from periodic fluctuations or even crises because of its “design,” deals mostly with the first two varieties of the coordination problem and thus limits itself mainly with a static or comparative static framework. On the other hand, a more dynamic vision acknowledges that the market system is a “hitchbound” system (Schumpeter 1954, 565) characterized by some sudden and drastic variations in economic variables, infusing even some theoretical indeterminacy into the system’s behavior. Hitchbound models assume that the economic system has an inherent tendency to create hitches, or some disturbances by design, whereas in hitchless models such disturbances should be attributed to some external factors, thus securing the self-reproduction of the system indefinitely.

Since in both the synchronic and the diachronic models, time is either simply omitted or is used simply as a “shift” variable, they can hardly handle the coordination problem in a setting in which capital accumulation takes place. Both the Neoclassical microeconomic models and the “Keynesian” macroeconomic models are of this type, and thus they are not capable of depicting and solving the dynamic issues raised by a capitalist accumulation

process characterized by a Schumpeterian creative destruction process. Even if a comparative static framework could be useful for handling the “diachronic” coordination problem, it cannot deal with the “dynamic order” problem that focuses on notion of “development” in the sense of Schumpeter (2005), as “an emergent process with an unknown outcome” (Foster 2000, 323). So defined, this notion refers to dynamic change or evolutionary change in the system, the end result of which cannot be known *a priori*. That is to say, the notion belongs to “economic biology,” the “Mecca of the economist.” That is to say, unless the importance of the notion of “development” is acknowledged, even a “dynamic” analysis is confined only with some mechanical metaphors, rather than biological or evolutionary ones that involves dynamic and nonlinear interactions between different agents and markets in the economy that eventually may lead to instability, disequilibria, bifurcations, and even indeterminacy. On this conception, equilibrium should be conceptualized, not in a “Newtonian” way as the balance of forces, but in a “Boltzmanian” way as the absence of structural change. In a nonequilibrium setting in which changes in the “norms” of the system is a rule rather than exception, change must be adaptive, non-linear, and irreversible, involving ideas such as self-organization, complexity and dissipative structures (Foster 2000). It is about the emergence of a “dynamic” order in a changing setting.<sup>5</sup>

**Table 3: Analytical Models Of The Market System**

	“HITCHLESS” MODELS	“HITCHBOUND” MODELS
ANALYTICAL FRAMEWORK	Synchronic and Diachronic	Dynamic
THEORETICAL STRUCTURE	Closed	Open
METHOD	Static/Comparative Static	Comparative Static /Dynamic
ORDER	Spontaneous (Efficient)	Evolutionary (Inefficient)
DENGE	Newtonian (State of the Rest)	Boltzmanian (“Absence of Structural change”)
SOURCE OF INSTABILITY	External	Internal

*Source:* Prepared by the author on the basis of Schumpeter (1954, 565) and Foster (2000).

The emergence, and/or dissipation, of such an order has been the most challenging task to economists for centuries, since at least Adam Smith, if not Bernard Mandeville.

5 For a classification of the different strands within the evolutionary economics, see Araz-Takay and Özel (2008).

The question of how such an order could emerge as a result of decentralized decisions of different units in the economy in a changing, evolutionary setting. That is to say, the problem is to explain the “dynamic coordination” problem in the long run. The usual answer to this question is the process of competition that is emphasized both by the Classical-Marxist and, interestingly, Austrian economics in their quest to explain the emergence of a dynamic order. These approaches explore the possibility of competition among entrepreneurs that forces them to adopt new technologies or new methods of production that change the very structure of the market or of the industry itself. Such a dynamic effect of competition had already been recognized by Adam Smith in his immortal discussion of the division of labor in the *Wealth of Nations* Smith, 1976 [1776]. Smith argues that developments in the division of labor and in the capital accumulation process lead the economy to internally created changes and even turbulence. These changes and disequilibria are both the causes and the results of the capital accumulation process that works on the basis of “free” competition. Competition among capital owners to produce more and cheaper and to have higher profit causes improvements in the technical conditions of production, and in the division of labor. Improvements in the division of labor, in turn, bring about new technologies, a fact that introduces a dynamic element in competition. In other words, in Adam Smith, and in the classical tradition as a whole, the long run equilibrium characterizing the “center of gravity” of the system is achieved through free competition that works by virtue of capital mobility among different sectors of the economy. Such free mobility creates the tendency of the equalization of profit rates among all the sectors of the economy. Yet, “free” competition, besides having the tendency to ensure long run equilibrium, also introduces new, revolutionary elements in the form of technical changes and innovations. Such a conception almost by definition takes competition as a dynamic process in which improvements in the production technology is a prevalent feature of competition. An important aspect of this conception, especially in Smith, is the possibility of increasing returns to scale that is made possible by technological improvements forced by competitive pressure to produce more and cheaper (Richardson 1976).

A similar position regarding competition is also taken by the Austrian tradition represented by Menger, Mises, Hayek, and above all, Schumpeter. For Austrians, competition as conceptualized in the form of “perfect” competition implies a state of affairs rather than a process; even if competition is inherently capable of creating a self-sustained market structure, it actually refers to a process whose working may create disturbances and even turbulence. According to Hayek (1948 [1937], 1948, 1984), for example, the basic function of the market structure is to collect and coordinate the piecemeal information held by individual consumers and produces through market prices. Under these circumstances, market appears as a coordinating agency that answers to the question of “how spontaneous actions of individuals will ... bring about a distribution of resources which can be understood as if it were made according to a single plan, although nobody has planned it” (Hayek 1948 [1937], 54). The market combines and conveys all the piecemeal information, through prices, without invoking of any kind conscious intervention.

An essential part of Hayek’s argument is that the market, and its basic characterizing disposition, competition should be understood as a process: what we call equilibrium is not just a state of rest of the system at a given point in time; it requires individual plans to be mutually compatible and, consequently, the emergence of “a conceivable set of external events which will allow all people to carry out their plans and not cause any disappointments” (Hayek 1948 [1937], 40). These adjustments must be made continuously, for the relevant information that individuals have constantly changes. Even in these conditions, however, the market can gather and coordinate this piecemeal information through competition, because the market prices formed in this process can reveal the information of the relative scarcities of the factors of production. It is actually this aspect of competition that makes possible the emergence of a self-sustained market structure, without any design.

The Austrian approach therefore sees the market system as an information transmitting and economizing device, which works through a dynamic process, competition, rather than an idealized state of affairs. And this process causes time, change and capital formation to be important issues which all create the room for entrepreneurial activity (Caldwell, 2004, 326). That is to say, it is the existence of the entrepreneur that makes competition as a dynamic process. As opposed to the static conception of competition in which entrepreneur is merely seen as the organizer of the production process, the Austrian conception of entrepreneur emphasizes the dynamic role played by the entrepreneur. This importance of the entrepreneur makes us see the working of competition as a “discovery procedure” within which optimal plans of individuals are made consistent with each other through entrepreneurial activity (Hayek 1984, 259). Nevertheless, there is a tension, if not a contradiction, between Hayek’s view of competition as a dynamic process, and his notion of the “spontaneous order.” In a dynamic process in which disequilibria also persist, how such an efficient order can arise? Unfortunately, Hayek does not explain the emergence of this order, but simply assumes that it emerges. That is, he uses the *explanandum* as an *explanan*.

On the other hand, Marx, as explained above, emphasizes a built in crisis-creating tendency of the market system. It appears that Marx has three related but different crisis theories: “underconsumption,” “disproportionality,” and “the falling rate of profits” theories (Sweezy 1942, 96-100 and 156-186). Even if “automatic Marxist” (Jacoby 1975) conceptions distort the complexity of Marx’s argument, it would still fair to see both the underconsumption, and the disproportionality theses as different variants of the synchronic coordination problem, in their rejection of the Say’s Law in a changing setting. On the other hand, the “tendential” falling rate of profit as a result of increasing organic composition of capital in the accumulation process, again a variant of synchronic coordination issue, advances a more mechanistic conception in its sequence of rising organic composition, falling rate of profit, disintegration and collapse of the system through revolution. Against such mechanistic interpretations, is of course, Schumpeter’s idea that “capitalism, ... is by nature a form or method of economic change and not only never is but never can be stationary” (1989 [1943], 82).

Therefore, it is Schumpeter who, more than anybody else, emphasizes the turbulent

aspect of competition and accumulation processes. For him, the market system must be seen as an inherently a dynamic system displaying structural instability in which the accumulation of capital always requires to find new methods of production, new forms of industrial organization, new methods of transportation, and new markets (Schumpeter 1976 [1943], 83). That is, the accumulation process is by definition a “creative destruction” process in which economic structure is revolutionized from within, in the form of the destruction the old one so as to give rise to a new one (Schumpeter 1976 [1943], 83). As is well known, the key for the creative destruction process is the notion of innovation. Since the entrepreneur constantly seeks new profit opportunities through innovation and change in order to gain a competitive advantage over the rivals, profit, i.e., the reward for the entrepreneur, becomes a type of quasi-rent as a result of these innovations. In other words, profit is a reward for the temporary monopoly power enjoyed by the innovating entrepreneurs during the interval between the introduction of the innovation and the actions of competitors who either imitate this innovation or supersede it with another one that is superior.

Therefore, in Schumpeter, just like Adam Smith and Marx, accumulation process is continuously interrupted by innovations introduced by the entrepreneur. However, with the advance of capitalism, with the institutionalization and bureaucratization of the creative destruction process, “the element of personal intuition and force would be less essential than it was: it could be expected to yield its place to the teamwork of specialists; in other words, improvement could be expected to become more and more automatic” (Schumpeter 1989 [1947], 229). The routinization of the creative destruction process with the development of the big corporation means the dismissal of the heroic individuals, the entrepreneurs, from the system, which in fact needs them for its dynamism: “Thus, economic progress tends to become depersonalized and automatized. Bureau and committee work tends to replace individual action” (Schumpeter 1989 [1943], 133). Hence the imprisonment of the innovation process within an “iron cage” in the form of bureaucratization is the basic source of failure of capitalism; and in the end, “the bourgeois fortress ... becomes politically defenseless” (Schumpeter 1976 [1943], 143).

To sum up, therefore, both the Classical-Marxian and Austrian approaches see coordination problem in a dynamic setting and they consider the role of competition and accumulation both as equilibrating and disequilibrating processes. Their recognition of both “centrifugal” and “centripetal” forces created by competition (Ertürk 1994, 373-74), that is, those forces that would lead to both equilibrium and instability at the same same time, requires an understanding of capitalist accumulation process as a “hitchbound” one. However, it is Schumpeter who is aware of the implications of this process that eventually leads to recurrent instabilities and inefficiencies which undermines the system. Therefore, that competition is able produce a “spontaneous order,” which will be the most efficient order compared to its rivals, is hard to sustain should be taken as a legacy of Schumpeter, more than Marx himself. It is of course another question whether such an order is capable of sustaining human freedom as well, a question to which we now return.

#### 4. The Individual in the Market System: “Legitimation Crisis”

That the market system is also capable of protecting individual freedom is another frequently heard claim. However, on closer inspection, it can be seen that even if the system creates the precondition of human freedom, it also poses threats for this freedom to be achieved. In other words, within the market system there emerges a legitimation crisis (Taylor 1985, 248-288), emanating from the very structure of the system. While the market society places a great emphasis on the modern “identity” who praises individual “efficacy” and the idea of equality, the individual finds herself as becoming more and more powerless, and as not being equal to others within the market sphere, thus creating problems for the market society to “legitimize itself” because the society cannot fulfill the very ideals it promises to achieve. The basic reason for this is that the market system forces human beings to act like functional units in a process of “rationalization towards the irrational” (Löwith 1960, 48), that is towards more routinization, alienation, fetishism.<sup>6</sup> In short, individuals are imprisoned within an “iron cage” created by the market system, a process which is emphasized mostly by Weber, Marx and, above all, Polanyi.

From a social theoretical point of view, development of the market system requires a social transformation, or a shift from “community” to “society,” or to put it in a terminology of Ferdinand Tönnies (1988), from *Gemeinschaft* to *Gesellschaft*. In *Gesellschaft*, or the market society proper (Tönnies 1988, 234), the “rational,” self-interested individual, who is nothing but an atom in the society and for whom other individuals appear as particular means emerges for the first time in history. A person in *Gemeinschaft* on the other hand, belongs to a whole that makes her life meaningful; such a community is characterized by the sense of security, solidarity, the subordination of economic to human needs, the directness and concreteness of human relations (Fromm 1941, 40-41). But though the individual is not alone and isolated, this community is also characterized by the lack of individual freedom. Therefore, despite its destructive effects upon the social connectedness in a *Gemeinschaft*-like society (hence a great deal of social control over the individual), market society also creates the preconditions of “free” human beings, who enjoys a great deal of privacy in their lives by emancipating from the “gold-fish bowl of traditional society” (Taylor 1985, 255). In a traditional society, the individual identity is a misnomer; the individual herself should be defined in relation to a “cosmic” or a “meaningful order” in which everything has a place in the grand scheme of the totality of being, as guided by a *logos* (Taylor 1975, 6; 1985, 256). This *cosmos*, in the sense of a hierarchical order of things, is also echoed within the social realm in the form of *Gemeinschaft*. An individual too has a necessary place in a larger order of the community; on her own, outside this order, she becomes “only a shadow, an empty husk” (Taylor 1985, 258).

However, with the transition to modern, i.e., capitalist society, individual emancipates herself from the straightjacket of this cosmic order and becomes a free being who is responsible for her own actions and who sees herself in the same footage with other

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6 For the importance of alienation and fetishism in Marx’s labor theory of value, see Özel (2008).

individuals within the society, irrespective of the traditional stratification system. She sees herself both as equal with other people, and as having the power to transform the world. Yet, at the same time, the development of industry, another hallmark of capitalist society, with the increasing social character of production requiring both cooperation and exchange, makes individual realize her dependence on other people. This “discovery of society,” somewhat paradoxically, is an important ingredient of the “market society,” which is a complex one that has to live side by side with the productive machinery. In fact, it is actually the existence of an ever-growing productive machinery that makes us feel more and more powerful. Nevertheless, such a society, characterized by a complex division of labor and an extended bureaucratic network both in the economic and the political realms, also make individual feel more and more powerless through “its paralyzing division of labor, standardization of life, supremacy of mechanism over organism, and organization over spontaneity” (Polanyi 1947, 109). Therefore, regarding the fate of the individual, we have two tendencies that work against each other in a market society: while emancipation from the ties that bind individual makes her more and more independent, self-reliant and critical, increasing alienation makes him more isolated, alone and afraid (Fromm 1941, 104). In other words, while the possibilities of realizing and developing the potentialities of the individual seem to increase in a market society, market system also destroys the very sociality of the human beings by depriving them of the direct, personal relationships with other individuals, and their social relations are mediated by exchange or money, which reduces them into abstract, functional units. In other words, with the market system, the reality of society is both recognized for the first time, and denied because of the perverse existence of human beings who are forced to behave as *homo oeconomicus* within the market sphere, whereas they affirm their sociality only in the political sphere. This distinction between the “civil society” and the “political society” is indeed the manifestation of the fact that the economic and the political spheres have been separated and the individual has been reduced to an “isolated monad who is withdrawn into himself” (Marx 1975, 229): the individual is only acknowledged in the form of the “egotistic” individual, whereas in the political sphere she is just treated as an abstract “citizen” (Marx 1975, 220). This dual character of human beings is only another way of stating the breakdown of human beings into distinct entities and the development of a “one-sided” individual, to an extent that the totality of the “self” will be lost. Although the notion of the “self,” as the “self-defining subject” as opposed to the one who should be defined in relation to the “community,” is a product of modern times, the reduction of the individual to *homo oeconomicus* means even the annihilation of the self. According to Eric Fromm, for example, “the ‘self’ in the interest of which modern man acts is the social self, a self which is essentially constituted by the role the individual is supposed to play and which in reality is merely the subjective guise for the objective social function of man in society” (1941, 116-17). However, this is the manifestation of a contradiction: “While modern man seems to be characterized by utmost assertion of the self, actually his self has been weakened and reduced to a segment of the total self—intellect and willpower—to the exclusion of all other parts of the total personality” (Fromm 1941, 117). In other words, here we have a gap between our sense

of “efficacy” and the feeling of powerlessness, for we are now reduced to a “cog” in this runaway machine, the market.

Since in the modern society we praise equality, and trust our own transformative power, or “efficacy”, we see the nature and also other individuals around us “as potentially raw material for our purposes” (Taylor 1985, 266). Such an instrumental attitude towards both nature and towards other individuals is a hallmark of the market society. However, as we are drawn into exchange relations more and more, we also give way our own individuality and efficacy to the machine through an alienation process in the sense that commodities themselves become “fetishized”, endowed with the properties of the life to which they are supposed to serve (Marx 1976, 165).

Therefore, regarding the fate of the individual, we have two tendencies that work against each other in a market society: increasing freedom and the loss of it at the same time. As Weber thinks, while rationalization process is “a precondition for the optimal possible social action which is oriented to ultimate ideal values and thus as well for maximum individual self realization” (Mommsen 1989, 133), it also poses a threat for human creative action. In other words, while the possibilities of realizing and developing the potentialities of the individual seem to increase in a market society, market system also destroys the very sociality of the human beings by depriving them of the direct, personal relationships with other individuals, and their social relations are mediated by exchange or money, which reduces them into abstract, functional units.

As Polanyi argues, the establishment of the market system through creating fictitious commodities, would eventually lead to the destruction of the social fabric, for it made the entire human existence subordinate to the demands of the market system. Yet, the real danger that the creation of commodity fictions poses for the society lies in disrupting individuals’ lives, if not in the “annihilation” of the society. With the creation of these fictions individuals are to be separated both from their own activity, for their labor power becomes a commodity, and from their natural surrounding, for nature (land) becomes a commodity. Therefore, the “totality” of the life itself has been broken down into specific compartments, such as economic, political, religious, etc., and only the “economic” motives, the fear of hunger and hope of gain, are allowed to govern individuals’ lives.

The most immediate effect of the commodification of labor is the dissolution of the society into the “atoms,” each of which only behaves in accordance with the motive of profit and the fear of starvation irrespective of the other members of the society. This, as a result of the freedom of contract principle, would in practice mean that the noncontractual organization of kinship, neighborhood, profession, and creed, the traits that characterize the early, nonmarket societies, “were to be liquidated since they claimed the allegiance of the individual and thus restrained his freedom” (Polanyi 1944, 163). On the other hand, regarding the other fictitious commodity, land, it should be emphasized that this process of disintegration of the society is also a process of separation of human life activity from the natural setting within which it takes place, for it is reduced to a commodity. For Polanyi, “an individualized treatment of the land” (Polanyi 1944, 179), another requirement in the



institutionalization of the market system, basically meant the separation of human life from its natural surrounding, a fact includes even the physical separation of the “habitat” of human beings (Polanyi 1947, 97). In short, these two steps, commodification of labor and land, together characterizes a “dehumanization” process; under capitalism, human beings are forced to live through a “perverse” life within which they are deprived of the very qualities that make them human beings. The institutional structure of the market economy forces human beings to live through a separate, fragmented life.

Since such an institutionalization destroys the old institutions and the bonds of society so as to make the threat of hunger an individual phenomena forcing human beings to sell their labor power in the market, the creation of the commodity fictions amounts to the atomization of the individual: individual, through her being reduced to the “bearer” of labor power, becomes just a “cog,” or a functional unit whose only function is to reproduce market-type, exchange relations. In other words, human beings are “socialized” within the system by adapting themselves to the requirements of the system (Thomasberger 2001), thereby becoming useful units that function to reproduce the market relations. In this system, the real relations between human beings are hidden behind the exchange process. This “reification,” which is also reinforced by the mechanization and “rationalization” of production process reducing individuals into mere “appendages” of machines, even increasingly dominates their consciousness (Lukács 1971, 93). The result of this process is the emergence of the “reified mind,” which sees commodity form and its “laws” as natural and eternal. (Lukács 1971, 98); that is, the abstraction of the “rational economic man,” *Homo oeconomicus*, becomes a reality; individual transforms into a functioning component of a system, and therefore as such must be equipped with essential features indispensable for running the system. Here, it is essential to understand that it is the very reality of the market system that reduces man into an abstraction, for when individuals enter into the market sphere, they become transformed so as to behave under the guidance of the optimization principle (Kosík 1976, 52). The immediate corollary of this is, of course, the “market mentality” with its postulate, the notion of economic “rationality”: Once a human being is reduced to an “individual in the market” (Polanyi 1977, 29), i.e., to *Homo Oeconomicus*, it was now easy to argue that “economic” action “was ‘natural’ to man and was, therefore, self-explanatory” (Polanyi 1977, 14). In short, the disembedded market economy makes the rule of the “changelessness of man as a social being” (Polanyi 1944, 46) obsolete for it inevitably leads to the dissolution of the society itself by forcing man to behave like a *homo oeconomicus*. This shows that the thesis that market society is capable of protecting individual freedom cannot be sustained, even if one is forced to acknowledge that the market system, historically speaking, created the preconditions of individual freedom. However, it is exactly this reason, the imprisonment within the “iron cage” of routinization, alienation and dehumanization, which forces for human beings to resist against the extension of the reach of the market, in order not to be annihilated. And this resistance imposes important contradictions and strains into the working of the market system.

As a conclusion, one can emphasize the strains put on the individual by the institutional structure of the market society that will eventually disrupt the whole institutional matrix of the market society (Taylor 1985, 1985, 274-278; Ertürk 1999). First of all, there is an ever-going tension between the the idea of equality and the actual inequalities and injustice created in the market sphere; second, there is a tension between the notions of freedom, personal autonomy and independence, and the feeling of “efficacy” to transform the world and the objective dependence to the productive machinery that reduces individuals to functional unit withing the “Iron Cage”. Last, but not the least is the tension between the idealization of personal development and self realization and the subsumption to the. alienation and fetishism processes that bring about personal powerlessness and isolation.

## **5. The Problem of Order and the “Double Movement”**

Therefore, the market system, by breaking down the human “livelihood,” to be seen as a whole, into economic and political spheres, and thus treating human beings as mere atoms and confine them within the economic sphere, also disintegrates the social bond based upon the directness of relations between individuals and replaces it with another one, the bond of exchange, or of money, this “alienated capacity of mankind” (Marx 1975, 377). In this “mystical” world in which the individual is imprisoned within some “alien,” reified social relations, and loses the control over her own life, rather than realizing her essence. This occurs because her immediate environment and even herself is reduced to a bearer of commodities and to a “functional” unit, or to the “personification” of the reified social relations.

However, this process of fetishism, or “petrification” in Weberian terms, will also create a reaction on the part of the society against being imprisoned in an “iron cage”. This process is conceptualized best by Polanyi’s notion of “double movement,” which presents an important framework to understand the contradictory character of the capitalist society. In this regard, two aspect of this framework can be stressed: First of all, the capitalist society, characterized by the institutional separation between the economic and the political spheres, is unstable because the institutional strains inherent in the organization of the system are further aggravated by the tensions between social classes which arise out of these strains and which make it difficult to maintain the economic-political separation for these tensions are constantly carried back and forth between the two spheres. In this perspective, different agents, such as social classes and sections, interact or struggle with each other, which makes the whole process a dynamic one that need to have a definite end, such as collapse or inevitable revolution. In a sense, then, the double movement is a continuous struggle between the “economic” interests of one stratus of the society, embodied as the extension of the market, and the general interest of the society as a whole, embodied as the protective countermovement. More accurately, the double movement, seen from a “societal” perspective, refers to the struggle between those forces that represent the “disembedded” economy and those that represent the attempt to “reembed” it into the society. That is to say, the protective countermovement refers to a social, or institutional, tendency to resist to, or to rebel against, the inhumane, reified conditions of the market system.

With the establishment of the fictitious commodities, an individual is forced to live through a double life. She must behave as a “*homo oeconomicus*” within the market while s/he must act as a “*homo reciprocans*” (Gintis (2000, ch. 11) and affirm her sociality in the political sphere. However, this institutional structure is untenable because a human beings is not just an individual who act on the “motive of gain and fear of hunger;” (Polanyi *et al.* 1957, 68) but she is also a social being, who even develop her identity through a dialogue with other members of the society. Yet, the liberal vision requires human beings to exist and act just for the sake of the functioning of the market, a fact that shows that individuals’ own power to make a difference in the world, or the “agency” power is violated. This, however, leads them to assert their own sociality, or solidarity with other people, so as to affirm their own “connectedness”, which in turn create institutional strains in the reproduction of the system, for it takes the form of interventions into the functioning of the market. And this contradiction between two important human traits, namely between individuality and sociality, eventually will create tensions, strains and even disruptions in the functioning of the system. That is to say, even if the market society represents a social design that corresponds to the “discovery” of both individuality and the sociality of human beings, for the first time in human history, simultaneous emphases of these traits make the functioning and the reproduction of the market society a contradictory process. Such an argument reveals the utopian elements of the market system as envisaged by the liberal system of thought. The liberal’s reliance on the “invisible hand” simply assumes away these contradictions without giving any satisfactory answer to the question “why should unintended consequences always result in a desirable social order?” In this respect, current economic thinking falls even behind the position of Hobbes.

According to Polanyi, a “double movement” characterized the history of the market system: “the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones” (Polanyi 1944, 76). Therefore, two simultaneous tendencies that exist in the capitalist society constitute this double movement: the process of commodification, i.e., extension of exchange relations to the fictitious commodities, on the one hand, and society’s “response,” i.e., the resistance carried out by different classes and organizations within the society to the extension of the market on the other. In fact, these two contradictory movements give the capitalist society an unstable character: the protective countermovement as an attempt at restricting or at least slowing down the extension of the market will eventually impairs the working of the self-regulating market. Since the system is organized on the basis of these commodity fictions, any intervention from the part of the social classes or state, or both, into the markets, for these fictitious commodities create impairments in these three markets. These impairments will in turn intensify the tensions already inherent in the society which will obstruct the working of the market as a whole. Therefore, the double movement actually signifies a circular process. Since the social classes themselves and their conflicts emanate from the economic sphere in a capitalist society and since this society is subordinate to the market, conflicts among these classes will necessarily have social dimensions even when they are

purely economic in character, and this in turn will cause further disruptive effects on the economic sphere whose impairment will intensify the tensions existing in the society (Polanyi 1944, 201). In other words, since the protectionist countermovement is a direct intervention to the working of the self-regulating market, which inevitably has political consequences, it will tend to break the institutional separation of the economic and the political upon which the market system is built. The result of such a process would be the disintegration of the society, for the attempt to reestablish this institutional separation requires eradication of every form of social opposition against the market by any means, including the use of overt force as the fascist period has shown: “Fascism, like socialism, was rooted in a market society that refused to function” (Polanyi 1944, 239).

In other words, Polanyi’s critique is directed to the invisible hand paradigm of the social order: market society is inherently unstable because of the antagonistic elements in the organization of the market system, which manifest themselves as the conflicts between social classes or groups. Here, first, the causal “agents” in the double movement are classes, and second, as an implication, state appears as a platform or an “arena” of the class struggle, a concept with the help of which capitalist society can be analyzed. Nevertheless, the double movement should not be reduced to a simple clash between the classes in the society, even though both of these movements were conducted mainly by classes and the principles they represent, even when these principles are not compatible, from time to time, with their immediate “interests.” And it is the existence of this struggle between the classes and its effect on the economic sphere, the market, which makes capitalist society inherently unstable.

Therefore, from a social-theoretical point of view, Polanyi’s overall account of the market system provides us with three important points. First, Polanyi’s argument is that market society is inherently unstable; in other words, his critique is directed to the invisible hand paradigm of the social order. What makes market society unstable is the antagonistic elements and conflicts between social classes or groups, and since the market operates on the basis of the principle of self-interest, not on solidarity, social disintegration is inevitable (Hechter 1981, 411).<sup>7</sup> However, as the second point to be stressed, the double movement should be taken to mean a clash between the two institutional spheres, as the embodiment of the two opposing principles characterizing the human condition. While the “fear of hunger and hope of gain” underlies the extension of the market, the countermovement is induced by the fact that human beings are basically “political animals.” In other words, the protective countermovement against the extension of the market sphere represents a moral resistance against ‘dehumanization’ created by the commodity fictions, rather than

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7 According to Michael Hechter, Polanyi’s thesis is that since the market operates on the basis of the principle of self-interest, not on solidarity, “the group cannot long survive intact” (1981, 411). However, Hechter does not consider this a critique of utilitarianism because he argues that invisible hand argument is not consistent with utilitarianism; according to him, utilitarianism based on the idea of self-interest, necessarily leads to conflict between individuals in the society and to the intervention of state as “the only institution capable of preventing social unrest by intervening in the market place” (Hechter 1981, 414). In short, he reverts back to a Hobbesian position, which is supposedly transcended by contemporary liberalism.

representing a class struggle driven by ‘economic’ interests. Last, but not least, even if this protective countermovement can be seen as a form of ‘reclaiming humanity,’ it may not always create desirable outcome for the humanity. The paradigmatic example for this, is of course, the rise of fascism. The morale that can be inferred from this fact is that the protective countermovement can also have disastrous consequences, if we do not consider the ethical importance of it for the whole humanity. For the basic problem of the market economy is not just economic, but it is basically social and moral. Market economy was doomed to failure because “its purpose was to create profits and welfare, not peace and freedom” (Polanyi 1944, 255). Therefore, the market economy was from the very beginning, a “stark utopia” (Polanyi 1944, 3), because

liberal economy gave a false direction to our ideals.... It was an illusion to assume a society shaped by man’s will and wish alone. Yet this was the result of a market-view of society which equated economics with contractual relationships, and contractual relations with freedom. The radical illusion was fostered that there is nothing in human society that is not derived from the volition of individuals and that could not, therefore, be removed again by their volition. (Polanyi 1944, 257-58)

## 6. Conclusion

The institutional structure of the market system can be characterized by three important strains, or ‘fault lines’ that give rise to the unstable character of the market society. First strain is the separation of the market sphere from the “rest” of the society. Even if such a separation is necessary for the market system to function, it will sooner or later become blurred because of continuous social and political interventions into the working of the market, which will prompt further interventions, unless they are prevented through some means, such as the liberal ideology or even sheer force. The second fault line that manifests itself essentially on an ethical plane is the contradiction between an individualist, self-interested behavior pattern that is necessary for the market to function, and a communal behavior pattern arising from the fact that a human being is also a social being whose basic aim is not maximize her gain, but to reach a “good life” through realization of human potentialities. Since the system is based entirely on the principle of self-interest, the individual is forced to become an isolated “atom.” That is to say, the individual is forced to live through a double life. As a ‘Dr. Jekyll,’ who is a social being, and as a ‘Mr. Hyde,’ who is an atom. This contradiction between the two important human traits imposes a contradiction also in the institutional structure of the society. The third fault line, which results from the first and the second ones, is the “double movement” that is formed by two contradictory tendencies in the market society: the extension of the market into the “rest” of the society, and a protective countermovement that tries to check this extension. The clash between these two contradictory movements tends to disrupt the functioning of the market. It is important to understand that these three fault lines are dependent to each other and they reinforce each other’s effects. The separation between the economic and the political spheres, imposing a double life for the individuals will eventually force

them to resist the market in the form of (mostly political) interventions. And this makes the reproduction of the market society an unstable process to the extent that it becomes a “stark utopia.”

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