

Competition in Transformational Processes: Polanyi & Schumpeter

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Abstract

We examine parallels and differences in the analyses of capitalism and the succeeding form of social organisation by Karl Polanyi and Joseph Schumpeter. By focusing on the transformational process in both theories, we identify five aspects that determine the difference in outcomes for both authors: the emergence of the current economic system, the notion of competition, the change in social norms, the understanding of elites and freedom as a synthesizing factor. While the transformational process is nearly analogous in both theories, the resulting social organisation tends to be rather dissimilar. We conclude that this dissimilarity is caused mainly by to the authors' different premises.

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Introduction

In June 2019 Austria experienced the establishment of its first non-party government as a consequence of the Ibiza affair that led to the demission of the democratic elected government at that time. Although only established temporarily, this short period constituted a system of technocratic government or a government of experts rather than a government legitimized by democratic vote. Similarly, in the course of the financial crisis 2008 the democratic government of Greece was supervised by a Troika of experts (European Central Bank, IMF and European Commission) in order to overcome the government debt crisis. Even though they were perceived on the one hand as rather benevolent and on the other hand more as a burden on the people, there were some common features in both: Both governments of experts acted on the principles of rationalization rather than on the will of the people. Popular sovereignty was replaced by elite expertise.

Long before it appeared, this state was described by two great thinkers of the 20th century, Karl Polanyi and Joseph A. Schumpeter, in a similar way; namely as a consequence of the evolution and demise of capitalism. Both theorists describe a mechanism of social transformation in which the striking element is depicted as a change in social norms across different spheres of society. Both focus on the rising significance of the economic sphere and the resulting dominance of competition along with principles of rationalization. Furthermore, both theorists identify a common key indicator in this process, that is the freedom of self-expression of the people. The means to this end is a regulation of the economic sphere in order to re-subordinate it to other spheres of society.

Given that the mechanism and the target variable described are essentially the same, we argue that the resulting differences in Polanyian and Schumpeterian theory, can be attributed to differences in the premises of both theorists and their perception of the role of elites.

In order to investigate this, our transformation analysis consists of five aspects: We start by analysing (1) the genesis of the capitalist economic sphere and contrast the evolutionary Schumpeterian view with Polanyi's political theory. Along the emergence of capitalism comes (2) competition and a process of rationalization (in a non-neoclassical sense). The dominance of economic principles leads to a (3) change in social norms as rationalization spreads within society and ultimately to a (4) conflict of interest within the bourgeoisie class between economic aspects and moral values. In the course of capitalist development, the question of (5) how to secure freedom gains increasing importance and is ultimately answered by regaining control over the economic sphere, that is by regulation. Nevertheless, overcoming capitalism in this sense is

coupled with the dispense of democracy as it no longer provides means to achieve the end of freedom in a complex society.

Theories of freedom of self-expression

In the following we argue that the mechanisms of societal change as presented in Schumpeter as well as in Polanyi resemble each other and are essentially the same. In order to contextualize our analysis we use the philosophical framework as proposed by Özel (2018). He argues that both Polanyi and Schumpeter are expressivists meaning that they understand human freedom as the realization of human essence and as the ultimate goal. We investigate further the role that the notion of competition – or competition generally - plays in the attainment of freedom as a societal goal.

We start with a brief outline of the central theories regarding societal change as proposed by the two authors. Schumpeter in his works (e.g. 1912, 1942) understands the societal change as part of an evolutionary process. In the centre of the evolving system stands the economic system – at least in capitalism. Society in a Schumpeterian sense can be described (as by e.g. Andersen, 2011) as being comprised of several spheres or sectors: inter alia the economic, the political and the family (where social norms are rooted). These spheres interact with each other, which then forms the co-evolution of spheres and a social-cultural evolution generally. Now, since in capitalism the economic sector is so dominant, this sector leads all the others, meaning that the concept of rationality that plays a crucial role in the economic process influences the other spheres and imposes a rationality dictate into them. Taken together with the changing economic circumstances brings about the evolution from capitalism to a Schumpeterian socialism – but more on the transformational aspects later.

Polanyi's grand theory as described in *The Great Transformation* (Polanyi, 1944) deals with the institutionalization of a, what he calls, liberal utopia: the self-regulating market. He argues that the economic system in the history of mankind was embedded in society and therefore subject to customs, norms and moral beliefs. However, in order for the self-regulating market to work ironically regulations are needed. These regulations commodified labour, land and money, bearing no commodity character at all, into fictitious commodities enabling a self-regulating market. Additionally,

“A self-regulating market demands nothing less than the institutional separation of society into an economic and a political sphere” (Polanyi, 1944, p. 74).

This institutional separation is also referred to as the disembeddedness of markets from society in contrast to a market that is embedded in and regulated by social norms and institutions. The

commodification and disembedding process builds up tension in society since the core mechanisms needed for the market mechanism, i.e. competition and rationality, do not do well with the nature of labour, land, and money. Out of this tension, the well-known countermovements arise. These fight back against the pressure of the self-regulating market on moral beliefs, social norms and the societal atmosphere. Polanyi argues that this resulted in fascist political movements and political systems as experienced in Germany during 1933-1945.

Analysis of Transformation

In order to conduct our analysis we are now comparing Polanyi and Schumpeter along different categories, each of which acts as the building block for the next category. Both theories present general theories of the economy, politics and society, starting with the emergence of the capitalist system and ending with a prospective outlook on the time beyond capitalism. Therefore we start with an inquiry of the emergence of the economic system in order to be able to grasp the origin of markets and the meaning of competition. Those insights are integral for the understanding of the changing nature of social norms and the underlying mechanism. Elites and politics are important for exactly this mechanism of transformation and lead us to the last step of the analysis: the role of freedom and regulation respectively.

1. The emergence of the economic system

Regarding the emergence of capitalism, the two emphasize different aspects. For Schumpeter the capitalist spirit described by a rationality postulate had existed long before capitalism - actually co-existed with other forms of economic activity - until it became the dominant form of economic interaction. The industrial revolution and rise of capitalism are natural to evolution and something that happened unintentionally. Markets are taken as given and – in the sense that they entail competition – are necessary for Schumpeter’s argument regarding creative destruction (Harvey & Metcalfe, 2005, p. 5). For Polanyi on the other hand, markets and especially the self-regulating market (and competition therefore) is something that has been intentionally institutionalized. There is nothing “natural” about it.¹ On the contrary the intended institutionalization of a self-regulating market interfered with the “normal” functioning of society. The stark contrast becomes clearer when keeping in mind that Polanyi views the economic system in a substantivist sense. He (1944, 1992) emphasizes that there are simply different configurations in human history that always exist as a form of integration based on a

¹ Polanyi’s disregard of evolutionists’ arguments becomes clear in his writings. See e.g. Polanyi (1944, chapter 5, p. 46 & 67). He argues for a transformational way of investigating the Industrial Revolution: “The transformation to this system from the earlier economy is so complete that it resembles more the metamorphosis of the caterpillar than any alteration that can be expressed in terms of continuous growth and development.” (p. 44)

specific behaviour (e.g. reciprocity, redistribution, householding or exchange) and a supporting pattern (symmetry, centricity, autarchy and markets respectively). Markets and the motive or barter existed long before capitalism but they represented just one possible mode of interaction. However, the other patterns represent merely traits whereas the market pattern is able to produce an institution – the market – that relates to a single purpose. Other economic historians often argue that the market pattern did evolve by itself and simply expanded. Polanyi contradicts and describes the history of the market by depicting three types of markets: long-distance, local and internal market. The first two were present from the sixteenth century onwards but in a highly regulated form; Mercantilists started the endeavour to create one big internal (national) market and consequently the perils of it had to be administered by the state. He states:

“The "freeing" of trade performed by mercantilism merely liberated trade from particularism, but at the same time extended the scope of regulation. The economic system was submerged in general social relations; markets were merely an accessory feature of an institutional setting controlled and regulated more than ever by social authority.” (Polanyi, 1944, p. 70)

Consequently, the “installation” of a self-regulating market can be viewed as a complete reversal of the trend of development.

Polanyi views the economic configuration as set and influenced by political configurations – essentially embedded. Schumpeter, by contrast, views the economic setting and the dominance of one of the sectors as the outcome of evolution, a process that can hardly be hindered nor intended. This circumstance translates also very well into the functioning of the mechanism of change that they identify. Harvey and Metcalfe (2005) emphasize:

“We could crudely contrast Schumpeter as identifying the source of change as being intra-market endogenous, and Polanyi as market organisation endogenous.” (Harvey & Metcalfe, 2005, p. 10)

2. Competition in the two theories

The discussion above leads us directly to the discussion of competition in the two theories. As already stated, competition is essential for Schumpeter’s theory since the main driver of change is his process of creative destruction². The starting point of the process of creative destruction is a

² We would like to emphasize that Schumpeter’s conception of competition quite naturally changed over the years of his academic life. In the following we concentrate on the depiction in *Capitalism, Socialism and Democracy*. Since the importance of the entrepreneur is declining in this opus so is the conception described e.g. in *Theorie der Wirtschaftlichen Entwicklung* (1912). This conception concentrates much more on competition between entrepreneurs as a fight (“Kampf”).

stationary state that allows for profits once an innovation occurs. The innovation conducted by the famous entrepreneur triggers a complex competitive process based on the adaptation of new routines. Pressure is exerted by new firms entering the market as well as by old firms rapidly adapting – their output represents a competitive challenge. In this environment firms using the old routines can persist in the competitive struggle and too adapt the new routines or increase productivity. Or they extinguish and become a victim of the process of creative destruction. The result is a sustained change in the routines of the agents and though not always but mostly an increase in prosperity (Andersen, 2011, chapter 11). Later when transforming from competitive capitalism to big business capitalism, oligopolistic competition becomes central in that there are no real entrepreneurs anymore, and thereof a mechanism that still ensures creative destruction and thus progress is needed. The “constant threat” of entry and exit does the job.³ This concept of competition is closely linked to rationality since rationality is needed in order to prevail in exactly this competitive struggle. Schumpeter argues that “all logic is derived from the pattern of the economic decision”. It is the “inexorable definiteness and, in most cases, the quantitative character that distinguish the economic from other spheres of human action.” Individuals acting rationally in the Schumpeterian sense does not mean that they are capable of processing all the information at hand and act accordingly to maximize the outcome, but

“[...] only that their rationalistic rules of thumbs are tested and selected in some core areas.” (Andersen, 2011, p. 227)

Nevertheless, the importance of the economic sphere leads to a

“[...] slow though incessant widening of the sector of social life within which individuals or groups go about dealing with a given situation.” (Schumpeter, 1942, p. 122)

in this rationalistic way. Schumpeter most explicitly speaks of competition in the other spheres when he regards the political realm. There the “constant threat” makes the competition between political parties productive and efficient while preventing fascist surges. Competition for political leadership is defined as free competition for votes. Moreover, the rationality postulate is one of the main drivers of the change of social norms (Schumpeter, 1942, chapter 11). With competition

³ According to Schumpeter and as can also be seen by the depiction of the process of creative destruction, his concept of competition in *Capitalism, Socialism and Democracy* transcends the concept of price competition as envisaged by economists of Schumpeter’s time. He argues that their analysis still rests on a stationary and rigid system and can therefore not account for the actual competition stemming from new goods and processes. He further points out that the concept of perfect competition on which grounds attacks on monopolistic tendencies are launched, is pure utopia and never even existed. Additionally, the monopolies under attack were able to generate greater prosperity than were the firms under competitive capitalism (Schumpeter, 1942, chapter 7).

and hence rationality as the defining force of capitalism's social order, it is perceived as something positive and desirable since it enables evolution.

Since Polanyi doesn't consider the self-regulating market as natural, neither is competition perceived as something natural. In a sense he again views competition substantivistic: it resembles "just one form among many to organize the allocation of material goods" (Altreiter et al., *forthcoming*, p 13). Regarding the local as well as the long-distance markets he argues that they are essentially not competitive. However, the internal market was and thus had to be regulated, as mentioned in the statement above. The reversal of the trend was brought about by the "artificial phenomenon of the machine" that consisted in "the invention of elaborate and therefore specific machinery and plant" and culminated in the factory system. This in turn meant that all factors involved in production had to be available at all time, including labour, land and money.

"The elements of industry had to be on sale. This was synonymous with the demand for a market system." (Polanyi, 1944, p. 78)

Gain as a motive is peculiar to the production for markets and profits could be secured

"[...] only if self-regulation is safeguarded through interdependent competitive market." (Polanyi, 1944, p. 78)

A self-regulating market is characterised by being able to administer production and distribution via buying and selling - essentially prices - alone. For the smooth functioning of the price mechanism competition is essential: it ensures only one price (Altreiter et al., *forthcoming*, p. 12). This also means that incomes are derived from sales on the market and consequently that there should be no interventions that inhibit the price mechanism from working. Society needs to be subordinated to the laws of demand and supply – including labour, land and money. However, Polanyi defines commodities as "objects being produced for sale on the market", but of course labour, land and money are not produced for this purpose, yet they are bought and sold on markets. Thus they are fictitious commodities. In a sense, it is competition that puts the pressure on individuals and their surroundings and thus leads to double-movements. The fictitious commodities are subjugated exactly because they should be manageable for competition. The notion of competition is therefore rather negative and perceived as an ideologically connoted design that needs intervention to be workable.

3. Changing social norms

When considering social norms the aspect of co-sectoral evolution is very important and it is represented in both theories. We would like to emphasize this point since we think that it is a

crucial part for the understanding of the two authors and our claim that they are actually talking about the same issue.

Social norms play a significant role in Schumpeter's theory. In chapter 18 of CSD (Schumpeter, 1942) titled "The Human Element" he refers to a set of propensities to feel and act that is subject to change through the underlying social conditions as well as an unchanging human nature. Those propensities refer to social norms. In these pages, Schumpeter reacts to possible bourgeoisian claims that the socialism Schumpeter drafts cannot be achieved since human nature needs the incentives coming from capitalism. However, Schumpeter's claim is that through the lead of the economic sector and the importance of rationalization and efficiency therein the overall spirit, i.e. the social norms, of society will change. The economic sector influences the political as well as the family realm and changes beliefs. The family sphere is the one where the evolution of social norms and expectations under the influence of economic evolution is analysed. The family sector

"[...] most directly reproduces and develops the norms and aspirations of the social actors." (Andersen, 2011, p. 225)

Those norms and aspirations as well as the political sphere were influenced by the rationality thinking prevalent in the dominant economic sphere. Andersen argues that according to Schumpeter capitalism helped promoting the dispersion of "rational thought" and a "rationalistic civilization" (Andersen, 2011, p. 227). This then leads to an increase in situations of social life that are met with this "rationalistic" manner, as it disconnects emotions and social affairs. For Schumpeter, the "economic pattern is the matrix [womb] of logic" (Schumpeter, 1942, p. 122). This rationalization of society essentially led to the rise of logic and to the banishment of "metaphysical belief, mystic and romantic ideas of all kind" (Schumpeter, 1942, p. 127) from the mind. The sense of duty that is still left has no "traditional basis" anymore and now directs itself towards the "betterment of mankind". The bourgeoisie "will" that became aware of the "classwise rights" ameliorates the circumstances of those hit by them, as Andersen puts it (p. 229). This makes e.g. feminism an "essentially capitalist phenomenon" (Schumpeter, 1942, p. 127);

"These tendencies must be understood "objectively", and [...] therefore no amount of anti-feminist or anti-reformist talk or even of temporary opposition to any particular measure proves anything against this analysis. These things are the very symptoms of the tendencies they pretend to fight." (Schumpeter, 1942, p. 127).

Schumpeter's optimistic explanation that feminism arises naturally out of capitalism as it is only rational to demand equal rights when deprived of all emotional beliefs can also be applied to other forms of social injustice emerging from capitalism.⁴ To him, fighting such tendencies seems absurd as it would be equal to fighting evolution. Of course the bourgeois class plays an important role in the process since it – again – leads the other classes and thus only the beliefs of the bourgeois matter (here Schumpeter's love for elites shows up). It is this mechanism of rationalization as well as the evolution of the economic system directed towards monopolies and therefore making it more profitable to organize the economy centrally that leads to socialism.

Polanyi of course formulates the same argument in a different manner and has a more clouded view on the matter of capitalism but essentially tells the same story. Since "a market economy can function only in a market society" (p. 60) that system needs to be able to "function according to its own laws". This also means a separation of the economic and political realm. In order to function labour, land and money need to be subjugated to the market – commodified. It is this commodification process, i.e. the rationalization process, that transforms societal reality and leaves the subjects altered – more rationalized, changing the way they view relationships e.g. And it is essentially human nature that cannot cope with the altered "set of propensities to feel and act", to use Schumpeter's terminology, that leads them ultimately to rebel against the system and form double-movements. Such double-movements show up as legislation (e.g. social legislation) that protects the entities from commodification or at least try to ease its consequences. But even Polanyi acknowledges that the separation of politics and economics brought about important aspects such as civic liberties, private enterprise and the wage-system that according to him "fused into a pattern of life which favoured moral freedom and independence of mind" (Polanyi, 1944, p. 263). On the other hand it inevitably changes social norms by opening the door for fascist ideas. These fascist ideas however oppose the concept of freedom, as Polanyi writes, the very thing that people strive for (1944, chapter 21). This directly leads us to the next central category that we want to discuss: the role of elites and their relationship with the working class.

4. Elites, popular masses and classes

While classes are rather distinct in the Schumpeterian framework, they are also permeable on meritocratic grounds, i.e. Schumpeter (1942) is convinced that the brightest from a working-class background can become capitalists. This supposedly democratic permeability justifies the

⁴ Compare Schumpeter (1942, p. 127): "I have pointed out before that social legislation or, more generally, institutional change for the benefit of the masses is not simply something which has been forced upon capitalist society by an ineluctable necessity to alleviate the ever-deepening misery of the poor but that, besides raising the standard of living of the masses by virtue of its automatic effects, the capitalist process also provided for that legislation the means "and the will." The words in quotes require further explanation that is to be found in the principle of spreading rationality."

extensive power the elites have over the working class. However, the bourgeois elites need to exert a certain control over society since the fate of capitalism as a system lies in the hands of elites in a Schumpeterian framework. The bourgeois do not only represent their own interests but are the only class to maintain capitalist structures. In Schumpeter's opinion, the working class exclusively focus on their own short-term interests which – as he also states – is perfectly rational for them to do. Although aware of their self-interest, the working class never develop nor express an opinion as such. This is where eloquent intellectuals enter the scene and provide leadership and critical, even revolutionary, ideas to the working class or what Marx would have called the proletariat. While intellectuals neither created the labour movement nor were specifically asked to lead it, they found their way into the centre and left their mark on the movement by, e.g. coining terms such as the class struggle. Still, an irreconcilable discrepancy between the labour movement and its intellectual forefront remains as there is significant distrust between the working and intellectual classes.

In Schumpeter's framework, intellectuals are not necessarily part of the elite per se, but as a group are heavily protected by the capitalist class. Their freedom stands for and is essential to the bourgeois society – only a socialist or fascist regime could control and silence intellectuals. Apart from potentially being involved with the working class, they criticise the bourgeoisie because this is what they are meant to do by design. However, they hardly ever become powerful politicians themselves; instead, they work in the background of the political sphere.

It is also the bourgeois class that is decisive for the success or failure of a transition from capitalism to socialism in Schumpeterian theory. The state of capitalism needs to be sufficiently mature to secure a smooth transition to a socialist order. This implies a strong and advanced body of bureaucracy, not only in the economic sphere but with regard to life in general. However, this high degree of bureaucratization requires leadership and therefore paves the way for a position of immense political power. In the political sphere, a “battle for votes” starts, to win the democratic election and therefore the allegiance of the people. In this battle, the political parties only reasoning is to maintain or attain power. The people on the other hand, do not vote according to their moral beliefs but more so as a consequence of mass phenomena and persuasion, similar to purchase based on advertisement. Hence, the election result of the majority vote does not necessarily reflect the will of the people. The democratic method does not necessarily provide a higher degree of freedom.

While Polanyi (1944, chapter 19) does not dedicate much of his analysis to intellectuals, he does describe the power dynamic between elites and the working class in a more functional and systemic way. Ordinary, poor people are divided into two groups: the paupers and the workers.

The paupers are deemed to be helpless and physically unable to make an income for whatever reason; they thus should be helped but kept miserable in some way as a deterrent. The working poor, however, are not to be helped out of their misery. They are considered the suppliers of labour and are paid wages for their labour according to the value they added via their productivity. To the elites, it does not matter if their unemployment is voluntary or not; what matters is that the miserable existence of paupers should constantly threaten workers into labour, otherwise the wage system would break down.

Striking is an integral part of the wage system more generally and the bargaining process more specifically. Nevertheless, striking decreases the working class's productivity and the value they produce; therefore, striking lowers their output and "worth" to the elites which might consequently reduce their wages. Strikes may even hinder the community from sustaining itself, i.e. if labour were to strike continuously, there would be no sustenance for its suppliers. This dilemma results in the fact that

“[a]ctually, the worker has no security in his job under a system of private enterprise [...] Yet clearly any method of intervention that offers protection to the workers must obstruct the mechanism of the self-regulating market, and eventually diminish the very fund of consumers' goods that provides them with wages.” (Polanyi, 1944, p. 239)

The requirements for the self-interest based market society to work thus make it utterly unstable. This instability might cause the market society to fail and consequently result in fascism – as it did at the beginning of the twentieth century throughout the world. Polanyi does not consider any society as particularly prone to fascism, instead, he considers fascism

“[...] rooted in a market that refused to function.” (Polanyi, 1944, p. 248)

For fascism to assume power, the popular masses are not essential since Polanyi considers fascism a move rather than a movement, i.e. even small elite groups and tacit collaborators in power can establish fascist regimes. They succeed with their endeavour because the popular masses are caught up in their everyday misery. This causes the working class to be unable to revolt or even acknowledge that such a fascist rise to power might be conflicting with their own interests – be they economic or what Polanyi calls moral.

The distinctive feature of fascism is not economic, but moral in the Polanyian sense: it is about freedom – which fascism negates. In socialism, by contrast, freedom is upheld “in spite of” reality (Polanyi, 1944, p. 268). True freedom and democracy can therefore only happen once the self-regulated market is transcended (Polanyi, 1944, p. 242) and regulated. The concept of freedom

and its counterpart, regulation, will hence be discussed as our next and final aspect of the transformational process.

5. The synthesizing aspect: freedom and regulation

Following a philosophical frame proposed by Özel (2018), both Schumpeter and Polanyi are considered expressivists and hence understand human action as the result of the realization of human essence. This implies another common element: both theorists try to understand the very essence of human existence. In contrast to a positivist, mechanic view of human behaviour being guided by some set of natural “laws”, the expressivist tradition interprets every human action as a form of self-expression or self-realization. Human freedom in this regard is not the absence of regulation or external constraints, but the extent to which the true authentic self can be expressed – and acts as the basic goal of human beings (Özel, 2018).

In the transition from feudalism to capitalism both authors argue that some extent of freedom is gained (mainly the freedom of contracting and private property in contrast to feudalistic servitude structures). In Schumpeterian theory the freedom of the entrepreneur who is now able to fund his projects and innovations is highlighted. He goes even further by stating that compared to feudalism

“[...] there never was so much personal freedom of mind and *body for all*.” (Schumpeter, 1942, p. 126)

Both argue that some values developed in capitalist societies (e.g. private entrepreneurship, ethical freedom and independence of minds) are useful tools and will be, or should be transferred to the subsequent system of social organisation.

What’s more, in the course of capitalist development, not only productive forces are unfolded, but as argued before, the basis for rational, independent minds is developed. This is the necessary condition in order for the process of creative destruction or the double movement, both driven by competitive forces, to alter social norms and make humans sense that an unregulated economic sphere and the corresponding freedoms do not promote their human nature. The authors consequently argue that to achieve freedom in an expressivist sense, market price mechanisms need to be integrated into some regulatory framework. The capitalist development undermines its own foundation, or as expressed in a remark by Joan Robinson on Schumpeter’s work:

“The real secret is that capitalism destroys itself, not by its vices, but by its virtues” (Robinson, 1943, p 382)

In Schumpeter's theory the process of rationalisation alongside a constantly rising standard of living and standard of (mass) education results in doubting and questioning hierarchical structures, that are identified more and more as a remnant from feudalistic times. The capitalist development first dismantles the feudal institutional setting left from previous times, and further step by step, its own institutional framework via the process of competition. The increasing awareness of power struggles (recall the example of feminism given above) and inequalities in the process of rationalization make people recognize the necessity of regulation to guarantee for their freedom of self-expression. It is the very essence of human nature, a strive for self-realization that cannot be altered, that drives this process. In this regard, Schumpeter as an evolutionary theorist thinks of the institutional setting as a multidirectional approach: The very essence to strive for freedom and self-expression is rooted in human nature and is ubiquitous in the course of history and in the course of various forms of societal and economic organisation. The "set of propensities to feel and act", that is the set of current existing social norms on the other hand is adjustable and is subject to a constant change. Nevertheless, the bourgeoisie is the one leading this process. And they too are the ones realising that a regulation (especially for markets and therefore competition) is needed for human freedom to happen and that can delegate this process in a peaceful manner.

The human nature is also the decisive factor in the argumentation of Polanyi, regarding "freedom in a complex society" (1942, chapter 21). Again he has a less positive outlook on the process. Due to unhappy individuals, populists come to power that according to him could not manage the apparent trade-off between the reality of power and coercion being present in human societies and the possibility of freedom. Fascists choose power and coercion and dismissed freedom completely. On the contrary, during the 19th century the belief of humans being self-interested individuals was dominating. Following from this, self-regulating markets were seen as natural institutions guaranteeing for individual freedom of contracting and private property. Liberal utopians therefore choose freedom and dismissed regulations as being a form of power and coercion. However, Polanyi argues for real human freedom to happen the reality of power and coercion must be accepted and therefore regulations are needed so that freedom for all is possible.

In a paper of his on the economy as an institutionalized process (1992) he argues that notion and analysis of economic/economy can be related to two different meanings: a formal meaning of economic that is reduced to the formal price mechanism on markets, as well as a substantivist interpretation of economic, taking into account the general setting and historic context the economy is embedded in. Along these lines a deeper understanding of the significance of

different concepts of freedom in the formal as well as the substantivist notion of economic can be derived. “Freedom in a complex society” (1944, chapter 21) cannot be reduced to the organisation of social interaction in contracts, that are concluded on a voluntary basis but more so must be contextualized in the respective institutional setting. To achieve the required level of freedom in an expressivist sense, regulation is a necessary condition.

It is also this differentiation along the lines of formal and substantivist that sheds light on Schumpeter’s and Polanyi’s outcomes. Schumpeter understands competition in a formal sense as being important for his mechanisms to work, with the side effect of competition and rationalization spreading to all spheres. This concept is therefore not interfering directly with human nature, making a peaceful transformation possible. Polanyi on the other hand understands competition in a substantivist sense: it is something coming externally, apparently just needed for markets to work, but actually messing up human life and therefore somehow threatening human nature. This substantivist threat shows the dimension of power and political processes present in Polanyi, posing a conundrum that could only be solved via force.

Conclusio

We conclude our endeavour to detect the role of competition played in Schumpeter’s and Polanyi’s theories by stating that it is a crucial and necessary concept. Not just in the evolutionary processes but more importantly in the attainment of the goal of human action: freedom in the sense of authentic human self-expression. It is the process of rationalization and commodification that ultimately results in a change of norms and the regulation of these very processes. The different interpretation of Schumpeter and Polanyi come from their theoretical anchor points. Schumpeter views history primarily as evolutionary, introducing some kind of positivistic automatism into his theory. Polanyi on the other hand views history as being determined by societal forces and political struggles. The Schumpeterian automatism might allow more easily for the revelation of the essence of human beings, but this fact might be veiled by political imbalances as described by Polanyi. The different interpretations and anchor points are also reflected in their description of the relation of democracy/freedom and capitalism/socialism therefore. In Schumpeterian theory democracy is merely a political method rather than a goal in itself; it appears as the end as long as it is able to guarantee other values and interests such as justice or freedom for all. In order to achieve these ultimate goals it is legitimate to dispense with democracy. Additionally, the changes in the economic circumstances – from capitalism to socialism – require a re-evaluation of the political process of decision making. In contrast, Polanyi sees democracy as the goal and socialism as the means to achieve it:

“Socialism is, essentially, the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society.” (Polanyi, 1944, p. 242)

Whether one prefers the one or the other theory becomes irrelevant since the resulting conclusion is essentially the same. In the end a regulated market is needed, competition needs to be kept in chains. At most (perfect) competition allows some shallow level of freedom, the real deal appears when competition is overcome.

The expert governments of Austria and the Troika mentioned in the introduction represent such governments as described by the two authors and one could argue that their institutional character pretty much resembles the envisaged design. In Austria a technocratic government came into power and for a short period the Austrian people was lifted from the burden of constant campaigning. This in turn boosted morality and lifted the spirits and generally filled the air with a notion of fairness that was not distorted by propaganda. The short period of their stay however cannot inform us on whether they actively tried to regulate the market and competition or not, and so we neither can state much about the aspect of freedom. Even more so, because there has not yet been a transformation to a Schumpeterian bureaucratic socialism. In the case of Greece neither did socialism happen but the Troika government has been sufficiently long in power in order to draw some conclusion. Their agenda clearly was dictated by measures of deregulation and liberalization as envisioned by liberal utopians. Those measures generally were not well received by the Greek people and broadly acted to diminish freedom in an expressivist sense; the Troika policy contributed to a Polanyian disembedding.

Even though, in both cases and generally the development of capitalism is not yet ripe for a change or transformation to socialism. Still one can conclude from the theories and from the examples just given that a freedom enhancing state is best cared for when politics is able to tame the economic sphere by regulating competition, thus re-embedding the market.

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