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Getting Polanyi Right:

Fictitious Commodities, Self-Regulating Markets,

and the Political Economy of Managed Statecraft

Leonardo Burlamaqui[1]

Abstract

This essay reinterprets Karl Polanyi's notion of the "fictitious commodities" — money, land, and labor — within a critical political-economy framework that treats their commodification as an institutional and politically constituted process rather than an ontological impossibility. Reexamining Polanyi's view of self-regulating markets as simultaneously real, utopian, and self-destructive, it identifies this founding paradox in his analysis and argues that capitalism endures through the continual political management of its own foundations: finance, property, and work. Through analyses of the gold standard, land regulation, and labor governance, the essay shows how states transform these domains into instruments of inherently unstable financial discipline, rent extraction, and legally-enforced exploitation - through practices of what is here termed managed statecraft. The reconstruction recasts Polanyi's moral intuition as a set of propositions for institutional redesign and reveals the deeper paradox of The Great Transformation: the self-regulating market is analyzed as both an impossibility in principle and a historical project in practice. "Getting Polanyi right," therefore, means rectifying his theoretical shortcomings and recognizing that moral economy and political economy are not opposites but co-constitutive dimensions of an ethically grounded normative framework for economic and social development.

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Introduction

Karl Polanyi's celebrated notion of the fictitious commodities — money, land, and labor — remains one of the most arresting moral diagnoses of modern capitalism. Yet his analytical formulation could not match the depth of his moral intuition. Polanyi blurred two distinct claims: first, the ethical assertion that these domains must not be abandoned to unregulated markets; second, the ontological claim that they cannot, in fact, be commodified. By separating these strands, this essay reconstructs his insight within a moral political economy framework that treats commodification as a legal and institutional achievement — a field of governance rather than an axiomatic impossibility[2] [3].

[2] Geoffrey Hodgson (2016) produced the most systematic and balanced survey of the many conceptual and textual problems in The Great Transformation. Hodgson revisits with impressive philological care Polanyi's shifting meanings of the "economic" and the "social," his inconsistent treatment of "embeddedness," and the unresolved definition of the "fictitious commodities." His paper maps virtually all the major critical lines in the literature—from definitional ambiguities and internal contradictions to the problematic status of the self-regulating market and the unclear role of the state in its construction. Because Hodgson's article already provides a comprehensive account of these issues, there is no need to repeat them here. The present essay instead proceeds from that analytical ground toward a constructive reinterpretation: it accepts the validity of Hodgson's criticisms while seeking to recover what remains vital in Polanyi's intuition by reconstructing it within a framework of institutional and ethical political economy.

[3] Kurtuluş Gemici (2015) offers one of the sharpest recent reassessments of The Great Transformation. Through a meticulous reading of Polanyi's published and unpublished writings, Gemici shows that Polanyi's notion of the "self-regulating market" was not a penetrating critique of neoclassical economics but, paradoxically, an extension of its analytical premises. In his words, "Polanyi relies heavily on the neoclassical economics of his time in his conceptualization of the market in capitalist societies" (p. 1). Gemici thus points precisely to the roots of the paradox that this essay takes as its central problem: Polanyi condemned as a utopian fiction a market order whose conceptual foundations he partly shared. The present argument builds on that insight but moves beyond it—by reconstructing, and resolving, the paradox within a framework of institutional and ethical political economy, showing how both the "fictitious commodities" and the "self-regulating market" were conceptual flaws in Polanyi's framework. In essence, they were politically sustained projects of managed statecraft.

The point of departure is money. Rather than a fictitious commodity, money is a state-managed hierarchy of financial claims. Under the gold standard, this hierarchy was masked by the appearance of metallic discipline, yet in practice it was orchestrated by central banks and anchored in British — and later American — imperial coordination (Eichengreen 1992, Knafo 2013). That historical lineage makes explicit what the contemporary dollar order generalizes: states organize finance, liquidity, and solvency through administrative instruments, legal codes, and international hierarchy. Polanyi grasped the social consequences but mistook the mechanism[4]. The mechanism is not the imitation of a self-regulating market but the exercise of power through monetary statecraft.

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[4] Fred Block and Margareth Sommers, two of the principal architects of the contemporary revival of *The Great Transformation*, was unusually early in detecting the core instability in Polanyi's architecture: *the tension between the impossibility of a self-regulating market and the claim that it actually existed*, and that its impairment triggered the nineteenth-century crisis. Block repeatedly notes that Polanyi *discovers*, in the chapters on protective institutions, that capitalist economies are always already embedded in extensive rules, norms, and public authority structures. As Block and Sommers write, these chapters reveal that "market societies must construct elaborate rules and institutional structures to limit the individual pursuit of gain or risk degenerating into a Hobbesian war of all against all." (2014 118). Yet, as he also concedes, Polanyi "is not able explicitly to give a name to his critical discovery; he returns instead to the original architecture of his argument in which this embedding of the market economy impairs the [self-regulating system]" (2014 119).The contradiction is plain: "even by the logic of his own argument, there can never be a self-regulating market system, so the idea of impairing its functioning is illogical," and therefore "one can clearly see the tension between the two arguments in Polanyi's text."(ibid). However, while Block and Sommers identifies the contradiction with admirable clarity, they ultimately steps back from pushing the insight to its final consequence. Instead of concluding that Polanyi's "self-regulating market" is a counterfactual device that cannot bear the explanatory weight Polanyi places upon it, Block offers a conciliatory move: he claims that Polanyi "does reconcile the normality of embeddedness with the breakdown of the world economy" through the argument that the gold standard was incompatible with national efforts to construct protective institutions. Yet this proposed reconciliation is, on closer inspection, a non-sequitur. The incompatibility of the gold standard with domestic expansionary policies politics why the *international* monetary order unraveled; it does not resolve the deeper logical inconsistency in Polanyi's analytic structure. If the economy is always embedded, and if a self-regulating market is institutionally impossible *in principle*, then its "impairment" cannot serve as the causal pivot of the narrative. The authors attempt to save Polanyi from himself is therefore intellectually generous but analytically insufficient; the contradiction Polanyi introduced remains, and it requires a more radical reworking than they are willing to undertake.

Land demands a parallel correction. Polanyi's insistence that land is not produced for sale carried moral weight but led him to treat its marketization as an institutional contradiction. In reality, what markets exchange are rights to use, transform, and transfer space and resources. Once property rights, cadastral systems, taxation, zoning, and legal codification are in place, land becomes a regulated commodity. The central problem is therefore not the existence of land markets but their management: in practice, land has been an instrument of rent extraction and environmental depletion (Christophers: 2020, 2023). The central problems of a moral political economy are regulation, taxation, and ecological governance capable of aligning — or, when necessary, subordinating — private claims to collective sustainability.

Labor completes the trilogy. Historically, labor was degraded into an indistinguishable means of production: a cost item disciplined by law, time measurement, and the threat of unemployment (Engels 1854, Marx 1867, Tugan-Baranovsky 1906, Thompson 1963). Acknowledging this does not imply that labor cannot be commodified; it implies that a just and ethical order must civilize that commodification. The route is to transform labor into a moral and tightly regulated commodity through economic and social rights, political voice, workplace regulation, and institutional designs that reconcile incentives to increase productivity with dignity and co-ownership. Here Polanyi's moral protest becomes a program of deep institutional reconstruction rather than a counsel of decommodification.

Taken together, these corrections shift the focus from the utopia of self-regulating markets to the practice of power, but ethically-based statecraft — a shift that retains Polanyi's moral urgency while grounding it in institutional analysis. Money, land, and labor are not produced in the manner of ordinary commodities, yet they are not beyond the realm of commodification- whether we like it or not. They are domains where sovereignty, law, and organization determine what is produced, who appropriates it, and on what terms[5]. This essay therefore reframes Polanyi within a longer lineage — from Owen, Saint-Simon, Marx, Durkheim, and Tugan-Baranovsky to Keynes, Fred Block, Margareth Sommers, Geoff Hodgson, Elinor Ostrom, and Michael Sandel — in which moral economy and political economy are mutually constitutive.

The argument proceeds in three steps that mirror Polanyi's triad. First, money is reconsidered through the historical lens of the gold standard and its contemporary successor, clarifying how liquidity management regimes are built, defended, and hierarchized. Second, land is recast as a regulated commodity whose social and ecological outcomes depend on property law, taxation, and planning — and whose current trajectory requires a shift from rent extraction to stewardship. Third, labor is analyzed as the paradigmatic site where ethical reconstruction, and proper governance, must operate, specifying the institutional levers that convert alienated work into protected and productive cooperation. The conclusion integrates these strands into a general claim about power-based and ethically guided statecraft as the condition of a just society. Whether this can be achieved within capitalism remains an open question — unlikely, but not impossible.

Money, the Gold Standard and the Political Economy of Managed Statecraft

Under the classical gold standard (1870s–1914), money functioned as the linchpin of balance-of-payments adjustment. The system rested on the chain: gold flows → domestic credit contraction or expansion → price-level change → external balance. This structure subordinated national economic policy to the defense of external convertibility. Yet, as the historical record shows, the process was never "self-regulating." The Bank of England, at the apex of the system, actively managed discount rates, moral suasion, and bill-market operations; it coordinated with the

[5] From the perspective adopted here, Chapter Six of The Great Transformation — perhaps the most celebrated in Polanyi-related discussions — is also the most conceptually problematic. It contains the ambiguities that later commentators either reproduced or tried to resolve. More on that below.

Banque de France and, later, the Federal Reserve to smooth shocks and stabilize exchange parities. Eichengreen (1992) documents how this coordination turned the supposed "automatic" gold mechanism into a managed hierarchy of liquidity. The discipline of gold convertibility was politically orchestrated — a matter of trust, cooperation, and discretion, not of commodity production or exchange.

Polanyi's treatment of money is the most problematic element in his "trilogy" of fictitious commodities. At one point, he perceptively characterizes money as "merely a token of purchasing power which, as a rule, is not produced at all, but comes into being through the mechanism of banking or state finance" [6] (1944, pp. 75–76). This is a profound insight, *Chartalist* , fully in line with Knapp (1906), who linked money directly to the state and its banking system. Yet, when discussing the gold standard, Polanyi reverses course: "With the international gold standard the most ambitious market scheme of all was put into effect, implying absolute independence of markets from national authorities" [7](1944, p. 200).

[6] But a few pages later, Polanyi adds: "…the market administration of purchasing power would periodically liquidate business enterprise, for shortages and surfeits of money would prove as disastrous to business as floods and droughts in primitive society" (1944, p. 76). This is a confusing passage. If Polanyi meant to warn that "free banking" is a reliable path to financial instability, he was entirely correct. But his further suggestion that such commoditization of money would quickly "destroy business organization" (ibid.) does not hold — either theoretically or historically. Unregulated finance is indeed the linchpin of financial fragility, as Minsky made clear (1982; 1986). Yet conceptualizing money as a commodity — the implicit premise behind Polanyi's argument — is a neoclassical error that never corresponded to the actual workings of modern monetary economies.

[7] In explaining the genesis of the fictitious triad, Polanyi commits a striking historical inversion: "The extension of the market mechanism to the elements of industry — labor, land, and money — was the inevitable consequence of the introduction of the factory system in a commercial society" (1944 78). In fact, the institutional lineage of central banking can be traced from the civic and merchant banks of Renaissance Italy and the Dutch Republic in the sixteenth century to the state-chartered central banks of the nineteenth. Institutions such as Genoa's Banco di San Giorgio and Amsterdam's Wisselbank pioneered key functions of liquidity creation, clearing, and sovereign-debt management — the essential architecture of modern central banking. Converging with that chronology, both the enclosures movement, which created markets for land, and the transatlantic slave trade, which commodified human labor, predated the Industrial Revolution by centuries. The historical inversion is therefore evident: it was the expansion of commerce and finance that laid the foundations for the Industrial Revolution, not the reverse. The Bank of England's management of financial instability and British public debt dates from 1694. Minsky's dictum that capitalism is essentially a financial – instability-prone - system offers

These two statements can hardly be reconciled. As Samuel Knafo (2019, p. 142) aptly observes, "It is striking how Polanyi shifts register when he moves from labour and land to money, the last of his three fictitious commodities…. His analysis of the gold standard curiously fails to go beyond the deductive templates of classical political economy." Knafo then reframes the issue historically: "The trajectory of this institution is foremost the story of how *the British state* was forced, through experimentations, to develop *a radically new paradigm of governance* in order to deal with the rise of banknotes as a form of money" [8] (p. 154, my emphasis).

Knafo's historically grounded reinterpretation[9] exposes the conceptual flaw at the heart of Polanyi's analysis. Money was never a commodity and never functioned as one. It has always been a power-based institutional mechanism — an instrument for defining, transferring, and enforcing claims within a hierarchical economic and social order. It embodies relations of credit and debt, claims on future resources. What circulates as "money" are state-backed liabilities — cash, deposits, or reserves — whose credibility rests on political authority and institutional design, not on commodity production or market clearing.

The gold standard required not that money be produced for sale, but that its value be treated *as if determined by market forces* — through gold movements, interest-rate changes, and price adjustments. Thus, what the project of a "self-regulating market" demanded was not spontaneous adjustments, but policy orchestration: the alignment of domestic credit and employment conditions with the imperatives of external convertibility. The fiction was functional, not ontological.

The gold-standard order was sustained through what might be called managed monetary and financial flows: the appearance of spontaneous equilibrium was

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a far more accurate analytical entry point than Polanyi's "nineteenth-century commoditization exceptionalism".

[8] Knafo further extends this criticism: "This decision to separate central banking from the gold standard, as if they were two completely different things, has become a recurrent feature of the Polanyi-inspired literature" (2019, p. 150).

[9] Which he developed at length in his 2013 book "The Making of Modern Finance: Liberal Governance and the Gold Standard".

maintained, while central banks actively engineered the flows that made it possible. Keynes grasped this in *The Economic Consequences of Mr. Churchill* (1925 [1931]), observing that defending gold parity "subordinates the whole of domestic industry to the arbitrary demands of international finance." The "automatic" standard was thus a system of Central Banks political control over liquidity, masquerading as natural market order. Where Polanyi saw a self-regulating mechanism founded on a false commodity form, Keynes saw a policy regime that sacrificed employment and growth to maintain monetary credibility.

From that perspective, a more precise statement would be: *"The liberal project of a self-regulating market required that money's value be treated as if determined by market forces. In reality, sustaining that fiction demanded continuous management by central banks and international cooperation."*

Money, therefore, is not a "fictitious commodity" but a managed instrument of financial stability — and, as Minsky reminded us, recurrently breeding financial instability (1982, 1986) — sustained through the deliberate political action of central banks. Its "price" (interest rate, exchange rate) is not set in markets but administered to preserve credibility and convertibility. This reframing brings Polanyi's moral intuition — that market utopianism depends on institutionalized falsehoods — into alignment with the historical and monetary-financial realities of capitalism.

From a *Political Economy of Liquidity* perspective (Burlamaqui, 2026, forthcoming), the Gold Standard constituted a liquidity-management regime backed by Central Bank's power. From the Bank of England's late-Victorian coordination, through the interwar dollar–sterling diplomacy, to the post-Bretton Woods dollar system the financial stability of capitalism rests on the governance of liquidity, convertibility and financial flows. They sustain confidence in the monetary hierarchy while allowing the centers of liquidity creation to routinely escape that control.

To treat money as a commodity is not to describe reality but to mask power: the power to define value, impose discipline, and manage liquidity and solvency across national systems. Correcting Polanyi's error thus turns his moral critique into a structural insight: capitalism endures not through market self-regulation, but through the continuous management of its most essential foundations: finance, property and labour.

The gold standard's deeper lesson is that capitalism's monetary order has never been one of self-regulation, but of engineered monetary and financial Statecraft. The fiction that gold "backed" money gave legitimacy to a structure of asymmetric power in which central banks at the core — first the Bank of England, later the Federal Reserve — set the rhythm of global solvency. When that metallic discipline collapsed, it was not the end of the fiction but its reengineering: dollar hegemony replaced gold, and global monetary sovereignty shifted. Money, and finance in general, thus remains the linchpins of managed Statecraft in capitalism — the institutional form through which states organize trust, liquidity, and accumulation. Polanyi intuited this but mistook power-based monetary and financial management for "self-regulating market requirements".

Land as Regulated Commodity: Correcting Polanyi's Ecological Intuition

In *The Great Transformation* (1944), Polanyi grouped land, labor, and money as "fictitious commodities." His reasoning for land is as follows: *"Land is only another name for nature, which is not produced by man. To include it in the market mechanism means to subordinate the substance of society itself to the laws of the market*." (1944, 75)

This passage has enormous moral and ecological resonance. Yet, upon closer inspection, its logic is flawed. Polanyi's claim that land cannot be a commodity because it is not produced for sale is a non sequitur. The empirical and institutional reality is that land, far from being outside the market, has long been commodified through property rights, military conquest, and financial and legal instruments. *The* *real question is not whether land can be commodified, but under what rules, limits, and governance structures it should operate* [10].

Polanyi equates the *natural origin* of land with its *social impossibility as a commodity.* But markets do not deal with nature as such — they deal with titles to use, occupy, and transfer portions of nature, i.e., property rights. Once legal institutions define and enforce those rights, land becomes a perfectly ordinary marketable asset. The fact that it was not 'produced for sale' does not preclude its commodification; it only highlights that commodification is institutional and political, not ontological.

Behind Polanyi's formulation lies an ecological concern: the market treatment of land could lead to the degradation of nature and the disintegration of community. He warned that allowing the market mechanism to direct land use would 'result in the demolition of society.' His fear was prescient — the unregulated exploitation of natural resources, deforestation, and urban sprawl indeed threaten both society and ecology. Yet Polanyi's analytical move — declaring land a 'fictitious commodity' — mistakes the need for regulation for the impossibility of commodification. It moralizes a regulatory problem. The issue is not that land is bought and sold, but that it can be bought and sold without constraints that preserve ecological balance and social purpose[11].

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[10] Henry George (1879) offers a classic illustration of this shift from moral condemnation to institutional regulation. Rather than rejecting the commodification of land outright, George sought to discipline and socialize its unearned rents through public taxation — transforming private monopoly into a collectively governed resource. His argument reframes the issue not as whether land can be commodified, but precisely as suggested here: under what rules, limits, and governance structures it should operate. In this sense, George anticipated the institutional logic of a "moralized" market order: markets may allocate use, but society must capture and regulate how it is done, and its limits.

[11] Brett Christophers' (2023) powerfully illustrates the consequences of land's unregulated commodification. He documents how the financialization of housing, infrastructure, and urban land has transformed essential social assets into vehicles for rent extraction by global asset managers. In stark contrast to Henry George's call for the public governance of land rent, Christophers exposes a world in which land's economic and social functions are subordinated to portfolio logic. The result is not productive investment but the systematic misuse of land — its

A clearer formulation, aligned with institutional political economy, and ecological concerns, would be: *"Without proper regulation, land — or any productive asset — can be used in ways that destroy nature. The problem is not commodification itself, but the absence of rules that align private use with social and ecological sustainability."* This reframing preserves the ethical substance of Polanyi's warning but grounds it in policy. Land markets require regulation, not necessarily decommodification. Zoning laws, environmental standards, progressive taxation, and limits on ownership concentration are institutional tools to govern the use of commodified land. Polanyi's moral intuition thus becomes an argument for proactive governance, not a blind indictment of land.

Reinterpreted in this way, Polanyi's insight integrates seamlessly with broader traditions of political economy and development theory. Within institutional political economy, it echoes the claim that property rights and regulatory design determine how assets are mobilized and how markets remain embedded in legal and political structures (Pistor, 2019). In environmental economics, it resonates with the principle that externalities must be internalized through deliberate policy rather than eliminated through the abolition of markets (Bromley1991).

From a developmental perspective, the regulation of land functions as a decisive instrument of industrialization and urbanization — as the East Asian experience so clearly illustrates (Dore,1986, 1987; Johnson,1982, Wade 1990). And within the political economy of liquidity, once land is commodified it becomes a financial asset whose quality as collateral and source of credit depends on institutional frameworks of taxation, regulation, and public planning (Christophers 2023).

The fiction, then, is not that land cannot be a commodity, but that its market can function effectively without encompassing regulation and political oversight.

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conversion from a basis of livelihood and community into an instrument of financial accumulation.

Commodification is real; what is fictitious is the idea of a self-regulating land market. This correction clarifies that Polanyi's framing of land as a fictitious commodity. In the case of land, this means using policy to align the financial value of property with collective sustainability. Land markets, left to themselves, tend to amplify speculation, inequality, and environmental degradation — but these are failures of regulation, not proofs of fictitiousness.

The true challenge is to design institutions that prevent the destructive use of land within market economies. What Polanyi read as a 'fictitious commodity' is, in reality, a regulated commodity whose social and ecological consequences depend on policy choices. Recasting his argument this way retains its ethical power while embedding it within a coherent political economy of "governance for the public interest".

Labor as Commodity: Polanyi's Slip and the Ethics and Economic Rationale for Regulation

Polanyi's treatment of labor in *The Great Transformation* repeats the same logical weakness that marked his analysis of money and land. His statement*: "Labor is only another name for a human activity which goes with life itself. The commodity description of labor is entirely fictitious. Yet this fiction was required for the self-regulating market to exist*." (1944, 76).

Polanyi's moral intuition was right — labor should not be reduced to a mere thing — but his reasoning was wrong. He mistook a moral truth for an ontological impossibility. Labor has always been commodified and appropriated across antagonistic systems: slavery in Egypt and Rome, indentured servitude[12] and

[12] Indentured servitude illustrates that commodification can exist without competitive markets. The laborer's time, mobility, and productive powers were priced, collateralized, and enforced through contract and debt. The relation operated through law, credit, and coercion — institutions, not markets, made it work. The worker's agency was suspended but not erased: juridically a person, economically a thing — the hybrid condition that defines capitalist commodification (Zakim and Kornblith 2012).

slavery under capitalism, and wage labor[13] (Beckert 2014, Hudson 2023). The issue is not whether labor can be commodified, but whether it can be governed in ways that preserve human dignity and social cohesion.

In claiming that the 'commodity description of labor is fictitious,' Polanyi collapses a moral critique into a categorical statement. Labor markets clearly exist — but they were sustained historically not by moral institutions, but by alienation and exploitation. The self-regulating market demanded that human activity be treated as separable from the person; sustaining that fiction required a massive process of social engineering: time discipline, wage dependence, and the subjection of workers to impersonal market forces. Restoring the unity between person and work therefore demands the opposite — regulation, cooperation, and an ethically guided economic order that subordinates production to human development. Whether this can be achieved *within capitalism* is a hard call, but that's not the point here.

Polanyi's moral protest belongs to a long tradition of thinkers who wrestled with the ethical foundations of labor and markets. His insight gains depth and resonance when situated within this broader lineage of moral and institutional reflection. From Christian and early humanist social thought — Aquinas, Vives, and Luther — comes the notion of work as vocation and moral duty, and the corollary that the degradation of labor constitutes a form of sin. Utopian and cooperative socialism, in the writings of Owen, Saint-Simon, Fourier, and Proudhon, transformed this moral

[13] The extreme case of *slave capitalism* makes this point unmistakable. Here, commodification extended beyond labor power to the person as such: human beings were transformed into collateral, assets, and productive instruments. Yet even this system, far from being "self-regulating," depended on massive institutional scaffolding — slave codes, financial instruments, insurance contracts, and imperial enforcement — to make such property claims operable. In this sense, slavery was not the negation of capitalism but one of its earliest experiments in large-scale market regulation: a regime of coerced commodification sustained by law, finance, and state power (Beckert 2014)

concern into institutional imagination: they condemned wage slavery while sketching blueprints for association and cooperation.

In Marx, the critique of capitalism assumed both an economic and a moral form — surplus extraction from the labour force coupled with and ethical degradation expressed through the language of value and alienation. Tugan-Baranovsky brought ethical socialism closer to economic realism: acknowledging exploitation as a structural and power-based fact, he argued that cooperation and regulation, within a reformed social order, socialism, could humanize production without abolishing labor markets. Subsequent contributions expanded this trajectory: Durkheim's moral division of labour, Beveridge and Myrdal's welfare architectures, Keynes's socialization of investment, and, in more recent decades, the work of Fred Block, Elinor Ostrom, and Michael Sandel — all variations on the effort to reconcile markets with moral purpose and collective governance.

This broader moral-institutional tradition turns Polanyi's lament into an actionable principle: the moral unity of labor and personhood can only be restored through deliberate political and institutional redesign. A better way to frame that is: *A self-regulating market demands that labor behave as if human activity were separable from the person. Sustaining that fiction historically required alienation, degradation, and exploitation — the reduction of living creativity to a cost item enforced by law and discipline*.

The ethical imperative to protect labor converges with economic rationality. Regulation of work hours, collective bargaining, social insurance, and macroeconomic coordination are not constraints on efficiency but the foundations of stability and legitimacy. In that sense, the ethics of regulation and the economics of stability are two sides of the same institutional coin.

Polanyi's moral insight stands: the commodification of labor endangers society. But the way forward is not to frame "fictitious commodification" as inherently catastrophic; it is to discipline it through institutions that reconcile markets with ethics and morality. The historical record shows that welfare states, social-democratic regimes, and guided-development systems all arose to mitigate precisely the violence Polanyi described.

These initiatives were, in fact, the genuine Polanyian countermovements — state-backed yet collective efforts that, far from destroying the market society as Polanyi claimed they would[14], rescued it from its own foundations in primitive accumulation. By embedding markets in institutions of regulation, cooperation, and shared ownership, they made capitalist economies not only more livable but more productive. The historical irony is that what Polanyi feared as the end of market civilization was, in practice, its condition of survival. What is fictitious in his construction is not the commodification of money, land, or labor, but his claim of the very existence of a self-regulating market. In this light, the trilogy of corrections is complete

From Fictitious Commodities and Self-Regulating Market to Managed, Ethical Statecraft

Revisiting Polanyi's notion of the fictitious commodities through an analytical and historical discussion of money, land, and labor reveals not the disastrous consequences of their commodification, but the necessity of their sustained regulation and management. What Polanyi interpreted as inextricable contradictions are, in fact, the operational foundations of capitalist statecraft. Capitalism survives not by allowing markets to self-regulate, but by continuously

[14] Polanyi's own words reveal that he regarded the self-regulating market not as a mere ideological construction but as a historical reality — indeed, the core of nineteenth-century economic liberalism. As he put it, "The true implications of economic liberalism can now be taken in at a glance. Nothing less than a self-regulating market on a world scale could ensure the functioning of this stupendous mechanism. Unless the price of labor was dependent upon the cheapest grain available, there was no guarantee that the unprotected industries would not succumb in the grip of the voluntarily accepted taskmaster, gold. The expansion of the market system in the nineteenth century was synonymous with the simultaneous spreading of international free trade, competitive labor market, and gold standard; they belonged together. No wonder that economic liberalism turned almost into a religion once the great perils of this venture were evident" (1944, p. 145). The passage makes clear that Polanyi viewed the self-regulating market as an actually existing system — one whose incompatibility with economic and social protection defined its tragic drama.

reengineering the regulation of its own foundations — finance, property, and labor. Its vitality lies precisely in this adaptive management.

Under the gold standard, money was not a spontaneous market outcome but a disciplinary instrument of monetary sovereignty, administered by central banks and coordinated through imperial hierarchies. Land, in practice, became an instrument of rent extraction and environmental depletion; its regulation, taxation, and ecological governance are the normative aims of an ethical political economy. Labor was degraded into an indistinguishable means of production — the archetype of commodified human activity — yet it remains the field where moral and institutional reconstruction is possible: a just order would transform it into a moral and tightly regulated commodity, restoring dignity and cooperation without abolishing market coordination. Whether this can be achieved within capitalism remains, as noted, an open question — unlikely, but not impossible.

Polanyi's own "solution" to the self-regulating market problems was socialism conceived as "the extension of democracy from the political to the industrial sphere" and as "the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society" (1944, pp. 242–243). In contemporary parlance, this translates into a false binary: neoliberalism or socialism[15]. History demonstrates other possible configurations of capitalism. The Scandinavian social-democratic model between the 1930s and 1980s is one example (Berman 2006); the East Asian varieties of "alliance

[15] Or a triad, if we include the fascist version of the countermovement — or, in contemporary terms, the authoritarian populisms mushrooming in our own time. As Polanyi wrote, "The fascist solution of the impasse reached by liberal capitalism can be described as a reform of market economy achieved at the price of the extirpation of all democratic institutions, both in the industrial and in the political realm. The economic system which was in peril of disruption would thus be revitalized, while the people themselves were subjected to a reeducation designed to denaturalize the individual and make him unable to function as the responsible unit of the body politic" (1944, p. 245). Once again, an acute insight — but one resting on the assumption that liberal capitalism was itself deeply democratic. It was not. His own narrative throughout the book debunks that assumption. That premise adds yet another layer of confusion to Polanyi's understanding of the economy–politics nexus in his own time.

capitalism" provide another (Dore 1986, 1987, Johnson 1982, Gerlach 1992, Wade 1990).

Yet here, Polanyi's conception of socialism reveals its own limits. To democratize the economy — a theme he never developed beyond assertion — is not equivalent to undoing commodification. A more fruitful framing is precisely to domesticate it: to govern money, land, and labor through public institutions *and for the public interest*. Polanyi himself never made this distinction fully explicit. In spirit, this comes closer to what Keynes proposed in *The General Theory*, and it underpinned the regulatory architectures of postwar Scandinavia, much of Western Europe (between the fifties and the eighties), and East Asia.

The neoliberal counterrevolution dismantled those experiments but, in doing so, confirmed the central thesis of this essay: financial stability, economic prosperity, and social justice depend on the active regulation of money, land, and labor — not on their erasure as commodities. The analytical implication for "getting Polanyi right" is to recognize that the paradox runs deeper than his normative ambiguities.

The deepest paradox in Polanyi's account may not lie in his unclear stance on decommodification, but in the dual status he attributes to the self-regulating market itself. He oscillates between treating it as an unattainable ideal and as a real historical process. At the ontological level, he calls the self-regulating market "a stark utopia," warning that such an institution "could not exist for any length of time without annihilating the human and natural substance of society" (1944, p. 4).

Yet elsewhere he depicts it as an operative social order: "In a market economy, the production and distribution of material goods is carried on through a self-regulating system of markets, governed by laws of its own, the so-called laws of supply and demand, motivated in the last resort by two simple incentives, fear of hunger and hope of gain" (ibid. 43)[16].

Conclusion

From an economic-theory perspective, the root of the "Polanyi paradox" — and the core contradiction of The Great Transformation — is not difficult to grasp. Puzzling, yes, but not difficult. Polanyi accepted a stealth equilibrium theory as a valid description of how a market economy operates: through self-regulating markets. His key problem was therefore not the existence of self-regulating markets per se, but their incompatibility with the functioning of society. He states this thesis explicitly at the beginning of the book:

"Our thesis is that the idea of a self-adjusting market implied a stark utopia. *Such an institution could not exist for any length of time without annihilating the human and natural substance of society;* it would have physically destroyed man and transformed his surroundings into a wilderness. Inevitably, society took measures to protect itself, but *whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way*." (1944, pp. 3–4, my emphasis)

Thus, the "countermovement" was the natural response of society — but, in Polanyi's framing, one that destabilized the self-regulating market order. Self-regulation and self-protection appear as possible, but mutually exclusive, phenomena. This is the paradox: the self-regulating market as both a utopian project and an instituted process, revealing the core ambivalence of Polanyi's vision

It is the hinge on which The Great Transformation turns, and the weakness that compromises its theoretical architecture. Polanyi failed to grasp the functional role

[16] Gemici (2015, pp 125-147) offers, as mentioned (fn.3), what may be the most thoroughly researched critique of Polanyi's conceptual framework.

of market regulation precisely because he considered it incompatible with an actually existing self-regulating market order.

What is less frequently noticed — and genuinely puzzling — is how closely this oscillation resembles Friedrich Hayek's own conceptual instability around equilibrium[17]. In *Individualism and Economic Order*, Hayek moves between describing equilibrium as a real social condition — "it apperars that the concept of equilibrium … means the foresight of the different members of society is in a special sense correct" (1948 [1937], 47) — and conceding that such a state is "admittedly fictitious" (1948 [1937], 48) [18].

Like Polanyi with self-regulation, Hayek invokes an abstraction that he knows cannot exist, yet depends on it to make his argument cohere. The surprising outcome is that two thinkers commonly portrayed as intellectual antagonists end up sharing a structural dependence on a theoretical fiction: an impossible equilibrium or an impossible self-regulating market that nonetheless carries the explanatory burden of their respective narratives.

Polanyi's moral compass was impeccable and his intuitions profound, but both rested on shaky theoretical foundations. What he interpreted as the tragedy of

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[17] I thank my colleague Kurtulus Gemici for emphasizing that Polanyi's framework aligns more closely with the Austrian tradition's notion of equilibrium and should not be located within the general-equilibrium lineage of neoclassical economics.

[18] Obviously, Polanyi did not realize that this was the theoretical stance he was implicitly adopting; nonetheless, the fact remains that he did so. Another revealing passage reinforces this interpretation: "We know that profits are ensured under such a system only if self-regulation is safeguarded through interdependent competitive markets" (1944, p. 78). The claim is both telling and confusing. By invoking "self-regulation" as the condition for profit, Polanyi implicitly accepts the equilibrium framework that underpins neoclassical theory — yet misunderstands its implications. He took the existence of profits as proof of the system's functionality, when in the equilibrium logic he was implicitly borrowing from, profits signal disequilibrium, not self-regulation. In a genuine self-regulating market operating in equilibrium, profit should not exist at all (see Schumpeter 1995 [1934], Ch. 1, for the plain-language articulation of this result, and Arrow and Debreu 1954 for its axiomatic–mathematical formulation). The truth of the matter is that the question *of what underlying economic theory actually guided Polanyi throughout the book* is rarely asked — and even more rarely answered.

market society was, in fact, the very condition of its survival — sound moral insight built atop an axiomatic, empirically ungrounded, and ultimately mistaken economic theory.

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