Karl Polanyi's Theory of Fictitious Commodification as a Cultural Political Economy of Institutionalization[1]

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Abstract

This paper aims to position Karl Polanyi's institutional analysis as a genuine cultural political economy. Polanyi has often been interpreted as a staunch critic of the idea of a self-regulating market, or an institutionalist that conceptualized the social embeddedness of the economy, but rarely as a cultural political economist. By reinterpreting Polanyi's theory of fictitious commodification based on his earlier theoretical concepts from the socialist calculation debate, this paper will disclose the hidden theoretical structure of cultural political economy in Polanyi's thought. That is, it will show how Polanyi explains the way in which the capitalist market economy works through its own symbolic systems and practices. In particular, this paper will help rediscover the value of Polanyi's institutional analysis in his earlier insights into the symbolic structure of capitalism, underpinned by its own accounting system that mediates and constructs its own economic facts and economic theories. Polanyi explains not only the foundational categories of the capitalist market economy such as labour, land, money, capital, profit but also its crisis and crisis tendencies such as the "double movement" and the "self-protection of society" through a CPE approach that critiques the fictitious character of these categories. In this sense, Polanyi is an original cultural political economist with contemporary relevance for the analysis of capitalism as a symbolic system.

Keywords: Polanyi, Karl; cultural political economy; fictitious commodity; institutional facts; accounting; economic calculation; economic ideology

1. Introduction

This paper aims to position Karl Polanyi's institutional analysis as a genuine cultural political economy (hereafter CPE). Polanyi has often been interpreted as a staunch critic of the idea of a self-regulating market, or an institutionalist that conceptualized the social embeddedness of the economy, but rarely as a cultural political economist. Exceptionally, Jessop and Sum (2019) have recently interpreted Polanyi as a "pioneer cultural political economist", but their work only briefly shows how Polanyi's institutional analysis takes culture, or better, semiosis and symbolic practices seriously. This paper will thus build on and add to their pioneering interpretation by showing that Polanyi explained not only the foundational categories of the capitalist market economy such as labour, land, money, capital, and profit

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but also its crisis and crisis tendencies such as the "double movement" and the "self-protection of society" through a CPE approach that critiques the fictitious character of these categories. In so doing, this paper will help rediscover the value of Polanyi's institutional analysis, not only in his critique of the self-regulating market economy but also and more importantly in his earlier insights into the symbolic structure of capitalism, underpinned by its own accounting system that mediates and constructs its own economic facts and economic theories.

1) Cultural Political Economy as an Approach

Explicitly developed by the Lancaster School,[4] and implicitly practised by many critical political economists, CPE combines critical semiotic analysis and critical political economy to critique economic structures and institutions. In other words, CPE questions the naturalness of the economic structures, objects, and categories, which are fundamentally mediated by and cannot exist separately from semiotic, symbolic and discursive practices that create senses and meanings. For example, CPE distinguishes "actually existing economies" as the chaotic and unstructured totalities of economic activities from "economic imaginaries" that reduce the complexity by addressing more or less coherent subsets of these economic relations and excluding certain elements of the economic activities in order to calculate, manage, regulate, and govern effectively.

However, CPE does not reduce the reality into discourse. In this sense, CPE is distinct from pure social constructivism that some discourse analyses risk as well. CPE recognizes that, though it can sometimes become a material force, discourse as such does not automatically turn into reality and hence needs to be realized and consolidated through social practices under certain material conditions. In particular, it highlights the semiotic and extra-semiotic mechanisms of political economic transformation and their resultant limitations imposed on the transformed political economy. CPE thus conceptualizes political economic transformations in four analytically distinct stages: the variation, selection, retention, and reinforcement of strategic actors and their strategic discourses and practices (Sum and Jessop 2013).

2) Polanyi as a Pioneer Cultural Political Economist

[4] The Lancaster School comprises people who developed and contributed to CPE around the Cultural Political Economy Research Centre at Lancaster University (http://www.lancs.ac.uk/cperc/) and those influenced by them: most notably, Bob Jessop, Ngai-Ling Sum, Andrew Sayer, Norman Fairclough, and Ruth Wodak.

Jessop and Sum (2019) argue that Polanyi anticipated CPE or that he is a precursor of CPE. His analyses explore “the role of language in the development of civilization, the genealogy of a specialized economic vocabulary, changing social and economic imaginaries, different economic projects, and the language and motives of mobilized in justifying and resisting the market economy” (155). In addition, they point out that Polanyi indicated “the crucial roles of ‘household truths’, ‘elementary truths’, “common sense attitudes’, traditional mindsets, implicit theories, socially instituted mental models, competing utopias, and social (later, also explicitly economic) imaginaries in shaping predispositions, defining social obligations, framing social projects, and inspiring action” (160). In *The Great Transformation*, Polanyi particularly critiques the fetishistic belief in the Gold Standard, and “the performative effects of this liberal economic imaginary on policies, politics, polities, economic development, and social antagonisms, both before and after its collapse.” (161).

All in all, Jessop and Sum argues that Polanyi was thus deeply concerned with the role of semiosis and socio-economic imaginaries in ordering specific social systems, but also point out that “he lacked the theoretical interests and conceptual vocabulary to develop these points along the lines of CPE, which has benefitted from a further 60–70 years’ research in these fields” (165). This is true, but even the absence of theoretical interests and conceptual vocabulary does not necessarily mean that there is no theoretical structure. By reinterpreting and reconstructing PolanyI’s theory of fictitious commodification based on his earlier theoretical concepts from the socialist calculation debate, this paper will disclose the hidden structure of cultural political economy in Polanyi’s thought. That is, it will show how Polanyi explains the way in which the capitalist market economy works through its own symbolic systems and practices.

For this purpose, this paper will be organized as follows. First, it will show that Polanyi regards the economy as institutionalized interaction, or “instituted process”, based on particular symbolic systems that provide senses and meanings for the chaotic interaction. Second, it will examine and elaborate Polanyi’s critique of economic facts, accounting concepts and economic theory as institutionally constructed bases of the capitalist market economy in order to extract a theoretical structure of CPE from his account. Third, it will show how Polanyi’s account of fictitious commodification can be considered as a CPE of the institutions and institutional changes in the capitalist market system. Finally, it will conclude that Polanyi is an original and genuine cultural political economist, with contemporary relevance for the analysis of capitalism as a symbolic system.

2. Institutionalization of Economic Processes

Karl Polanyi's concept of the substantive economy indicates that human beings cannot survive without interacting with nature and other human beings. It refers to every human activity to acquire, preserve, and distribute material means for various needs in the process of *institutionalized interaction* between human beings as well as between human beings and the natural environment.

Here, 'interaction' means that various activities and elements of the economic process exist as an organic whole, and nothing exists independently of the whole process. As Polanyi puts it, "The tread of interaction may branch off, interlock, form of web; but whether the mesh of cause and effect is simple or complex, it can no more be physically detached from the ecological, technological and societal tissue which forms its background than can the life process from the animal organism (Polanyi, 1977:33-34)."

However, the process in the substantive economy should not be equated with interaction in general. "[R]educed to mechanical, biological and physical interaction of elements[,] that economic process would possess no all-round reality (Polanyi, 1957a: 249)." If each element, without any independence or temporal stability, is dissolved in the flow of complex interactions, there would be nothing that can acquire a 'meaning' in history and society. That is, according to Polanyi, "[t]he interacting elements of nature and humanity would form no coherent unit, in effect, no structural entity that could be said to have a function in society or to possess a history. The process would lack the very qualities which cause everyday thought as well as scholarship to turn towards matters of human livelihood" (Polanyi, 1957a: 249).

For human livelihood to be dignified and significant, the interaction between the elements should develop into a social condition that directs and generates motives for individuals (Polanyi, 1957a: 249). The world should not be left in a complex and ambiguous state, but must be coordinated to direct locales, times, and factors such as grain, product, labour, etc. This is the basis of the transformation through which the human economy becomes dignified and significant.

As such directed objects relate to one another according to a rule and create a regularized interdependence between themselves, there arises a structure that assigns certain behavioural patterns to each element as well as integrating them. The process of this transformation is what Polanyi calls 'institutionalization.' In the human economy, "the properties of unity and stability, structure and function, history and policy accrue to the economy through its institutional vestment (Polanyi, 1977: 34)."

In this sense, the economy is an "instituted process." Here the substantive economy is not the only possible way of institutionalizing interaction. There can be a variety of ways to institutionalize substantive and complex interactions between human beings and the natural environment. It is well known that Polanyi distinguishes between two senses of the economy as institutionalized interaction. One is the substantive sense of the economy, and the other the formal sense of the economy. The economy in the substantive sense is organized, regularized, and stabilized by substantive motivations, functions and meanings such as subsistence, ethics, and, arguably, industrial efficiency in the Veblenian sense.[5] In contrast, the economy in the formal sense is organized by formal (in other words, economistic or economical) motivations, functions, and meanings such as scarcity, rational choice, material gain, and profits (Polanyi, 1957a: 243-250; 1977: 19-21).

Then what makes such different ways of institutionalization? Here it should be noted that Polanyi emphasizes semiotic processes based on symbolic forms in the process of institutionalization.

> Hence the transcending importance of the institutional aspect of the economy. What occurs on the process level between man and soil in hoeing a plot or what on the conveyor belt in the constructing of an automobile is, *prima facie* a mere jig-sawing of human and nonhuman movements. From the institutional point of view it is a mere referent of terms like labor and capital, craft and union, slacking and speeding, the spreading of risks and the other semantic units of the social context (Polanyi, 1957a: 249).

In fact, hoeing a plot or manufacturing a car using a conveyor belt is full of elements that are difficult to recognize and have unclear boundaries. As such, it is just a chaotic process in which these elements are entangled with one another and constantly moving from one place to another. The process does not produce any relation or directionality by itself. Rather, it is a symbolic form independent of but attached to such purely factual and chaotic process that brings a meaning to this process and differentiates the process of institutionalization. According to a (collective) purpose or functional need, the process is signified by a set of relational terms such as A and non-A, or A and its related B, to clarify the boundaries of the process. This creates a symbolic threshold that can delimit the process as A, even though it is constantly changing. When such a symbolic form is matched with actual phenomena, there arise institutionalized facts. That is, by acquiring a function according to a certain purpose and by relating with other terms, the chaotic process becomes comprehensible and transforms into a unit of meaning that acquires institutional clarity, stability, and consistency, for example, as the substantive or formal economy. Friedland and Alford define the institution as a symbolic system, a way of ordering the reality and thereby rendering the experience of time and space meaningful (Friedland and Alford, 1990: 243).” It can thus be argued that Polanyi also shares this CPE definition of the institution when he points out that “a mere jig-sawing of human and

[5] Thorstein Veblen juxtaposes industrial engineers concerned with efficient production (a substantive aspect of the economy) to the pecuniary class interested in efficient business, that is, profit-maximizing (the formal aspect of the economy) at the expense of efficient production (Veblen, 2001/1921).

nonhuman movements" is "a mere referent of terms like labor and capital, craft and union, slacking and speeding (Polanyi, 1957a: 249)."

3. Economic Fact, Accounting Concepts and Economic Theory

1) Economic Facts, Accounting Concepts, and Economic Theory as Independent and Interrelated Phenomena

Polanyi's insights into the economy as an instituted process can be best understood when we examine the way in which he discusses a CPE of the key constitutive categories of capitalism, i.e., the interconnected triad of economic facts, accounting concepts, and economic theory that institutionally conditions the operation of the capitalist market economy.[6] In the 1920s, Polanyi participated in the so-called socialist calculation debate (or the economic calculation debate). Many of his writings in this period, including "Socialist Accounting" (Polanyi, 1922/2016), were written to participate in the debate or to review the terrain of the debate. Faced with the question of how to construct a new economic system, Polanyi's writings in this period developed a bolder discussion. In particular, though somewhat fragmentary, his discussion of the articulation between economic theory, accounting concept, and economic facts more clearly illustrates the implication of the institutionally integrated nature of the economic form discussed earlier. It shows how major economic categories, symbolically constructed and institutionalized, constitute and operate the economic system.

According to Polanyi, though they are certainly interrelated, economic facts, accounting concepts, and economic theory cannot be reduced to each other.

First, while economic facts are the first-order phenomena, the accounting concepts are the second-order phenomena emerging out of the practical need for a quantitatively overviewing the first-order phenomena (Polanyi, 1922/2016: 400). Polanyi illustrates this by referring to the Physiocrats: "*produit net* [net product], [is] a realistic quantity in terms of the landlord's accountancy but a mere phantom in the process between man and nature which the economy is an aspect (Polanyi, 1977: 8)." Before the Physiocrats, elements of capitalist

[6] This triad does not condition the capitalist market economy or the formal economy only. It can also shape the non-capitalist, non-market economy as well as the substantive economy. For example, social accounting can value the substantive aspects of the economy such as ethical, social and environmental values, distinct from formal aspects such as scarcity and pecuniary values, thereby contributing to the constitution of the social economy. In addition, socialist accounting can shape the socialist economy, and the socialist economy would have its own economic facts, accounting concepts and economic theories (cf. Polanyi 2016: 401). However, this paper rather focuses on how Polanyi would explain the institutionalization of the triad in and for the capitalist market economy and, more specifically, fictitious commodification in order to highlight his critique of cultural political economy.

agriculture existed as economic facts, but there were no concepts that could clearly capture and represent these facts. The role of the Physiocrats was to devise accounting concepts and to signify economic facts based on these concepts.

Economic facts in the first order are thus converted into more clearly bounded facts implying specific functions linked to specific purposes in and through accounting categories in the second order. It was Quesnay that "discovered" various accounting concepts and their interconnections expressed in "Tableau Economique", which "lay at the foundation of an accounting system for the economic facts of capitalism" (Polanyi, 1922/2016: 400-401). As discussed earlier, the process of economic institutionalization requires the semiosis of a symbolic system, and Polanyi shows that, in this sense, accounting is at the centre of such a process. Indeed, "[t]he most general presupposition for the existence of … present day capitalism is that of rational capital accounting" (Weber, 1927/1950: 276; cf. Sombart, 2001: 8-9). For it defines the key ontological categories of capitalism such as profits, assets, values, etc., and facilitates rational capitalist activities for profit-maximization and capital accumulation.

Second, accounting concepts and economic theory are also in different orders. Accounting concepts provide a system of categories that can illuminate practical purposes. However, no matter how systematically they are related and regularized, these categories do not replace economic theory. Economic theory emerges primarily from the accounting system, but it is a third-order phenomenon independent of the latter. According to Polanyi, although the Physiocrats' accounting concepts suggested the main concepts of capitalism, these concepts did not lead directly to capitalist value theory. The Physiocrats were confused as to how to interpret net product and how to express net product-surplus value, and failed to establish the idea of capital; "[t]he alleged 'surplus' whose creation he [Quesnay] attributed to the soil and the forces of nature was no more than a transference to the 'Order of Nature' of the disparity selling piece is expected to show against cost (Polanyi, 1977: 8)." Just as the Physiocratic School eventually "created the first capitalist economic theory" through the reinterpretation of Quesnay's accounting concepts, economic theory, in general, reinterprets the accounting system and its purposes, combining these concepts with specific ideas about the world (Polanyi, 1922/2016: 400-401).

In particular, capitalist economic theory reinterprets various accounting categories organized around profit (surplus or net product) according to its own worldview, such as 'market mentality'. This is the basis from which capitalist economic theory emerges as a third-order phenomenon. The way in which market mentality and major accounting concepts such as profits and wages (labour compensation) are combined would be as follows:

> Nineteenth century thinkers assumed that in his economic activity man strove for profit, that his materialistic propensities would induce him to choose the lesser instead of the

> greater effort and to expect payment for his labor; in short, that in his economic activity he would tend to abide by what they described as economic rationality, and that all contrary behavior was the result of outside interference. It followed that markets were natural institutions, that they would spontaneously arise if only men were let alone. Thus, nothing could be more normal than an economic system consisting of markets and under the sole control of market price (Polanyi, 1957b: 249-250).

In this way, Polanyi's critique shows how the triad of economic facts, accounting concepts and economic theory constitutes an institutionally constructed basis and central categories of the capitalist market economy.

2) Accounting Concepts and Institutional Facts

When the phenomena of the three orders, i.e., economic facts, accounting categories, and economic theory, are interconnected coherently, it can be said that there exists a specific economic system. However, as these three orders are irreducible to one another, there is no automatic mechanism that ensures their consistent coordination. Here accounting concepts play a critical, mediating role in connecting economic facts with economic theory to create a consistent coherence of the system.

We will now try to show how accounting concepts mediate between economic facts and economic theory to produce a coherent economic system, by using John Searle's discussion of institutional facts and the construction of social reality and connecting it to Polanyi's theory. According to Searle, facts can be divided into two types: brute facts and institutional facts. Institutional facts are a product of human consensus, that is, facts derived as a result of reconstructing brute facts based on particular rules and collective agreements on these rules. To slightly modify Searle's formula (originally 'X counts as Y in context C'), institutional facts can be expressed as follows (cf. Searle, 1995: 27-28):

'Institutional fact X counts as function A in the system of S.'

What this formula implies are as follows.

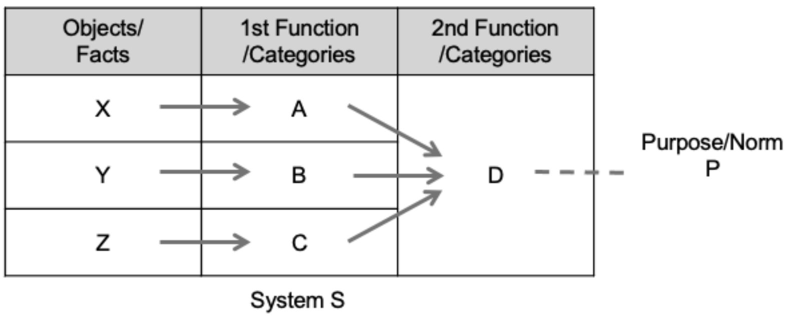
1) X is given its own position by relating to Y or Z, not X itself. In this respect, X is not a direct reflection of brute facts. However, X can be an institutionalized fact that more or less objectively indicates the brute fact corresponding to X. This is because a particular person cannot modify the sense, meaning, and referent of X arbitrarily as long as a society or social group discursively and materially organizes, accepts, and practises a particular system of relations or rule between X, Y, Z, etc. So institutional facts have (quasi-)objective property or material forces.

2) The discursive and material construction of X, Y, Z, etc. depends on the function each term performs under the overall purpose, norm, or collective will of the system. As long as X performs the function A and acts on something other than X, it is recognized as objective causation within this system.

3) Functions can be organized hierarchically. In other words, each function of A, B, and C may be subordinate to a more abstract or higher function D. In this case, it can be said that the upper function D is a function that more directly suits the purpose and norm of the entire system S, or a central category expressing the purpose of the system S.

4) Mediated by the whole system S, institutional fact X is connected to brute facts that it refers to as well as it is functionally related to the purpose or norm of the system.

Figure 1. Institutional Facts as Functional Categories of the Symbolic System

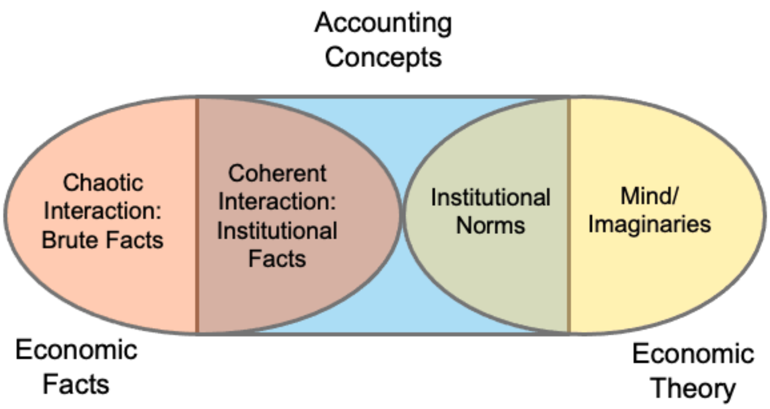


In short, brute facts become hierarchically organized and functioning institutional facts (objects and categories), which constitute a socially organized and practised symbolic system. This process of institutionalizing facts, i.e., the semiotic, symbolic, and material construction of institutional systems, can also illuminate how accounting concepts mediate between economic facts and economic theory to create a coherent economic system.[7] As a relationally organized symbolic system, the system of accounting categories converts brute economic facts into institutional economic facts that are objectively recognizable among those who share and use the same system. For example, debts can be converted into investments or assets according to accounting concepts. In addition, the accounting system selects from various economic worldviews, minds, ideas, and imaginaries to serve its spatially and temporally bounded purpose, i.e., profits, and thereby produces institutional economic norms that can be expressed by a particular economic theory. For example, debts can be justified as a source of

[7] Here "construction" does not refer to mere discourse or interpretation (construal) but involves materialization as well. For the distinction between construction and construal, see Sayer (2000: 90-93).

self-responsible investment according to mainstream economics.

Figure 2. Accounting Concepts Mediating Economic Facts and Economic Theory



The capitalist market economy is thus expressed, constituted, ordered, and operated by its own facts, mode of calculation and self-description, through institutionalizing a particular articulation between economic facts, accounting concepts, and economic theory.[8]

3) A Cultural Political Economy of Institutionalizing the Capitalist Market Economy.

The process of institutionalization illustrated by the articulation between economic facts, accounting concepts and economic theory as an institutional basis of the capitalist market economy can be explained from a perspective of CPE as follows.

First, the world is too complex and chaotic to act on, and thus its complexity needs to be reduced to a manageable level through the establishment of specialized and autopoietic systems (or institutions) that respond partially and selectively rather than wholly to the environment (Luhmann 1985: 26). The capitalist economic system is one of these systems, which has "ecological dominance" vis-à-vis other systems in its environment (Jessop 2000: 328).

Second, there are two ontological levels in such institutionalization, or the reduction of complexity through systems: one is the semiotic-discursive selectivities, and the other the

[8] Charles Bettelheim distinguishes between socialist and capitalist calculations, or between broader economic calculations and monetary calculations (1975: 5-6). Luhmann suggests prices as a self-description of the economic system, which allows economic actors to observe economic activities (Luhmann, 1988: 113-114, 118 cited in Boldyrev, 2013: 273).
allowing it to acquire information about itself and its environment (Luhmann 1988: 113–114). In particular, prices as social facts (Luhmann 1988: 118) enable economic agents to observe economic activities and to observe these observations as well.

material-practical selectivities. On the one hand, the complexity of the world or environment is selectively reduced or interpreted on a semiotic and symbolic basis. There are a variety of competing interpretations of the world, but not all of them are equally accepted, and only some of them are selected and retained in the system. On the other hand, the world is selectively acted on and dealt with on a material and practical basis. There are a variety of competing actors, responses, and practices in the world, but not all of them are equally influential, and only some of them are selected and retained in the system. As a result, particular systems and institutions are created, selected, and developed (Sum and Jessop, 2013). It is the capitalist economic system that has been selected and retained as a dominant system in the modern period.

Third, being necessarily partial and selective, these systems and institutions create and deepen crisis tendencies themselves. As large parts of the world are neglected, marginalized or excluded in symbolic and discursive practices as well as material and practical management, there are discrepancies and contradictions between the systems and the world, which may well turn hard to manage and turn into a crisis over time: humanitarian, environmental, and financial crises. As they grow further, the systems will become more autonomous from the environment, and this will enlarge the gap between the dominant systems including the capitalist market system and the marginalized part of the world. Institutionalization is therefore necessarily characterized by crisis tendencies as well as counter-crisis.

Fourth, such selective, partial, and crisis-ridden processes of institutionalization are guided by dominant strategic practices and power relations rather than functional requirements as such (cf. Jessop, 1996 and Hay 2002: 126-134) on the strategic-relational approach). As Searle (1995: 27-28) suggests, institutional facts X, Y, Z acquire (quasi-) objective property by (a) subsuming its function and meaning under particular social purposes and norms of the system and (b) being accepted by a society or social groups. In the case of the economic system, economic facts X, Y, Z would acquire (quasi-) objectivity by (a') subsuming its function and meaning under the specific purposes and norms of the accounting system, i.e., profit as an accounting category, and (b') being accepted social and politically (Polanyi, 1922/2016: 400-401). However, these functional requirements are not automatically fulfilled but actualized through social and political processes centring on two driving forces. One is dominant strategic practices that explicitly or implicitly (strive to) subsume various social elements and relations under certain purposes, norms, and goals such as capital accumulation at both discursive and material levels. The other is the capital-friendly social balance of forces or 'strategic selectivity' that privileges certain strategies and practices over others at both the discursive and material levels so that they can get accepted socially and politically as an institutional or even natural reality.

In short, it is through strategically and socio-politically driven processes of semiotic, discursive, material, and practical selection that create, variate, select, retain, develop, fail, and change social systems and institutions. The chaotic complexity consisting of brute facts are discursively and materially selected, reduced, and transformed into a manageable complexity composed of institutionalized facts through social systems and institutions. Here institutionalized facts and objects are assigned particular meanings and functions (as well as their own crisis tendencies) according to the higher-level purposes and norms of the system, which are selected through social and political struggle. In the case of the economic system, it is accounting concepts that mediate such a selective process. They convert brute economic facts (e.g., debts) into institutional economic facts (e.g., assets), and assign to these economic facts and objects particular meanings and functions (e.g., financial instruments) (as well as with their own crisis tendencies) in line with the higher-level purposes and norms (e.g., profits) of a particular economic theory (e.g., capital theory). Now we will look at how Polanyi's account of fictitious commodification is based on CPE.

4. Polanyi's Theory of Fictitious Commodification and the Self-Regulating Market

1) Accounting Concepts and Fictitious Commodification of Labour, Land, and Money

It can be argued that Polanyi's explanation of fictitious commodification, the double movement, and the self-protection of society in *The Great Transformation* has a hidden theoretical structure isomorphic to CPE discussed above. To excavate deeper, it can be shown that Polanyi has pioneered a CPE analysis of how the capitalist market economy can be institutionalized out of the chaotic and complex interactions by discursively and materially institutionalizing capitalistic economic facts, concepts, and norms.

Polanyi's concept of fictitious commodities as a moral threat to human beings, nature and business is greatly influenced by Ferdinand Tönnies, who distinguished between 'organic' and 'natural' *Gemeinschaft* and 'abstract', 'artificial' and 'fictitious' *Gesellschaft* (Dale, 2016: 25-27).

> Markets for labor, land, and money are easy to distinguish; but it is not so easy to distinguish those parts of a culture the nucleus of which is formed by human beings, their natural surroundings, and productive organizations, respectively. Man and nature are practically *one* in the cultural sphere; and the money aspect of productive enterprise enters only into one socially vital interest, namely, the unity and cohesion of the nation. Thus, while the markets for fictitious commodities labor, land, and money were distinct and separate, the threats to society which they involved were not always strictly separable (Polanyi, 1957b: 162).

This implies that labour, land, and money had to be artificially constructed as institutional facts or objects, independent of and separate from the organic whole, before they became commodities exchangeable in markets. Indeed, labour, land, and money are not themselves distinct elements that exist independently. In actual conditions, they are objects that cannot be separated or sold as such, because they are deeply embedded in the fundamental organic properties of nature and society: human beings, natural environments, and productive organizations respectively.[9]

The process of abstracting fictitious commodities is mediated by accounting concepts. In order to reorganize organic parts into independent units that are separated from other objects and resist external influences, it is necessary to focus on the “specific attributes” of human beings, the natural environment, and the productive organization. In the context of fictitious commodification, these organic parts are considered as performing specific functions, i.e., as ‘factors of production’ for the higher-level economic purpose of profit earning, through a particular looking glass of capitalist accounting. Labour, land, and money are the names given to institutional facts constructed through these symbolic choices.

Of course, this process of fictitious commodification is not simply a process of cognitive design but also a materially organizing process. In Polanyi's view, it was ideological conflicts and political struggles accumulated throughout the first half of the 19th century that had driven this process. Strategic interactions between various social forces, mediated by state organizations and laws, constructed the institutional facts such as labour, land, and money, out of complex, substantive, and organic interactions. It patterned human beings, nature, and production according to particular rules of the market, which regulated these institutional facts and objects. Labour was transformed into a commodity as a result of institutional efforts to overcome the absence of labour rules and moral norms that occurred under the effects of the Industrial Revolution and the Speenhamland system (1795). Institutional changes such as the Poor Law Amendment Act (1834) created a condition that man could not live without selling his/her labour power, thereby extending the competitive labour market. As a result, labour power was disembedded from wider human life and recognized and treated as a commodity (Polanyi, 1957b: 80-81). Similarly, land was separated from nature through the enactment of a series of land-related laws, such as the Prescription Acts (1832), the Inheritance Act (1894), the Real Property Act (1845), the Enclosure Act (1801-1882), and the Copyhold Act (1841-1926), which convert it into an object of sale. Due to these changes, land emerged as a privately owned and freely traded commodity (Polanyi, 1957b: 180). Money also became a

[9] The process of (fictitious) commodification not only involves labour, land, and money, but also extends to every sphere of human existence. For example, knowledge has become a fictitious commodity through intellectual property rights (Jessop, 2007; Özel, 2019).

community through the establishment of the Gold Standard and the Peel's Bank Act (1844). Isolated from and independent of the norms and customs of the community, the quantity and value of money became adjustable according to market demand and supply (Polanyi, 1957b: 137-138).

2) The Nature of Profit in Polanyi's Theory

Although not explicit in Polanyi's work, it is not difficult to deduce that Polanyi perceived core categories of capitalism, such as profit, as an institutional construct based on the modern accounting system, which is distinct from material surplus as such.

First of all, Polanyi emphasizes that production is not 'increase' but 'movement' in respect of the substantive economy. For Polanyi, production should be understood as a "locational movement" (change of place) or "combination of goods", rather than a quantitative increase of something. At the purely material level, production is simply a spatial movement of things. For example, the transformation of seeds into the grain and the rise of high-rise buildings on flat land are nothing but the locational movement of things. Besides, the process in which labour is input to produce something is merely part of the larger process in which the form of association between man and nature changes (Polanyi, 1977: 31-33).

If production is a movement rather than an increase, where does profit come from? If it is perceived merely as an output of production, it is hard to explain where profit does really come from since production is actually not an increase but just a movement. Recall that the Physiocrats eventually returned to mythical ideas such as "nature's ability to proliferate" in order to explain their concept of net production. Is labour a source of profit then? Polanyi rejects labour theory of value as well since labour is only an accounting category and actually increases nothing. To him, the labour theory of value is a particular economic theory, i.e., that of classical liberal political economy, derived from accounting concepts that consider labour as a factor of production: "Locke's false start on the labour origin of value" (Polanyi, 1957b: 123).[10] The more we try to understand production at the material and natural levels, the harder

[10] Polanyi's critique of labour theory of value was also directed to Karl Marx. Polanyi assumed that Marx had simply appropriated Ricardo's labour theory of value. However, to Marx, labour and value were not natural entities, but historically specific forms (Dale, 2016: 45). In this sense, Marx's theory is not a labour theory of value but a "value theory of labour" (Elson, 1979). Likewise, Marx's theory does not belong to classical political economy, and is, indeed, a critique of classical political economy that fetishizes wage labour power as a commodity and value form (Marx, 1867/1976). It should, however, be noted that, despite such misunderstanding, Polanyi did not neglect that Marx distinguished between natural and historical/institutional processes: "the *natural elements* of economics are labour, raw materials, tools, human needs, and so on. In our present society these take on the *historical* (i.e., transitional) *forms* of wage labour, capital, demand, purchasing power, and so on (Polanyi, 1937/2018: 150; italics in original).

the category of monetary profits can exist. Polanyi thus argues that profit is only a category created by calculation.

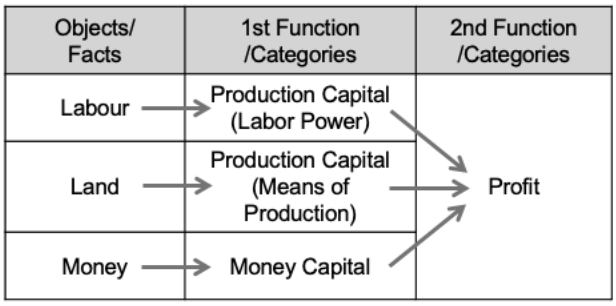
> [T]here are markets for all elements of industry, not only for goods … but also for labor, land, and money, their prices being called respectively commodity prices, wages, rent, and interest. The very terms indicate that prices form incomes: interest is the price for the use of money and forms the income of those who are in the position to provide it; rent is the price for the use of land and forms the income of those who supply it; wages are the price for the use of labor power, and form the income of those who sell it; commodity prices, finally, contribute to the incomes of those who sell their entrepreneurial services, the income called profit being actually the difference between two sets of prices, the price of the goods produced and their cost, … (Polanyi, 1957b: 69).

As can be seen, profit is merely the difference between prices, one being at a sale and the other at production (or purchase). Only through the form of quantitative increase and decrease expressed in arithmetic addition and subtraction, can the profit be entirely profit. However, in order to say that a scale goes up or down through production (or say that production increases or decreases), it is necessary to establish a certain measuring standard in monetary terms. However, the measure is by no means given by nature. The concept of profit in a quantitative form becomes practical and substantial only when a certain combination of humans and nature is reorganized and recorded in an accounting system so that it can be calculated by the measure of prices, and when you look at things in terms of price increase or decrease thus constructed as an institutional fact.

3) Fictitious Commodification and Self-Regulating Markets

Now it can be shown that Polanyi's theory of fictitious commodification explains how labour, land, and money are constructed as functional categories or accounting concepts of the capitalist system. Figure 3 shows how each cell of Figure 1 can be filled by institutional facts and functional categories of the capitalist system.

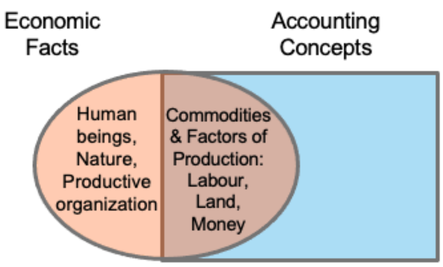
Figure 3. Labour, Land, and Money as Institutional Facts and Functional Categories of the Capitalist System



Capitalist System

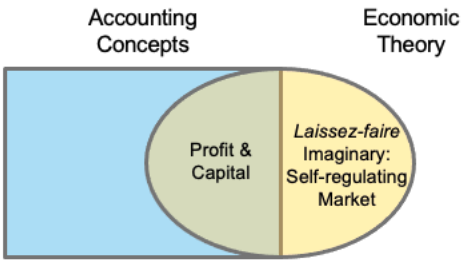
First, labour, land, and money are institutionalized as economic facts of the capitalist market economy, created as a result of being selectively constructed as specific attributes and effects, out of the complex process of substantive interaction between humans and nature. They are separated from other environments and elements, and fixed as a factor of production that contributes to profit earning in and through the construction of the capitalist accounting as a symbolically as well as materially organized system. Labour (or better, labour power) is now a factor of production that can be expended in exchange for monetary wages. Incorporated into productive capital (or variable capital, to use a Marxian term), it is combined with machinery and materials to produce goods and services and constrained by working hours, working flows, labour discipline, and overall production plan. Land is a factor of production that can be owned, registered, sold or leased by the parcel unit. It can provide sites for producing agricultural goods, manufactured goods, or services. Money is a commodity that can be obtained by paying interest at a rate regulated by the logic of supply and demand. It can be used to procure labour, land, and other factors of production. As these attributes and effects of labour, land, and money become dominant in society, other aspects of human activity and nature are not recognized as valuable, remain invisible, or are genuinely excluded (Figure 4).

Figure 4. Labour, Land, and Money as Accounting Concepts



Second, the functions of labour, land, and money are differentiated for and subordinated to the second, the more abstract, and the higher-level function of profit earning. In general terms, labour, land, and money are assigned a unique function of capital that is invested to generate profits (Figure 5). In this way, labour, land and money appear as basic accounting categories for capitalist economic calculations. The lesser their function is fulfilled, the lower their value will be, and the greater their contribution is, the higher their objectively recognized value.

Figure 5. Profit in Accounting Concepts and Economic Theories



Third, profit, the central category of accounting, can be established as a dominant criterion that private actors use to evaluate a wider range of lives and activities only when normatively reinterpreted by economic theory. As mentioned earlier, without capital theory, accounting categories such as net product-surplus value discovered by the Physiocrats would only remain a governmental means for monitoring and managing agricultural-centred resources. In the 19th century, accounting categories such as profit and wage acquired a new meaning within a utopian imaginary of liberalism or classical political economy that the natural tendency of human beings to make rational choices and to make spontaneous human relationships would regulate the world. Thanks to these economic theories, profit was no longer a category for agricultural resource management of monarchs or gains of individual merchants but became a legitimate means of realizing a utopia of the self-regulating market as well as a barometer for equal trading and efficient production.

Finally, a self-regulating market emerges as a set of systems which apply to various accounting categories including fictitious commodities, a rule that relates, values and moves real elements according to market prices. In other words, based on these institutional supports, the self-regulating market can get disembedded from the world of complex interactions, and established as an independent system, shaping and patterning actions, choices and ideas of the real world according to its own ideology.

Indeed, human beings, natural environments, and productive organizations were institutionalized in a commodity form and emerged as institutional facts and accounting concepts of labour, land, and money in the 19th century. These commodity forms were treated as basic factors of production that create profits by the accounting system, and interpreted as essential elements of realizing the self-regulating market by liberalism and classical political economy: hence the birth of a liberal creed expressed in its own institutionalized economic facts, accounting concepts and economic theories. However, this self-regulating market turned out to be a "stark utopia" as Polanyi puts it (1957b: 2). The self-regulating price mechanism could not work since labour, land, and money were not genuine commodities. These fictitious commodities resisted being regulated by the price only, and so could not constitute a solid basis for perpetuating a self-regulating market order. As long as fictitious commodities cannot encompass humans and nature as a whole and exclude the rich modes of interaction between humans and nature, an attempt to crystallize labour, land, and money into objects regulated by the price mechanism will inevitably cause repulsion and departure from society.[11]

5. Discontinuous Changes of the System

1) The Double Movement and the Collapse of the 19th Century Self-Regulating Market

This CPE framework of historical and institutional articulation between specific economic facts, accounting concepts, and economic theory enables us to explain not only the establishment of a self-regulating market society but also its historical changes. Indeed, it can be argued that Polanyi implicitly applied this framework to explain the double movement and the collapse of the market society in the 19th century as well. Polanyi thus views the capitalist market system as an artificial construct that society resists spontaneously (Dale, 2018: 300).

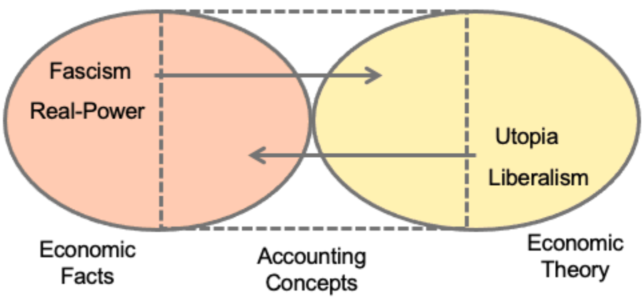
First, the double movement between commodification and decommodification showed that a set of institutions based on a utopian imaginary of the self-regulating market could not completely pattern the process of substantive interaction along the way it had created. For it is an unavoidable fate of institutions that they cannot fully integrate the process of the ever-changing reality. In other words, institutions are necessarily selective and partial, and cannot fully deal with the complex "reality of society". As a result, the 19th century market system

[11] It is difficult to find an explicit critique of the capitalist dynamic in Polanyi's account of economic theory. It remains unclear how the capitalist economy causes structural inequality or how its inherent contradictions inevitably lead to a crisis (see Jessop and Sum 2019: 163-164, on how CPE can compensate for these weaknesses). Perhaps this is because Polanyi's critique was concerned more with the liberal utopia of self-regulating markets than with capitalism in *The Great Transformation*. However, he also pointed out that the doctrine of liberalism served as an ideological foundation for establishing capitalist profit as a legitimate category and purpose of accounting, and, in this sense, his critique was directed at the very ontological foundation of capitalism as well as the illusion of self-regulating market as a natural order by which capitalism describes itself. What was important to Polanyi was to change the location of the self-regulating market from the natural world to the socially constructed world of institutions, but this could also show how capitalism is built on its contradictions and tensions.

caused particularly extreme social and environmental destruction as it transformed human beings and nature as a whole into an excessively narrow commodity form.

Second, the decommodifying countermovement arose in response: the "self-protection of society." It indicated that the rules established by the liberal capitalist concepts of accounting and their related systems were losing effectiveness. Non-market practices such as protective tariffs, export subsidies, and various social legislation were incompatible with the institutional principle of a self-regulating market according to which resources should automatically be allocated based on price. If labour, land, and money do not fully follow or even resist the commodifying logic of the market, then the prices, costs and sales forecasted by the accounting categories and rules will inevitably turn out wrong, and then actual profits will be well below the target. For example, when countries began to introduce measures of social security and protectionism to avoid the pressures of deflation and economic recession imposed by the Gold Standard, these out-of-market measures badly affected prices and costs, exports and sales, etc. So the accounting performance deviated significantly from predictions based on the normal operation of a competitive market. As the uncertainty increased, deviations from market practices and additional protective measures increased further, creating "disruptive strains" in the late 19th and early 20th centuries. In this way, the double movement and self-protection of society dismantled the condition that had maintained the coincidence between economic facts, accounting concepts, and economic theory of the 19th century (Polanyi, 1957b: 203-208).

Figure 6. The Double Movement and the Collapse of the 19th Century Market Society



* The arrows indicate each pole's attempt at integrating society and blaming the other.

Finally, the era of "perilous transformation," as Polanyi called it, grew out of this double movement (Polanyi, 1977: xliii). As the existing institutional principles were no longer effective, tensions increased between two poles in the first half of the 20th century. On the one hand, there was an attempt to restore the old institutional integrity based on liberal economic theory and utopian imaginary of the world. On the other hand, there was an attempt to establish new institutional integrity based on the awareness of real power and actual interactions. This polarity worked to rapidly collapse the existing system. To Polanyi's eyes, unfortunately, rigid liberals and fascists were leading each of these poles. There thus seemed to be "no alternatives but either to remain faithful to an illusionary idea of freedom and deny the reality of society, or to accept that reality and reject the idea of freedom. The first is the liberal's conclusion; the latter the fascist's (Polanyi, 1957b: 257)." Fascists rebelled against the liberal utopia, paying attention to the facts of reality and interpreting that the reality was full of the action of power. By expanding power, they tried to create a new (but eventually destructive) way of integrating society. On the contrary, the liberals thought it was those who rejected the doctrine of self-regulating markets that destroyed society. So, notwithstanding that the ideal of liberalism had already lost its effectiveness at the level of institutional rules, they attempted to restore the integrity of the past liberalism. These irreconcilable political extremes did not have the ability to rearticulate new economic facts, accounting concepts, and economic theory. They only blamed the opposite pole for causing systemic disturbances, and, in the end, forced the existing system to collapse quickly.

2) Institutions and Discontinuous Changes of the System

The integrity of the capitalist system is built on an artificially institutionalized and organized system of categories and rules *pace* the advocates of market society who compare these categories and rules to the natural law. Moreover, these institutions are a product of contradictory attempts to impose a systematic rule on the process of complex interactions that cannot completely be confined within the system. Therefore, when the contradictions between complex interactions and the process of institutional integration are deepening, and, in particular, when the correspondence between economic facts, accounting concepts, and economic theory are loosening, the existing form of social integration increasingly loses its effectiveness and is bound to be dismantled. In response, mankind has to construct a new institutional form again for their own dignity.

A newly shaped system could have a non-contiguous character with the previous system. Polanyi argues that "the history of mankind and the place of the economy in it, is not, as the evolutionists would have it, an account of unconscious growth and organic continuity (Polanyi, 1977: liv)." Institutional discontinuities arise because, when human institutions change, planning plays an important role, and the forces of the human mind and spirit influence it (Polanyi, 1977: liv). Human economic life cannot simply be reduced to an uninterrupted, continuous process of interaction, but requires human interpretation and intervention to create and maintain an institutionalized form of integration. Here the content and form of institutionalized social relations is not subject to any inevitable or natural laws. The meaning and structure of an institutionally constituted world is the result of social and hence ‘artificial’ construction and coordination. Likewise, a new form of institutional integration does not evolve logically and necessarily but socially and politically from that of the previous era. As long as the collective planning and design of a particular society and new institutions intervene, this new form of integration has a character that cannot simply be reduced to the product of continuous evolution. In this way, not only path-dependent continuities but also the possibility of institutional discontinuities arises between the different forms of integration that have appeared in history. In our context of discussing the capitalist system of fictitious commodification, this would mean that any serious alternative to the capitalist market economy should involve a fundamental critique and discontinuous change of its key institutional basis, that is, the capitalist triad of economic facts, accounting concepts, and economic theory, in a way that accepts the “reality of society” and advances “freedom in a complex society” (Polanyi, 1957b: 258).

6. Concluding Remarks

This paper has clarified Polanyi’s contribution to CPE by examining and reconstructing his theory of fictitious commodification, double movement and self-protection of society, based on his earlier critique of capitalist calculation, i.e., the institutional articulation between economic facts, accounting concepts, and economic theory that underpins the capitalist economic system.

According to Polanyi, the triad of economic facts, accounting concepts and economic theory provides a key institutional basis and central categories of the capitalist market economy. In particular, the accounting system institutionalizes economic facts and economic theory as self-evident facts and norms of the capitalist system. In this way, the capitalist market economy produces its own institutional facts, mode of calculation and self-description. It is shaped through a socially and politically driven and strategically selective process that reduces the complexity of the world and operates a system, with meanings, functions, and effects oriented towards particular purpose and norms that favours the dominance of capital.

This insight can be applied to clarify the institutional logic of fictitious commodification and its resultant social dynamic. Polanyi shows that fictitious commodities, such as labour, land, and money, are a product of the capitalist market system. Severed from the organic whole, human beings, natural environments, and productive organizations are institutionally reduced to and constructed as commodities (in economic facts), factors of production for profits (in accounting concepts), and the means of realizing a utopian self-regulating market (in economic theory). However, being necessarily partial and selective, the institutions of fictitious commodities create and deepen crisis tendencies themselves. As large parts of the organic whole are neglected, marginalized, or excluded by the utopian project of a self-regulating market, there appear huge gaps and discrepancies between the capitalist economic system and the marginalized part of the world or the "reality of society." These gaps and discrepancies may well turn hard to manage, turn into a crisis, and require state intervention. Institutionalization is therefore necessarily characterized by crisis tendencies as well as counter-crisis tendencies (or "the double movement "and "self-protection of society") (Polanyi, 1957b).

Polanyi's theory is significant not only because it blames the tyranny of the market economy and society but also because his CPE raises a fundamental question and critique about the institutions and structure of contemporary society with a very sophisticated analytical framework. It shows how the capitalist market economy operates through the semiotically, symbolically, and materially institutionalized and integrated system. In particular, our reinterpretation of Polanyi's political economy reveals what categories and rules have constituted the main axis of capitalist system integration out of countless complex interactions and fragmented events, and in what form this society has understood itself: in short, the cultural political economic bedrock of the capitalist market economy, especially expressed in its particular accounting system that calculates and guides various elements as a factor of production or asset to increase profits. Furthermore, Polanyi's CPE illuminates how to analyze the cracks of the capitalist rule and what the alternative should aim at. In this way, Polanyi raises fundamental questions about the political and economic conditions of our time, which have been around for a long time and yet have not been properly questioned due to their too broad scope. In this sense, Polanyi is neither a simple institutionalist nor a precursor of CPE, but an original and genuine cultural political economist, with contemporary relevance for the analysis of capitalism as a historically changing symbolic system. He has shown the key institutional dynamic of the capitalist economic system through his critique of the capitalist articulation of economic facts, accounting concepts, and economic theory and its resultant fictitious commodification, and opened a question about how these institutional systems would change historically within and beyond the capitalist system.

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