

# Competition in Transitional Processes: Polanyi & Schumpeter

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## **Abstract**

We examine parallels and differences in the analyses of societal transition by Karl Polanyi and Joseph A. Schumpeter. We argue that although their understanding of historical processes differs – transformational-political vs. evolutionary-natural – the central mechanism of change they describe is the same. We identify three spheres essential to both authors' works: the economic, the political and the socio-cultural sphere. Polanyi and Schumpeter describe an expansion of the economic sphere culminating in a subordination of the other parts of society. In capitalism this dominance stems from capitalism's emergence as well as the concept of competition. The consequence is a profound change in societal relations. Changes in the socio-cultural sphere in turn produce changes in the political sphere that bring about detrimental consequences for democracy. In our paper we carve out the similarities as well as the differences in the respective theories, clarify the role competition plays therein and discuss the consequences for the political process. We adopt an analytical framework that puts the nearly analogous mechanism of change in the centre. This in turn enables us to make use of the complementarity and to gain valuable insights on the interdependence of capitalism and democracy that can inform trends and phenomena that are currently observed.

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# 1. Introduction

Karl Polanyi and Joseph A. Schumpeter are among the great thinkers of the 20<sup>th</sup> century. Their work did not only influence the thinking in their respective fields of expertise but also shapes our understanding of societal change. Schumpeter above all is mainly known for his conception of innovation and the consequent creative destruction. In recent years with regard to the neoliberal turnaround, Polanyi gained interest because of his depiction of the liberal utopia and its politically enforced implementation. A central aspect that is not broadly highlighted in the reception of both theories is the emphasis that they place on the way in which societies actually change and transition. Both authors present general theories of the economy, politics and society, starting with the emergence of the capitalist system and ending with a prospective outlook on the political system. In the following, we argue that although their understanding of historical processes differs, the central mechanism of change in these “anticapitalist masterpieces” (Hejeebu and McCloskey 1999) is the same.

In *Capitalism, Socialism and Democracy*, Schumpeter ([1942] 2003) depicts societal change as an evolutionary process. He concentrates on the developments in capitalism that not only encompass economic processes but socio-cultural and political ones as well. The bottom line is that he expects capitalism to abolish itself due to inherent tendencies stemming from the economic realm and smoothly transition into a Schumpeterian socialism. Polanyi (1944) in *The Great Transformation*, on the other hand, describes the societal transformation that took place in capitalism and culminated in fascist moves all over Europe. Societal change is depicted as transformative; a transformation that was set in motion by the utopia of an all-encompassing self-regulating market affecting political processes and cultural realities alike. Both focus on the rising significance of the economic realm and identify a common key peril in this process – the incompatibility of capitalism and democracy.

In the following, we compare and analyse Schumpeterian and Polanyian theories as presented in *Capitalism, Socialism and Democracy* ([1942] 2003) as well as in *The Great Transformation* (1944)<sup>1</sup>. We do so in order to substantiate our claim that the mechanism of change is essentially the same and to answer associated questions:

- What are the similarities as well as the differences between Schumpeter's and Polanyi's theories of societal change and should they be interpreted as opposing or complementary?
- What does the concept of competition mean for the supremacy of the economic realm and what are the implications? How does the mechanism of societal change work?
- What insights offer the theories on the dynamics and interdependencies between capitalism and democracy? What does this imply for the stability of the capitalist system and society respectively?

In order to conduct our analysis and answer the questions described above, we start by giving an overview of the existing literature on the ontology and methodology of the two authors, their understanding of processes of change and their concept of democracy (Section 2). In Section 3 we compare Polanyi and Schumpeter along different categories, each of which acts as the building block for the next category. Both authors present their theories of transition by describing distinct societal spheres as well as the interactions and conflicts within and between them. Those ultimately lead to a transformative or evolutionary process for society as a whole. We utilise this distinction so central to both theories and build an analytical framework along which to compare them (Section 3.1); we continue with a brief depiction of the emergence of the economic system in order to contextualise the origin of markets and the meaning of competition (Section 3.2 and 3.3). Those insights are integral to the interdependence of the economic and socio-cultural sector and allow us to derive certain principles regarding the stability of the capitalistic system. Both Schumpeter

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<sup>1</sup> Those books of course only present part of the theories of both authors. However, by focusing on the aspects of societal change and its implications for democracy it is appropriate to concentrate on these two. Naturally, the arguments presented can only be validated in reference to the discussed theories.

and Polanyi suggest that the dominance of the economic realm is central to capitalism and crucial to its stability (Section 3.4). In Section 3.5 we trace back the impact on the political realm and the far-reaching consequences for democracy and summarise our findings. Section 4 concludes and discusses the insights won from our endeavour.

## 2. Literature Review

The literature in the history of ideas concerning Polanyi and Schumpeter is extensive. Among others, Polanyi's life and ideas have been lengthily discussed by the members of the International Karl Polanyi Society (e.g., Cangiani [2011], Polanyi-Levitt and Thomasberger [2005], Aulenbacher, Bärnthaler and Novy [2019]). Schumpeter found recognition *inter alia* by the members of the Graz Schumpeter Centre and in several handbooks (e.g., Kurz and Sturm [2013], Kurz [2008], Sturm [2016], Sturm and Dujmovits [2018]) as well as in Andersen's comprehensive summary of Schumpeter's oeuvre (Andersen, 2011).

The large corpus of contributions in different fields and disciplines that both authors have brought forward throughout their careers allows for a great spectrum of possible interpretations and diverging statements. Depending on the subject matter as well as on the scientific background of individual researchers, different interpretations of Polanyi and Schumpeter are possible and plausible.

Contributions that concern themselves with methodological and ontological readings of Schumpeter are, for example, Festré and Garrouste (2008), who contribute to the discussion of methodological issues in social science and focus on Schumpeter's conception of rationalization in economics and his view on institutional change. They conclude that it is both individualistic as well as holistic. On a more theoretical meta-level, Shionoya (2004) sees Schumpeter as an antagonist to Karl Marx by focusing on his sociological lens of social sciences (*Soziologisierung*) that exhibits a "bilateral" relationship between economy and ideology (Shionoya 2004, 335) The

structure and evolution of different spheres of society is an additional frequently discussed topic in the literature. Andersen (2011) explicitly framed Schumpeterian theory as a co-evolution of different spheres of society. Building on this approach, Storn (2017) analyses capabilities and limits of the political sphere to cope with contemporary challenges like globalization, digitalization or ecological issues in such a co-evolutionary framework. Similarly, Storn and Dujmovits (2018) analyse Schumpeter's concept of the state and the significance of the co-evolution of private and public spheres at different stages of development.

Although not the only focus of their paper, Hejeebu and McCloskey (1999) analyse Polanyi's ontological notion of the market as a concept and his integration of ethics and economic interaction in comparison to his famous predecessors, Adam Smith and Jeremy Bentham. Furthermore, Dale (2010) discusses two conflicting interpretations of Polanyi's view on the relation of the economy, society and politics. The 'soft'<sup>2</sup> Polanyi views a mixed economy with some distributive elements as 'embedded', whereas the 'hard' Polanyi demands more radical reorganisation of fundamental capitalist principles to establish a (re-)embedded market. Neither of both truncated interpretations do justice to Polanyi's prudent analysis, Dale (2010) concludes, but rather illustrate the broad range of Polanyi's intellectual influences which further result in some antinomies in his work (Dale 2010, 2014). Similarly, Cangiani (2011) detects economic as well as sociologist fallacies in the interpretation of Polanyi's theory, particularly in his concept of 'embeddedness': The contradiction 'embedded/disembedded' in Polanyi's theory refers to a large-scale instituted and social integration of markets in a market society, rather than small-scale individual economic behavior being 'embedded' in a complex set of social institutions (Cangiani, 2011). Likewise, Block and Somers argue that Polanyi criticised an overly "economistic" view of society and provided an alternative that has been dubbed the "primacy of the social" (Block and Somers 2014, 44) because "political" can seem rather limited in its notion.

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<sup>2</sup> The labels 'soft/hard Polanyi' originate from Szelenyi (1991).



Besides the evolutionary aspect of spheres, there has been extensive research on the democracy concept presented by Schumpeter in *Capitalism, Socialism and Democracy* (for a short overview until the 1990s see the introduction of Meadearis [1997]). Scholz-Wäckerle (2016) focuses on democracy as a socio-historical process and discusses how democracy evolves along several contradictions, including Schumpeter's competitive view on democratic processes. In political science there are modern approaches more or less following his conceptions (e.g., Achen and Bartels [2016], Shapiro [2016]) while others criticise Schumpeter's arguments: Ober (2017) for example emphasises that Schumpeter's "New Theory of Democracy" is heavily influenced by militaristic notions of leadership and based on warfare. Mackie's (2009) argument runs in a similar way, stating that Schumpeter's definition of democracy is implausible as it undermines the very basic element of democracy – the existence of individual and common will. Meadearis (1997) concerns himself with the difference and presence of the notion of an elitist democracy and the concept of democracy as an evolutionary power in the course of history in Schumpeter's work - and thereby finds partly similar results as we do.

There exist several contributions that compare Schumpeter or Polanyi with a respective other theoretical thinker. For example, Schumpeter and Veblen are discussed with respect to economic evolution (Schütz and Rainer 2016) as well as their epistemological groundings (Papageorgiou and Michaelides 2016). In another work Schumpeter is compared with Werner Sombart and their long-term economic perspectives are considered (Chaloupek 1995). Kurz (2012) discusses Schumpeter and Keynes along their concepts of investment and interest. Polanyi's ideas and their power respectively have been compared to Hayek's and Keynes' by Kari Polanyi-Levitt (2012). Lloyd and Ramsay (2017) contrast Polanyi and Streeck and their perspectives on the role of organised labour as a countervailing force of commodification whereas Maurer (2017) concentrates on the picture of institutions in modern capitalism that Polanyi and Weber draw.

Works that specifically compare Polanyi and Schumpeter are rare. Özel (2018) discusses the common philosophical base of Schumpeter and Polanyi (alongside Marx and Weber) in the

tradition of German expressionism which leads all four authors to conclude that the instability of capitalism results from antagonistic tendencies of the political vs. economic sphere. Harvey and Metcalfe (2004) compare the perspective of Polanyi and Schumpeter on markets and their impacts on capitalism and apply them to the empirical example of the United Kingdom food distribution markets. They find that Schumpeter viewed the evolutionary power as coming from within the market system whereas Polanyi considered the organization of the market system as the driving force for transformation.

However, to the best of our knowledge there has been no attempt made to compare Polanyi's and Schumpeter's perspective on the mechanism of societal change. In this analysis we focus on complementary statements concerning links between capitalism and democracy as well as on the role of competition specifically. Concerning the structure of the literature review, several categories were indicated. The results of synthesising different aspects of Polanyi's and Schumpeter's work along the lines of these categories are furthermore presented in Table 1 in the last section of the paper. In order to illustrate the elements and interwovenness of spheres in this transitional process we focus on Schumpeter's analysis of late capitalism and assume the Schumpeterian mark-II-model<sup>3</sup> to apply. Likewise, we follow the 'hard' interpretation of Polanyi and employ a large-scale term of 'embeddedness'. We will further deviate from Block and Somer's (2014) notion and use "political" in a broader sense nonetheless, i.e. not only including politicians making decisions but also media discussions, civil society and the political debate on a societal level.

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<sup>3</sup>The Schumpeterian Mark II Model reflects structures present in late big-business capitalism and is characterized by oligopolistic competition and adaptation processes. The entrepreneur plays a minor role and innovation is organised within firms's R&D department and therefore endogenous to the process of evolution. (see e.g. Andersen, 2011, p. 141-145)

### 3. Analysis of Transition

In order to conduct our analysis, we compare Polanyi and Schumpeter along different categories each of which acts as the building block for the next category. Both theorists present general theories of the economy, politics and society, starting with the emergence of the capitalist system and ending with a prospective outlook for the political system. Using our analytical framework (in Figure 2), we arrive at the conclusion summarised in Table 1. For the sake of clarity, we use the term “transition/transitional” to name the phenomena of dynamic societal change common in both authors’ theories. When referring to Schumpeter’s view of different spheres meshing rather smoothly, we use the term “evolution/evolutionary” in contrast to Polanyi’s consideration of societal change as a process of antagonistic (counter-)movements. The latter is termed as "transformation/transformational" throughout the following analysis.

#### 3.1. Spheres of society and our framework

We start our inquiry with a brief outline of the theories regarding social transition as discussed in the following. We concentrate on the way Schumpeter and Polanyi view this process with regard to a separation of society into different realms or spheres.

Schumpeter in his works (e.g. [1912] 1987, [1942] 2003) understands societal change as part of an evolutionary process where in a capitalist system, the economic sphere is at centre. Society in a Schumpeterian sense can be described (as by e.g. Andersen 2011) as being comprised of several spheres or sectors: the economic, the political, the scientific and what we call the socio-cultural sphere – the latter *inter alia* includes the family where social norms are rooted. The processes of development in non-economic sectors have some analogies to developments in the economic sector, identified by Schumpeter as alternation of static adaptation and processes of development. A derivation of clear causal directions is not possible, but statements about the process of development and domination of specific spheres can be derived (Schumpeter [1912] 1987). In

general, all spheres interact with each other. This forms a co-evolution of spheres – the social-cultural evolution – in which not only economic circumstances alter, but also the normative conception of the economy and society.

The economic sector is dominant in capitalism and thus leads all the others. Since rationality is crucial in the economic process it influences the other spheres and changes the mode of social life by imposing a rationality dictate into them. Together with the changing economic circumstances, this brings about the evolution from capitalism to a Schumpeterian socialism<sup>4</sup>, which is reflected in a re-organisation of societal and economic principles.

Polanyi's grand theory as described in *The Great Transformation* (Polanyi 1944) treats the institutionalisation of what he calls a liberal utopia: the self-regulating market. He argues that the economic sphere in the history of mankind was embedded in society and therefore subject to customs, norms and moral beliefs. However, regulations are essential in order for the self-regulating market to work. These regulations render labour, land and money – although bearing no commodity character at all – fictitious commodities enabling a self-regulating, free market “[eating] away human relations” (Hejeebu and McCloskey 1999, 288). Additionally,

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

This institutional separation is also referred to as the disembeddedness<sup>5</sup> of markets from society in contrast to a market that is embedded in and regulated by social norms and institutions. The commodification and disembedding process builds up tension in society. The core processes needed for the market mechanism of the self-regulating market utopia, i.e., competition and rationality, do not do well with the nature of labour, land, and money – they evoke cultural

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<sup>4</sup> We want to emphasise that Schumpeter's notion of socialism does not imply a total abandonment of markets or capitalist principles but is rather characterised by abandoning private property of production means, increased bureaucratisation and a government of experts formed by the elite.

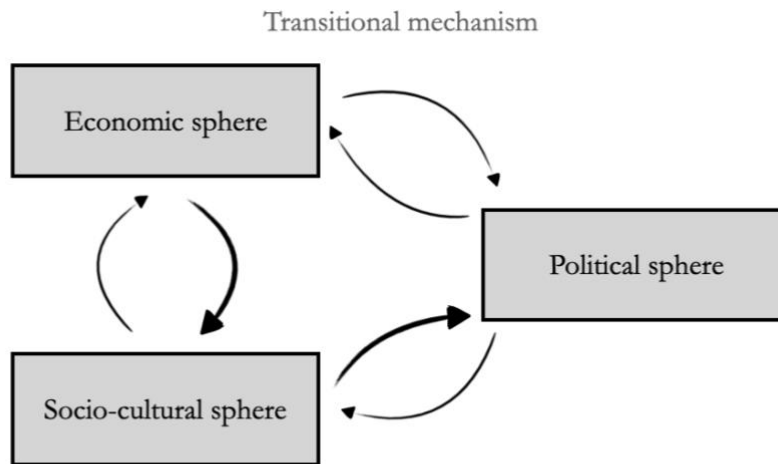
<sup>5</sup> The term ‘embeddedness’ in our analysis refers to the more abstract definition concerning large-scale issues, as argued in Cangiani (2011), in contrast to the definition of ‘embedded’ individual decision-making, that is often used in economic sociology (see .e.g. Granovetter 1985).

degradation. Out of this tension, the prominent countermovements arise. These political movements fight back against the pressure of the self-regulating market and hence of the dominance of the economic sphere. Ultimately, this can result in fascist political movements and political systems as Polanyi describes for the example of Germany during 1933-1945.

Both authors analyse societal change by regarding it as divided into different spheres. However, they view this distinction quite differently: while Schumpeter takes it as natural and inherent to all societies and appreciates its analytical benefits, Polanyi considers the distinction of spheres as a problematic and institutionalised result of the disembedded economy and the ultimate cause of demise. This fundamental contrast can be attributed to different conceptions of human beings of both authors and a diverging attitude towards the degree of plasticity of (inherent) attributes and behavioural traits in human nature. Schumpeter views human beings “propensity to feel and act” as well as their behaviour ([1942] 2003, 202) as formable “while the fundamental pattern underlying it (“human nature”) remains” ([1942] 2003, 202). Polanyi draws no such distinction between a formable and a definite part of human beings. He interprets it as given and rather rigid. Both theorists use the concept of interdependence of social structure and individual action but in Polanyi’s view, humans are inherently collectivist whereas Schumpeter interprets human behaviour as the outcome of co-evolutionary processes of institutional change and individual behavioural traits. Starting from this different conceptual base of human nature, both authors derive different outcomes of societal change. The degree of determinism in the transition is related to the assumed degree of plasticity of human beings. In Schumpeter’s evolutionary view, individuals adapt naturally to changing circumstances. Therefore, certain degrees of freedom remain in the overall outcome of an indeterministic, evolutionary process. Polanyi, on the other hand, interprets the process of changing structures as interaction of individual as well as collective movements. Having the inherent collectivist elements of human beings in mind, the process of societal change is seen as transformative and characterised by frictions and suffering. However, their approaches are not as exclusionary as one might think. Polanyi’s rather deterministic view on transformation allows

for some spontaneous elements (e.g. in the form of reactionary or emancipatory countermovements) and Schumpeter’s interpretation of evolution has some destructive parts as well (e.g. creative destruction in innovation processes). This further highlights the value-added gained from a comparison of the two authors.

*Figure 1: transitional mechanism via inter-connected spheres of society*



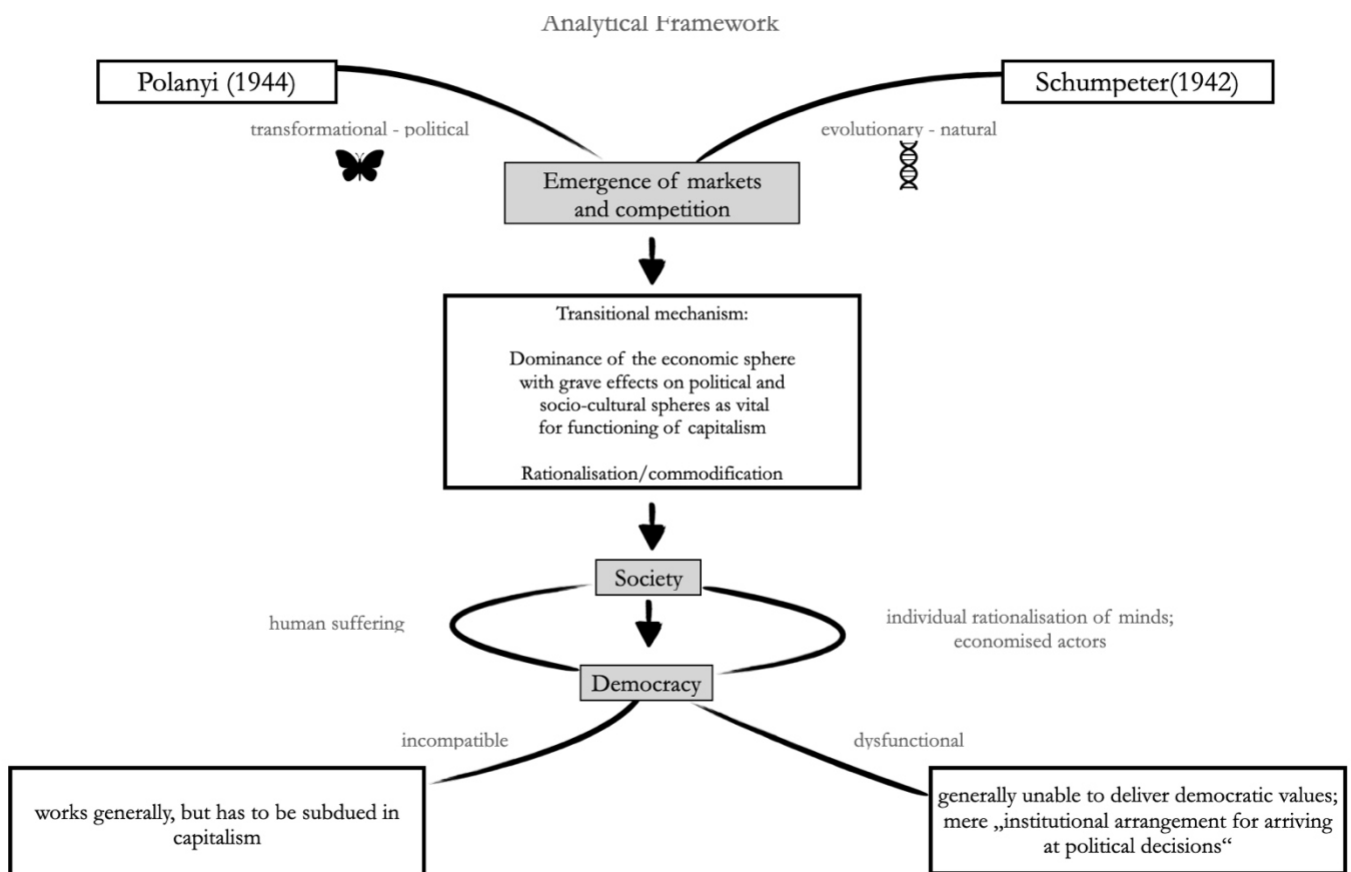
Keeping their diverging ontological position in mind, we argue that both authors can be analysed and partly synthesised using the following framework. In both theories, society consists of roughly three spheres: the economic, political and socio-cultural<sup>6</sup>. Although all three spheres are interconnected, there is a clear dominance or hierarchy visible and we conceptualise the relations of the spheres as depicted in Figure 1.

The economic sphere takes the lead in capitalist systems and subsequently dominates all others even though, of course, the interconnected spheres will always be influenced by each other. Such a framework allows us to compare the two authors who start on different premises; moreover,

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<sup>6</sup> Schumpeter talks of the economic, the political, the scientific and the family sphere whereas Polanyi explicitly only talks about the separation of economic and political life. However, in the latter’s analysis a clear reference to the cultural surrounding of humans is made, thus the socio-cultural sphere. We neglect, however, the scientific sphere as described by Schumpeter. While both authors use “spheres” at some point, they do not necessarily stick to it consistently throughout their works. For our analytical purposes, we choose to follow this terminology for better comparability.

Figure 2: The Analytical Framework of synthesising Polanyi's and Schumpeter's theories on transition and societal change



their distinctive view on societal change – Schumpeter views it as evolutionary, Polanyi as transformative and antagonistic – can be compared more comprehensively. This simplification can be neatly put into perspective permitting us to concentrate on the core mechanism and structure. Of course, implementing such a framework is an abstraction from the original theories as well as a tool that necessitates simplifications. There are, as always, certain limitations imposed for the sake of analytical comparability. However, those limitations do not weaken our argument that the three spheres are present in both theories with the economic sphere being the most prevalent and impactful compared to the political and socio-cultural one. In a sense, such a structure is essential to capitalist societies. As soon as the dominance of the economic sector is threatened and hierarchical structures are disturbed, the capitalist system stops working as intended until the proper hierarchy is restored. There are clear arguments for such a proposition found in Polanyi. For Schumpeter, it is rather a case of definition: the distinctive feature of capitalism is that the economic sphere is the leading one. Once it becomes dominated by e.g. the political

sphere, Schumpeter speaks of socialism. Therefore, a crucial requirement for the stability of the capitalist system is the dominance of the economic sector.

Those blocks form the skeleton of our analytical framework and are summarised in Figure 2. The statements represented therein are the conclusions drawn from our inquiry. With Figure 2 in mind, we shall continue by comparing Polanyi and Schumpeter with regard to the advent of capitalism. As mentioned above the analysis unfolds along the lines of five building blocks.

### **3.2. The emergence of the economic system**

Regarding the emergence of capitalism, the two emphasise different aspects. For Schumpeter, the capitalist spirit described by a rationality postulate had existed long before capitalism and actually co-existed with other forms of economic activity until it became the dominant form of economic interaction. The industrial revolution and rise of capitalism happened unintentionally as a result of an evolutionary development. Markets are taken as given and – in the sense that they entail competition – are necessary for Schumpeter’s argument regarding creative destruction (Harvey & Metcalfe 2004, 4). Without competition, capitalism would not be driven to produce innovation and progress.

For Polanyi on the other hand, markets, including the self-regulating market and therefore competition as a basic principle, have been intentionally created and institutionalised. To him, there is nothing “natural” or deterministic about it.<sup>7</sup> On the contrary, the intended institutionalisation of a self-regulating market interfered with the “normal” functioning of society. The stark contrast becomes clearer when keeping in mind that Polanyi disregards the narrower meaning of “economic” and views the economic system in a more substantivist sense. Polanyi

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<sup>7</sup> Polanyi’s disregard of evolutionists’ arguments becomes clear in his writings. See e.g. Polanyi (1944, chapter 4, 45–58; and 67). He argues for a transformational way of investigating the Industrial Revolution: “The transformation to this system from the earlier economy is so complete that it resembles more the metamorphosis of the caterpillar than any alteration that can be expressed in terms of continuous growth and development.” (ibid., 44)



(1944, 1992) emphasises configurations in human history that have always existed and will always exist as a form of integration based on a specific form of behaviour (e.g. reciprocity, redistribution, house-holding or exchange) and a pattern of social organisation supporting that behaviour (symmetry, centricity, autarchy and the market pattern, respectively). Likewise, markets as meeting places “for the purpose of barter or buying and selling” (Polanyi 1944, 59) and the motive for barter have existed long before capitalism, but they represented just one possible mode of interaction and had no “automatic tendency to widen” (Hejeebu and McCloskey 1999, 291). The market pattern is more specific than the other patterns and, unlike those, can create a specific institution with a specific, single purpose: the market. This, in turn, allows the market to be made dominant, so that social relations have to adapt to the economic system. Indeed, Polanyi opposes the idea that markets evolve by themselves and simply expand over time which results in a natural market economy (and self-regulating markets). He describes the history of the market by portraying three types of markets: long-distance, local and internal markets. The first two were present from the sixteenth century onwards but in a highly regulated form; mercantilists started the endeavour to create one big internal (national) market and consequently the perils of it had to be administered by the state. Polanyi states:

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

Consequently, the implementation of a self-regulating market can be regarded as a complete reversal of the development, a fundamental transformation of organisational principles within society.

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

“We could crudely contrast Schumpeter as identifying the source of change as being intra-market endogenous, and Polanyi as market organisation endogenous.” (Harvey & Metcalfe 2004, 9)

Furthermore, Cangiani (2011) in his analysis of Polanyi's term of ‘embeddedness’ hints to the fact that Schumpeter, from his point of view, disregards the transitional effect of market integration on the very substance of human societies, which is emphasised by Polanyi (Cangiani, 2011).

### **3.3. Competition in the two theories**

The discussion above leads us directly to the discussion of competition in the two theories. As already stated, competition is essential for Schumpeter's theory. It is the main driver of change in his process of creative destruction<sup>8</sup>. Although competition is the ultimate driver of economic growth, Schumpeter acknowledges that perfect competition was never the reality for most products and markets in capitalism (Schumpeter [1942] 2003, 78f.). The majority was shaped by some form of market power resulting from the dynamic process of creative destruction.

The starting point of the process of creative destruction is a stationary state that allows for profits once an innovation occurs. The innovation conducted by the famous entrepreneur triggers a complex competitive process based on the adaptation of new routines. Pressure is exerted by new

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<sup>8</sup> Schumpeter's conception of competition quite naturally changed over the years of his academic life. In the following, we concentrate on the depiction in *Capitalism, Socialism and Democracy*. Since the importance of the entrepreneur is declining in this opus so is the conception of competition as described e.g. in *Theorie der wirtschaftlichen Entwicklung* ([1912] 1987). This conception concentrates much more on competition between entrepreneurs as a struggle or even a fight (“Kampf”).

firms entering the market as well as by old firms rapidly adapting – their output represents a competitive challenge. In this environment, firms using the old routines can persist in the competitive struggle and adapt the new routines or increase productivity. Alternatively, they disappear and become a victim of creative destruction. The result is a sustained change in the routines of the agents and though not always but mostly an increase in prosperity (Andersen 2011, chapter 11, 152–173). At a later stage in the evolution of capitalism, when transitioning from competitive capitalism to big business capitalism, oligopolistic competition becomes central. There are no real entrepreneurs anymore, and thereof a mechanism that still ensures creative destruction and ergo progress is needed. The “constant threat” of entry and exit does the job.<sup>9</sup> This concept of competition is closely linked to rationality since rationality is needed in order to prevail in exactly this competitive struggle. Schumpeter argues that “all logic is derived from the pattern of the economic decision” (Schumpeter [1942] 2003, 122f.). It is the “inexorable definiteness and, in most cases, the quantitative character that distinguish the economic from other spheres of human action” (ibid., 123). Individuals acting rationally in the Schumpeterian sense do not imply an omniscient representative agent, i.e. that individuals are capable of processing all the information at hand and act accordingly to maximise the outcome, but

“[...] only that their rationalistic rules of thumbs are tested and selected in some core areas.”

(Andersen 2011, 227)

Nevertheless, the importance of the economic sphere leads to a

“[...] slow though incessant widening of the sector of social life within which individuals or groups go about dealing with a given situation.” (Schumpeter [1942] 2003, 122)

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<sup>9</sup> According to Schumpeter and as can also be seen by the depiction of the process of creative destruction, his concept of competition in *Capitalism, Socialism and Democracy* transcends the concept of price competition as envisaged by economists of Schumpeter’s time. He argues that their analysis still rests on a stationary and rigid system and can therefore not account for the actual competition stemming from new goods and processes. He further points out that the concept of perfect competition, on which grounds attacks on monopolistic tendencies are launched, is pure utopia and never even existed. Additionally, the monopolies under attack were able to generate greater prosperity than were the firms under competitive capitalism (Schumpeter [1942] 2003, chapter 7, 81–86).

in this rationalistic way. Schumpeter most explicitly speaks of competition in the other spheres when he regards the political realm. Competition for political leadership is defined as free competition for votes. Moreover, the rationality postulate is one of the main drivers of the change of social norms (Schumpeter [1942] 2003, chapter 11, 121–130). With competition and hence rationality as the defining force of capitalism's social order, it is perceived as something positive and desirable since it enables evolution.

Polanyi neither considers the self-regulating market as natural, nor does he perceive competition as something natural. In a sense, he again views competition in a substantivist sense: it resembles “just one form among many to organise the allocation of material goods” (Altreiter et al. 2021, 13). Regarding the local as well as the long-distance markets he argues that they are essentially not competitive. However, the internal market was and thus had to be regulated, as mentioned in the statement above. The reversal of the trend was brought about by the “artificial phenomenon of the machine” (Polanyi 1944, 60) that consisted in “the invention of elaborate and therefore specific machinery and plant” (ibid., 78) and culminated in the factory system. This in turn meant that all factors involved in production had to be available at all time, including labour, land and money.

“The elements of industry had to be on sale. This was synonymous with the demand for a market system.” (ibid., 78)

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

“[...] only if self-regulation is safeguarded through an interdependent competitive market.” (ibid., 78)

A self-regulating market is characterised by being able to administer production and distribution via buying and selling – essentially prices – without external governance. For the smooth functioning of the price mechanism (perfect) competition is essential: it ensures only one price (Altreiter et al. 2021, 12). This also means that incomes are derived from sales on the market and consequently that there should be no interventions that prohibit the price mechanism from working. Society, including the political and socio-cultural spheres, needs to be subordinated to

the laws of demand and supply – along with labour, land and money. However, Polanyi defines commodities as “objects produced for sale on the market” (Polanyi 1944, 75). Of course, this does not hold for labour, land and money, yet they are bought and sold on markets. Hence, they are fictitious commodities. It is competition that puts the pressure on individuals and their surroundings and thus leads to counter-movements. The fictitious commodities are subjugated exactly because they should be manageable for competition. The notion of competition is therefore rather negative and perceived as an ideologically connoted design that needs intervention to be viable.

### **3.4. The changing nature of society and the stability of the capitalist system**

Although Schumpeter and Polanyi view the genesis of capitalism and the societal function of competition quite differently, a central mechanism remains the same: competition or rationalisation and commodification respectively exert immense influence on the functioning of society.

The feedback and influence of the economic and the socio-cultural sphere in Schumpeterian theory is administered via social norms: In chapter 18 of *Capitalism* (Schumpeter [1942] 2003) titled “The Human Element”, he refers to a set of propensities to feel and act that are subject to change through the underlying social conditions as well as an unchanging human nature. Those propensities refer to social norms and indicate again the evolutionist thinking of Schumpeter. In these pages, he reacts to possible bourgeois claims that the socialism he drafts cannot be achieved since human nature needs the incentives stemming from capitalism. Schumpeter’s claim is that through the lead of the economic sphere and the importance of rationalisation and efficiency therein the overall spirit, i.e. the social norms, of society will change and alter its beliefs. The socio-cultural sphere

“[...] most directly reproduces and develops the norms and aspirations of the social actors.”

(Andersen 2011, 225)

Those norms and aspirations as well as the political sphere are influenced by the rationality thinking prevalent in the dominant economic sphere. Following the reasoning by Andersen according to Schumpeter capitalism helped to promote the dispersion of “rational thought” and a “rationalistic civilisation” (Andersen 2011, 227). This then leads to an increase in situations of social life that are met with this “rationalistic” manner, as it disconnects emotions and social affairs. For Schumpeter, the “economic pattern is the matrix [womb] of logic” (Schumpeter [1942] 2003, 122). The rationalisation of society essentially led to the rise of logic and to the banishment of “metaphysical belief, mystic and romantic ideas of all kind” (Schumpeter [1942] 2003, 127) from the mind. The sense of duty that is still left has no “traditional basis” anymore and now directs itself towards the “betterment of mankind”. The bourgeois “will” that became aware of the “classwise rights” ameliorates the circumstances of those hit by them, as Andersen (2011, 229) puts it<sup>10</sup>. This makes e.g. feminism an “essentially capitalist phenomenon” (Schumpeter [1942] 2003, 127)<sup>11</sup>; Schumpeter’s optimistic explanation that feminism arises naturally out of capitalism as it is only rational to demand equal rights when deprived of all emotional beliefs can also be applied to other forms of social injustice emerging from the capitalist system<sup>12</sup>. To him, fighting such tendencies seems absurd as it would be equal to fighting evolution<sup>13</sup>. Of course, the bourgeois class plays an important role in the process since it – again – leads the other classes and thus the beliefs of the bourgeois are of greatest importance for the overall outcome (here, Schumpeter’s love for elites becomes evident). It is this mechanism of rationalisation as well as the evolution of

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<sup>10</sup> See Medearis (1997, 820) who in this context speaks of democratic values.

<sup>11</sup> “These tendencies must be understood “objectively”, and [...] therefore no amount of anti-feminist or anti-reformist talk or even of temporary opposition to any particular measure proves anything against this analysis. These things are the very symptoms of the tendencies they pretend to fight.” (Schumpeter [1942] 2003, 127).

<sup>12</sup> Compare Schumpeter ([1942] 2003, 127): “I have pointed out before that social legislation or, more generally, institutional change for the benefit of the masses is not simply something which has been forced upon capitalist society by an ineluctable necessity to alleviate the ever-deepening misery of the poor but that, besides raising the standard of living of the masses by virtue of its automatic effects, the capitalist process also provided for that legislation the means “and the will.” The words in quotes require further explanation that is to be found in the principle of spreading rationality. “

<sup>13</sup> Nevertheless, Medearis (1997) argues and shows that Schumpeter did not actually embrace the democratizing tendencies of his time and worked up his elitist rule concept in light of the necessity to curb those tendencies. Medearis writes: “Given his definitions, “democratic” socialism could only refer to a society that happened to combine a political system of “competitive leadership” with state control of the economy.” (ibid., 829)

the economic system directed towards monopolies (making it more profitable to organise the economy centrally) that lead to socialism. As Robinson put it:

“The real secret is that capitalism destroys itself, not by its vices, but by its virtues.”

(Robinson 1943, 382)

Polanyi of course expresses the same argument in a different manner and has a more clouded view on capitalism but essentially tells the same story. Since “a market economy can function only in a market society” (Polanyi 1944, 60) that system needs to be able to “function according to its own laws”. This also means a separation of the economic and political sphere. In order to function, labour, land and money need to be subjugated to the market and hence commodified. The commodification process bears conspicuous resemblance to the rationalisation process. It transforms societal reality and leaves the subjects in an altered society – they experience a far-reaching change in their socio-cultural surrounding. The village structures are destroyed leaving individuals without social shelter and protection. By comparing it to the experiences of colonisation Polanyi speaks of “cultural degradation”:

“labour and land are made into commodities, which, again, is only a short formula for the liquidation of every and any cultural institution in an organic society. “(ibid., 167)

However, as mentioned above, the invention of the machine necessitates a self-regulating market and hence it was the task of industrialists and factory owners to help bring it into being. The aristocrats and workers combined forces in order to protect society and nature from the degradation resulting from competition and commodification. They do so via counter-movements that mainly consisted of processes in the political sphere, namely legislation (e.g. social legislation) protecting the entities from commodification or at least trying to ease its consequences. At times it seems that the political and economic sphere are at par, but we suggest that there is a clear dominance of the economic sphere in so far as the laws passed for protection can be understood as reactive measures: they try to soften the consequences that are economic in origin. The

economic sphere is thus the proactive element and the political sphere acts as intermediary although there is no change in social norms as grave as in Schumpeter's writings. The unchanged human nature opposes society's separation into spheres that is necessary for the dominance of the economic sphere and just like that capitalism. Nevertheless, he acknowledges that the transformation to a capitalist system brought about important aspects such as civic liberties, private enterprise and the wage-system that according to him "fused into a pattern of life which favoured moral freedom and independence of mind" (Polanyi 1944, 263). Those are also worth preserving in any future society (Schumpeter too values these achievements of early-stage capitalism in setting the pre-conditions for a peaceful development of society).

To summarise, in both theories the socio-cultural sphere is affected and impacted, and, in both theories, this then leads to impacts on the political sphere (and to a lesser extent the economic sphere). In the Schumpeterian case an evolutionary and elitist view prevails: individuals' propensities ergo their social norms are affected via rationalisation and bring about a change in attitudes of all, meaning that they adapt to altered circumstances. In the long run, the adaptation however feeds-back into the political sphere. Capitalism is no longer able to bring forward the altered moral standards; the bourgeois act in the interest of the system but are no longer able to introduce their morals. In the short run, the political system adapts and employs decision-making methods unable to deliver the moral standards attached to it. Polanyi, by contrast, concentrates on transformational aspects: the economic system subjugates the rest of society, thereby destroying institutional arrangements and leaving individuals defenceless. Although the political system helped the economic sphere into dominance (by sabotaging itself) it now becomes the refuge and defender of working-class people.

The feedback to the political sphere brings about important consequences for the stability of the system. Those instabilities arise out of conflicts of interest that in turn stem from the dominance of the economic sector and thus economic principles and have grave consequences for democracy.



### 3.5. The democratic processes in the political sphere

The partition of society into spheres and the strict dominance of the economic sphere impose certain limitations on democracy in both theories. In order to be able to answer the questions on the dynamics and interdependencies of the capitalist system and the political process we have to consider additional aspects: the functioning of the coordination of interest and the role classes play therein. Polanyi and Schumpeter view these aspects as central for the political process.

Regarding the coordination of interest in a Schumpeterian framework, the bourgeois class takes centre stage again. While classes, they are also permeable on meritocratic grounds, i.e. Schumpeter ([1942] 2003) is convinced that the brightest from a working-class background can become bourgeois. This supposedly democratic permeability – acquiring their position by merit – justifies the extensive power the elites have over the working class. Additionally, the bourgeois elites need to exert a certain control over society since the fate of capitalism and therefore of capitalist society lies in their hands in a Schumpeterian framework. The bourgeois do not only represent their own interests but are the only class to maintain capitalist structures. They indirectly defend the system's interests by pursuing their own interest. In Schumpeter's opinion, the working class exclusively focuses on their own short-term interests which – as he also states – is perfectly rational. Although aware of their self-interest, the working class never develop nor express an opinion as such collectively. Of course, such a balance of interests as led by one class is hardly compatible with a democratic system. Nevertheless, Schumpeter ([1942] 2003) criticises the “classic theory of democracy” according to which democracy accomplishes to represent “the will of the people”. He shows impressively how democracy does not deliver the values that are attached to it but rather that it is a mere decision-making tool. He writes:

“Democracy is a political method, that is to say, a certain type of institutional arrangement for arriving at political—legislative and administrative—decisions and hence incapable of

being an end in itself, irrespective of what decisions it will produce under given historical conditions.” (ibid., 242)

Democracy is incapable of delivering and representing the moral standards that are actually attached to it precisely because the economic sphere at this stage of analysis has such a grave and dominating impact on the political sphere. The Utilitarian beliefs prevalent in the economic sphere are eagerly transferred to the political postulating that democracy therefore is synonymous with the “Rule by the People” (ibid., 243). Schumpeter in Chapter 20 shows that the circumstances for the Rule of the People are not given, especially not by a democratic system. In the short-run (the period Schumpeter is experiencing and describing) as the political sphere is more and more subject to economic principles, a “battle for votes” to win the democratic election and therefore the allegiance of the people starts<sup>14</sup>. In this battle, the political parties' only reasoning is to maintain or attain power. The electorate, on the other hand, does not vote according to its moral beliefs but more so as a consequence of mass phenomena and persuasion, similar to purchase based on advertisement. The transmission of the competitive concept to the political sphere brings about a situation in which some people are able to win elections by advertisement and rhetorics, rather than by representing the majority's moral beliefs and values. Hence, the election result of the majority vote does not necessarily reflect the will of the people. Additionally, since in the short run social norms (as described above) are not yet transformed the political realm lacks vision, ideas and moral standards.

“The political party is consequently not a body of like-minded persons seeking to promote social welfare through a policy agenda, but rather is “a group acting in concert in the competitive struggle for political power” [Schumpeter [1942] 2003, 283].” (Ober 2017, 484)

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<sup>14</sup> Compare Ober (2017) here: according to him Schumpeter does not describe the concept of economic competition as transmitted to the political realm. He suggests that the notion of democracy employed by Schumpeter is concerned with militaristic and territorial competition. “[...] the proper analogy for competitive politics was war, not commerce.” (ibid., 488). However, as Medearis (1997) points out and as also shows our own analysis, Schumpeter's argument is not just about the concept of democracy in the political sphere but also democracy as a transitional power. That means it is characterised by overcoming feudal and hierarchical patterns that Ober argues are necessary for Schumpeter's notion of democracy as leadership to work.

„The democratic method is that institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people’s vote.“ (Schumpeter [1942] 2003, 269)

The depiction delivered by him, Schumpeter argues, is more suitable in describing actual circumstances in the political realm. One of the reasons is that it “allows proper recognition of the vital fact of leadership“ (ibid., 270) – collectives do need leadership. He shows that a proper coordination of interests cannot be attained via a democratic system and combines it with an elitist view. It is the bourgeois class that is composed of the most experienced leaders and can best represent the long-term interests of society as a whole. In the long run thus, democracy can be applied, if it is seen as the institutional mechanism, that it is (although it is of course debatable whether such a system can be described as democratic after all, see e.g. Ober [2017] or Mackie [2009]). Since social norms are altered by then, bourgeois morals can be delivered by democracy. He therefore opts for a technocratic government led by the bourgeois in his portrayal of socialism. Also, the Polanyian understanding of the interest of classes is rather distinctive. He argues that – while they are merely based on material criteria i.e. the form of their income – class has more dimensions to it and hence does not always necessarily remain constant. He also, similarly to Schumpeter, negates historical materialism, i.e. the “Marxian truth” that the basic driver of historical development is a conflict of class. Polanyi argues:

“The "challenge" is to society as a whole; the "response" comes through groups, sections, and classes.“ (Polanyi 1944, 160)

He sees the advent of industrial life as such a challenge. The response of the industrialist class quite naturally was to defend the new form of production via demanding progress and a self-regulating market. It was ergo not merely the advocacy of their own interest but that of society as a whole – however, a detrimental one. The remaining parts of society, the workers and nobility, combined forces to meet the situation by protecting the basis of society, labour and land – again

not just their personal interest but of the whole society.<sup>15</sup> It hence resembles a coordination of interests. However, as in the Schumpeterian case, the dominance of the economic sphere results in a grave peril for democracy and eventually the basis of society. Because the economic sphere is threatening the very substance of livelihood of people, they had to organise, form counter-movements and protect themselves. This in exchange clashes with the self-regulating market that provides for exactly that livelihood. The requirements for the self-interest-based market society to work thus make it utterly unstable. Since in capitalism capital is by definition powerful, at least in the economic sphere, the latter becomes the stronghold for industrialists and capitalists who make up a minority in the political sphere. The democratic process, however, ensures that workers, who are typically stronger in numbers, governed politics by building up strong unions and workers' movements. As long as no tensions was present, the conflict of interests stays latent. Once erupts, however, the system collides. Due to the – in Polanyi's view – artificial and institutionalised separation of economic and political sphere the conflicting interests are no longer balanced by a compromise but rather become an intense conflict between the economic and the political sphere; this is problematic because either one needs the other in order to function<sup>16</sup>. The inherent

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<sup>15</sup> “The spread of the market was thus both advanced and obstructed by the action of class forces. Given the need of machine production for the establishment of a market system, the trading classes alone were in the position to take the lead in that early transformation. A new class of entrepreneurs came into being out of the remnants of older classes, in order to take charge of a development which was consonant with the interests of the community as a whole. But if the rise of the industrialists, entrepreneurs, and capitalists was the result of their leading role in the expansionist movement, the defense fell to the traditional landed classes and the nascent working class. And if among the trading community it was the capitalists' lot to stand for the structural principles of the market system, the role of the die-hard defender of the social fabric was the portion of the feudal aristocracy on the one hand, the rising industrial proletariat on the other.” (Polanyi 1944, 162)

<sup>16</sup> „Under conditions such as these the routine conflict of interest between employers and employees took on an ominous character. While a divergence of economic interests would normally end in compromise, the separation of the economic and the political spheres in society tended to invest such clashes with grave consequences to the community. The employers were the owners of the factories and mines and thus directly responsible for carrying on production in society (quite apart from their personal interest in profits). In principle, they would have the backing of all in their endeavor to keep industry going. On the other hand the employees represented a large section of society; their interests also were to an important degree coincident with those of the community as a whole. They were the only available class for the protection of the interests of the consumers, of the citizens, of human beings as such, and, under universal suffrage, their numbers would give them a preponderance in the political sphere. However, the legislature, like industry, had its formal functions to perform in society. Its members were entrusted with the forming of the communal will, the direction of public policy, the enactment of long-term programs at home and abroad. No complex society could do without functioning legislative and executive bodies of a political kind. A clash of group interests that resulted in paralysing the organs of industry or state either of them, or both-formed an immediate peril to society.” (Polanyi 1944, 243f)

instability might cause the market society to fail and consequently result in fascism – as it did at the beginning of the twentieth century throughout Europe. Polanyi does not consider any society as particularly prone to fascism, instead, he considers fascism

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

For fascism to assume power, the popular masses are not essential since Polanyi considers fascism a move rather than a movement, i.e., even small elite groups and tacit collaborators in power can establish fascist regimes. They succeed with their endeavour because the above mentioned conflict is coming to a head and the situation became unbearable, leaving society paralyzed<sup>17</sup>. At the beginning of the 20<sup>th</sup> century workers' parties were well established and wielded their policy sword without mercy for the established structure of industry. Industry itself prepared for the rule over the land “subverting the population from allegiance to their own freely elected rulers” (ibid., 244). Under these circumstances market society cannot function anymore. Whenever such situations arose, where the working of the self-regulating market is threatened, fascism arose in order to subvert democratic methods, paralyzing labour and re-establishing the dominance of the economic sphere.

Accordingly, in both theories not just the (short-term) stability of the capitalist system is important, but the (long-term) stability of society as a whole. Often, however, those concepts of stability are antagonistic, yet need each other. The stability of the capitalist system promises progress and is necessitated by the rise of the machine. But it comes at great cost since it threatens the stability of

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<sup>17</sup> As Medearis (1997) shows, Schumpeter in his writings is also talking about a deadlock situation arising out of the political power labour organisations assumed in the early 20th century. Schumpeter writes: “The admission of labor to responsible office and the reorientation of legislation in the interest of the working class were in a sense an adjustment to a new state of things. But, with the two exceptions mentioned [Russia and Italy], all nations nevertheless attempted to run their economies on capitalist lines, thus continuing to put their trust in an engine, the motive power of which was at the same time drained away by crushing taxation.” ([1941] 1991, 346-347) and further “The business class has lost the power it used to have, but not entirely. organized labor has risen to power, but not completely. Labor and a government allied to the unions can indeed paralyze the business mechanism. But it cannot replace it by another mechanism.... [E]verybody check- mates everyone else ([1948] 1991, 430).“

society as a whole. Out of these the interests that then need to be coordinated arise. The Polanyian case is quite striking in that matter. The sacrifice of democracy is necessary for short-term stability and thus incompatible with capitalism. Anew, Schumpeter's depiction stays evolutionist: the capitalist system abolishes itself via the "supreme" bourgeois class that undergoes a change in their morals and subsequently has short-term as well as long-term stability in mind.<sup>18</sup> Because of the capitalist and utilitarian nature of democracy it was deemed incapable to deliver even the moral standards of the time i.e., the "Rule of the People", and ergo dysfunctional. In Schumpeterian socialism democracy is subsequently sacrificed (though he would not use this word) and no effort exerted to achieve the "Rule by the People" but replaced by an elitist rule.

To summarise, the stability of the capitalist system demands the dominance of the economic sphere and thus is essentially incompatible with democracy as being the rule of the masses. Further, it is incompatible with the stability of society as a whole and hence subverted and overcome (Schumpeter) or constantly contested (Polanyi).

Our findings are summarised in Figure 2 above as well as Table 1 below. As indicated in the structure chosen for the literature review, the two authors start on different ontological grounds that explain their stance taken when discussing markets and competition. However, they are synthesised describing the transitional mechanism present in both theories via an interdependency of societal spheres that culminate in the dominance of the economic sphere for capitalism's stability. This dominance exposes individuals and – in the spirit of their ontological basis – either leaves them altered or the same. When viewing the political process as a coordination of interests, stability considerations come into the picture and prove as essential. This difference then poses diverging implications on the functioning of democracy as the rule of the people as well as on the prospects of both authors.

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<sup>18</sup> Compare Scholz-Wäckerle (2016) and his discussion of Schumpeter's conception of elites and their function in democratic processes, where they "[...] try to reserve democracy for the republican idea through the conceptualization and interpretation of democracy as working under the same mechanics as free markets [...]" (Scholz-Wäckerle 2016, 1005).

Table 1: Results synthesised along different categories

**Comparison and summary of views**

<b>View on matters</b>	<b>Polanyi</b>	<b>Schumpeter</b>
<b>Ontological basis of societal change</b>	Transformational – political	Evolutionary – „natural“
<b>Advent of capitalism</b>	Invention of specific machinery that necessitated self-regulating market; politically enforced process	Culmination of the dissemination of a rationalistic capitalist spirit; ongoing evolutionary process
<b>Competition</b>	Mechanism necessitating commodification of labour, land and money; negative, ideologically connoted design	Mechanism central for creative destruction and thus progress – synonymous with rationalization; positive and desirable
<b>Changing nature of society</b>	Dominance of the economic sphere with grave effects on political and socio-cultural sphere as vital for functioning of capitalism	Dominance of the economic sphere with grave effects on political and socio-cultural sphere as vital for functioning of capitalism
<b>Stability concepts</b>	Stability of capitalism and of society as a whole	Stability of capitalism and of society as a whole
<b>Coordination of interests</b>	Stability of capitalism as interest of economic sphere vs. stability of society as interest of political sphere	Bourgeois: interest in stability of capitalism as well as of society
<b>Democracy in capitalism</b>	Incompatible; has to be subdued by fascism	Dysfunctional; mere “institutional arrangement for arriving at [...] political decisions” (Schumpeter [1942] 2003, 242)

## 4. Discussion

After the preceding analysis we can confidently state that the central mechanism of change and societal transition is the same in both theories. The analytical framework proposed above allowed us to compare Polanyi and Schumpeter although they present extensive argumentative material and often take conflicting positions. As presented in Figure 2 and condensed in Table 1 they start at different premises but describe essentially the same process of transitional power: the dominance of the economic sphere in interdependence with the political and socio-cultural sphere. This central process again leads to diverging outcomes concerning the democratic ability of society. It can be ascertained that competition through the channel of societal change is central for such ability. Competition is a crucial and necessary concept since it sets – either in the sense of rationalization or commodification – in motion the process of a change in the socio-cultural sphere. The concept of stability – capitalist and societal – helps further to improve comparability. Both authors consider not just the history of capitalism but its embeddedness in a broader history of society. This comprehensive view allows for considering democracy as non-absolutist and social constructs, such as classes, variable. It enables a critical discussion of democracy and capitalism. Following from our framework, we can deduct significant consequences for democratic processes. Whether we accept elites as Schumpeterian benevolent considerate rulers, or regard them as Polanyian tacit collaborators, it is them that hold the power in a pseudo democratic system. Such a circumstance might be able to explain certain phenomena related to the failure of democracy present in current times. The conflict of interests between spheres exists not only on the societal level, but also on the individual level. However, individuals may not necessarily be able to identify which are their political interests because they are primarily economic individuals induced by the dominance of the economic sphere and its rationality dictate. And even if those economic individuals were able to produce outcomes that do represent their political interests, they ultimately face deceit: populism. The political advertising machine disguises the true intentions of the



political leaders – the consolidation of capitalism. As fascism has done before, this function is fulfilled by populism through eroding democratic processes. As Kari Polanyi-Levitt put it, the shift of power from the political to the economic sphere “constitutes a progressive erosion of meaningful democracy.” (2012, 8) This insight of if and how democracy is compromised by the interest of capital(ism) in the course of transition is enabled by a complementary analysis of Polanyi and Schumpeter.

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