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System Innovation and a New 'Great Transformation': Re-embedding Economic Life in the Context of 'De-Growth'

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ABSTRACT *The political-economic limits to system innovation are explored through the Polanyian concepts of disembedding and the 'double movement'. The Keynesian Welfare State (KWS) is examined as an aspect of the 'counter movement for societal protection' and the outcome of selection from a much broader array of institutional and cultural responses to crisis. With the KWS, the principles of reciprocity and autarchy (the re-embedding of subsistence and provisioning activity in a modern Gemeinschaft) give way to the establishment of new, top-down circuits of redistribution, designed to facilitate continuing processes of capitalist modernization. Where social innovation is directed at the broad dynamics of marketization and the commodification of goods and services, this growth imperative continues to present an insuperable obstacle to system-level change. But as ecological capital at the level of the biosphere becomes a critical focus for a new protective 'counter-movement' and 'degrowth' becomes the de facto context for social innovation, systemic transformation becomes more thinkable. Hodgson's 'evotopia' is recommended as a heuristic for a provisional, experimental and incremental exploration of the 'adjacent possible'.*

KEY WORDS: Social innovation, embeddedness, social capital, varieties of capitalism, Karl Polanyi, instituted economic process, system innovation, Gemeinschaft, degrowth, 'evotopia'

Introduction

In recent decades there has been a renewed interest in the social underpinning of economic life (Nee and Swedberg 2005) with debates focusing on phenomena such as embeddedness and the role of networks (Granovetter 1985) and the social-institutional dimensions of technical innovation

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(Schumpeter 1939, Nelson and Winter 1982, Lundvall 1992). During the same period, the perceived failure of non-market alternatives to capitalism has seen a burgeoning interest in 'responsible capitalism' and the possibility of socializing market forces for a variety of social and ecological ends. Drawing on institutional-economic studies of *innovation* and sociological analyses of *social capital*, then *social entrepreneurship* and *social enterprise* are seen as increasingly significant vehicles for social change. Innovating new organizational and legal forms, such ventures seek to marry conventional performance measures, based on narrowly conceived economic return, with broader social, cultural and environmental goals.

Such activity has become prominent in public policy and politics, especially among those looking for a 'third way' between neo-liberalism and traditional forms of social democracy (Leadbetter 2007). In academia, the field has coalesced around the broader concept of *social innovation* (Mulgan 2007, Westley 2008, Nicholls and Murdock 2011) with a strong focus on the transmission of ideas and practices and the wider process of system change.

However, whilst the vocabulary is new, the underlying problems and consequent policy dilemmas have been a continual feature of capitalist modernization. In *The great transformation*, Polanyi (2001 [1944]) argued that capitalist modernization, over two centuries, has been shaped by a double movement: on the one hand, the laissez faire movement to expand the scope and influence of self-regulating markets; and on the other, a protective movement involving initiatives by a wide range of social actors, to insulate the fabric of social life from the corrosive encroachment of the market. As Block (2000, 2003) pointed out, what we think of as 'capitalism' is the fluid, hybrid product of both of these movements. From this historical perspective, social innovation refers to a renewed attempt to tame self-regulating markets and build societal protection into the fabric of economic life.

This paper addresses the political economy of such system innovation in relation to 'varieties of capitalism' (Hampden-Turner and Trompenaars 1993, Hall and Soskice 2001) but also the repertoire of political and social innovations available for the re-emergence of a less growth-oriented, more *gemeinschaftlich*, more ecological and more 'embedded' form of economy. Building on the anthropological and substantive economics of Polanyi, the paper presents the phenomena of proliferating interest in social innovation, social entrepreneurship, and social enterprise (Bornstein 2004, Nicholls 2006, Ridley-Duff and Bull 2011), along with long-standing debates in relation to social capital formation and community development (Bourdieu 1977, 1986, Putnam 2000), as manifestations of a new 'counter-movement' for societal protection. But where Polanyi's double movement focused on the social and economic security of, and relationships between, people only (i.e. social capital), the arc of innovation and institutional transformation of the economy is now focused on the twin imperatives of *social* and *ecological* capital. To the historically familiar problems of economic immizeration, social disorder and political instability, is added the likelihood of ecological devastation (Rockström *et al*. 2009).

Nicholls (2010) characterized social entrepreneurship as a pre-paradigmatic field of action lacking an established epistemology – a fluid field in which a variety of 'paradigm-building' actors struggle to shape, exploit and structure in line with diverse discursive frames of reference. Contrary to narrative logics based on the hero entrepreneur or ideal-type organizational models drawn from the world of business, this paper can be seen as a contribution to the discursive framing of social entrepreneurship and social enterprise as vehicles for 'communitarian values and social justice' (Nicholls 2010, p. 612, Mulgan 2007). It has become a commonplace that social enterprise can fill some of the holes left by state failures in relation to welfare provision (Le Grand 2003, Bovaird 2006, Aiken 2006). Osberg and Martin (2007) and Bornstein (2004) go further, arguing that social entrepreneurship should be seen as a systemic response to global crisis. This paper is more ambitious still. It is an attempt to provide a combined epistemological and ontological framework for social innovation that is anchored in Polanyi's account of the 'Great Transformation' and an ecological-economic framework predicated on limits to growth and the imminence of acute resource constraints, particularly in relation to energy.

Polanyi's (2001 [1944]) account focused on developments in Great Britain. This was partly because, as the first country to experience industrial modernization, Britain provided a particularly illuminating (though possibly exceptional) case study. There was also a detailed historiography of the period based on extensive documentary sources. For reasons of space, the analysis presented here develops this parallel, referring largely to developments in the United Kingdom. However, it is a premise of the paper that the Polanyian framework provides a powerful lens through which to explore the limits of Market Society more generally. The central objective is to outline what system-level social innovation might look like in a world of constrained growth.

Varieties of Capitalism, 'Re-embedding' and the Counter Movement for Social Protection

The Great Transformation

> Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; . . . Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganised industrial life, and thus endangered society in yet another way. (Polanyi 2001 [1944], pp. 3–4)

Polanyi (2001 [1944]) described a 'double movement': out of pre-market, pre-modern, traditional society, the emergence of laissez faire, market-dominated industrialism; and the subsequent protectionist reactions that culminated eventually in the emergence of the broadly Keynesian welfare state. In his view, the central dynamic during early-modern capitalism was the disembedding of 'economic' activity as a distinct domain, identifiable and separate from the wider cultural, religious, social and political institutions of society. Whilst forms of market exchange are a feature of all recorded human societies, it is only with the appearance of the self-regulating market economy 'directed by market prices and nothing but market prices' (Polanyi 2001 [1944], p. 45) that the process of provisioning and livelihood comes to be organized almost entirely around individual incentives for economic gain and in which resources are able to flow freely with a view to maximizing such gains. Hitherto invisible and indivisible from other dimensions of culture and politics, the substantive matrices of group activity associated with the provisioning of communities become a separate, visible and self-referential sphere, the domain of formal economics. With the emergence of the self-regulating market 'not blood tie, legal compulsion, religious obligation, fealty or magic compel participation in economic life, but specifically economic institutions such as private enterprise and the wage system' (Polanyi 1968b, p. 81).

Drawing on the economic anthropology of Malinowski (1922), Firth (1951), Thurnwald (1935, 1965 [1932]) and Mead (2002 [1937]), Polanyi showed that in all previous agrarian, horticultural and hunter-gathering societies the economy does not exist as a visible, comprehensible and separate domain 'as such'. Individual activity associated with provisioning and livelihood was motivated primarily by the need to safeguard social standing and status, to fulfil ongoing patterns of (symmetrical) reciprocation or (asymmetrical) redistribution.[1] The individual is a personalized rather than an 'anonymous economic factor' (Firth 1951, p. 137). In his account of the Trobianders of Melanesia, Malinowski (1922, p. 167) argues that 'the whole of tribal life is permeated by constant give and take; that every ceremony, every legal and customary act is done to the accompaniment of material gift and counter-gift; that wealth, given and taken is one of the main instruments of social organization of the power of the chief, of the bonds of kinship and of relationships in law.' In consequence of this, as Polanyi generalized, 'subsistence livelihood in effect was guaranteed as a moral right of membership of a human community' (Dalton, in Polanyi and Dalton 1968, p. xiii).

The integrating principles of house-holding (autarchy), *reciprocity* (symmetrical non-market exchange), *redistribution* (asymmetrical transfers between more and less powerful actors) and *market exchange* were combined and weighted, argued Polanyi (1968b), in different ways in different societies. But in most cases, trade was highly regulated and genuine price-setting markets played a supplementary and marginal role. For a century, sociologists had struggled to identify the distinctive feature of modernity in relation to the diverse, antecedent forms of economy and society, in different parts of the world. Polanyi drew on Tönnies's (1887) characterization of this transition from *Gemeinschaft* to *Gesellschaft*: from strong, ascriptive forms of social integration rooted in ties of kinship and place-bound community, to more impersonal, contextually circumscribed, narrowly functional and instrumental affiliations associated with occupation and market exchanges, in the context of a much more extensive economic division of labour (Polanyi 1968b, pp. 83–84; see Dale 2008, 2011). Following Aristotle, he argued that a natural *gemeinschaftlich* community (*koinonia*), in which social functions are ascriptive and mediated by status rather than contract, coheres as a result of affective bonds between members (*philia*), expressed in turn through reciprocal behaviour (*anti-peponthos*).

The gradual disembedding of economic activity during the early modern period was associated principally with the creation of 'fictitious commodities' in labour and land, fictitious because they were either not produced in the first place (land) or not produced for sale (labour). Even into the early modern period, there were binding customary and legal limitations on market transactions involving land and labour. Echoing Marx, Polanyi argued that, as an economic factor, labour was mediated by complex mutual obligations of master, journeyman and apprentice. Both internal and external trade were strictly controlled, often by guilds with a complex array of tolls and prohibitions limiting trade between towns. From the later Medieval period, mercantile pressures did result in the loosening and abolition of many of these customary, local constraints, but often only to be replaced by more intrusive national state regulation (Stewart 2009, p. 766).

In England, the trauma of the enclosure movement, which gathered pace after the Civil War and peaked toward the turn of the nineteenth century, was a consequence of the wholesale removal of such limitations. With regard to land, this involved the stripping away of cross-cutting interdependencies, rights and obligations of the commons, which ensured that usage did not coincide with legal tenure. Citing Bentham's view that the prosperity of agriculture (read capitalist modernization) was facilitated to the extent that 'there are no entails, no inalienable endowments, no common lands, no rights or redemptions, no tithes', Polanyi (2001 [1944], p. 189) suggested that this process of 'disembedding' was deliberate and strategic in nature. With regard to labour, the combination of enclosure and 'emancipation' removed the substantive moral right to subsistence attached to group membership. Together with the Combination Laws of 1799 and 1800, which banned workers unions, this saw the beginnings of a competitive labour market (Stewart 2009, pp. 766–767). Polanyi (2001 [1944], p. 290) compared the resulting plight of the English working class in the early nineteenth century – 'the detribalised, degraded natives of their time' – to indigenous populations disrupted and exploited under colonialism.

The Counter-Movement for Societal Protection

For Polanyi, the image of the self-regulating market promulgated by the classical liberal economists was mythical for two reasons. First, all economic processes are fundamentally 'instituted' (Polanyi 1968a). Market Society was no exception and depended, Polanyi argued (echoing Weber), on an effective if minimal state with the capacity to collect taxes, enforce a monopoly on violence and regulate a single currency across a designated national economic space.

Secondly, Market Society was not self-sustaining and depended on the external reproduction of fictitious commodities of land and labour, namely the continuing vitality, productivity and ecological integrity of ecological systems (land) and the reproduction of labour power within coherent communities. But self-regulating markets were so destructive of social capital and community that, almost immediately, pressure grew for state interventions engendering an arc of protective counter-movement which started with limited factory legislation and proliferating forms of voluntary association, charity and self-help and ended with a comprehensive system of national insurance, means-tested welfare benefits, education and health provision (Roberts 1960, Gosden 1961, Gilbert 1966, McCord 1976, Boyer 2004, Cordery 2003, Harris 2004).

With its corrosive impact on traditional forms of welfare and mutual aid rooted in place-bound community, the process of industrialization was, from the outset, traumatic and engendered responses at many different levels. As well as unions (the target of the Combination Acts), Friendly Societies and other self-help organizations, ordinary people caught up in the process participated in, or benefited from, mechanics institutes, literary societies, circulating libraries, youth's guardian societies, temperance societies, medical charities, clothing societies, 'benevolent and district visiting societies', gardening clubs, brass bands and radical discussion groups (Morris 1983, p. 95). They also engaged in new forms of collectivism, such as the Chartist movement for political enfranchisement.

Providing patronage, leadership and financial support for many of these voluntary associations, the expanding professional and mercantile classes also became heavily involved in what became an extensive and diverse charitable sector (Shapely 1998), with initiatives ranging from soup kitchens and garden allotment schemes, hospitals and temperance societies to large-scale housing projects. Such patronage combined, often simultaneously, genuinely philanthropic motivations with a less altruistic agenda of social control (as with the many societies for the 'suppression of begging') and a self-seeking desire to acquire cultural and political capital by enhancing public reputation and esteem (Shapely 1998, after Bourdieu 1977). This was, of course, implicit in the distinction between the 'deserving' and 'undeserving' poor.

Alongside this growth in voluntarism, the local and national state struggled to find ways of managing both urban and rural poverty exacerbated by the fluctuations of the business cycle and the Napoleonic wars – notably with the Elizabethan poor laws being replaced temporarily by the Speenhamland system, which required parish landowners to make up wages to a minimum subsistence level, until this was abolished in 1834 leaving only a minimal safety net of the workhouses. It was not until after the 1860s in England, partly in response to state-led innovations such as obligatory social insurance under Bismark in Germany (Hennock 1987), that the British state began slowly to move away from the minimalist commitments of the classic liberal 'nightwatch-man state' (Nozick 2001). Throughout the nineteenth century 'the expenditure and personnel of voluntarism were greater than the central and local state and the local state exceeded the central' (Daunton 1996, p. 171, Morris 1990).

All the while, intellectuals of many stripes were contributing a steady stream of proposals, both practicable and utopian, for securing the welfare and health of ordinary people caught up in the maelstrom of capitalist modernization. In addition to the vigorous critical analysis of capitalism associated with socialists and Marxists, radicals such as Owen and Fourier experimented with radical models for community living, whilst moderate philanthropist industrialists pioneered community level planning with model villages such as Port Sunlight (Lever) and Bournville (Cadbury).

In the late eighteenth century, both Spence (1775) and Paine (1776) had published proposals for a universal minimum income rooted in the radical commitment to common ownership of the land – a proposal repeated variously by Ogilvie (1782) and Dove (1850) and then pretty well every couple of decades right through to the twentieth century. Proponents of a universal social dividend have included Milner (in the 1920s), Cole (1930s), Rhys-Williams (1940s) and several prominent members of the 'Cambridge Circus' of economists including Robinson and Meade (1980s). At the turn of the nineteenth century Howard's Garden Cities (1898/1902) proposal contained an overlooked but radical mechanism for a community-run, bottom-up welfare-state also paid for by land-rents, whilst George's (1879) proposal for a 'single tax' re-asserted the contention of Paine and Spence that land be viewed as a unalienable commonwealth, with usage taxed accordingly and proceeds redistributed as a dividend.[2]

Similarly with regard to the democratic process, criticizing as 'atomistic' Morrison's limited vision of accountability for public services through activist political parties and elected representatives, Cole argued for a more communitarian structure: that '[l]ocal government must rest on small and manageable cells of real neighbourhood organisation . . . with a constant and real contact between members of the neighbourhood group and those who represent it on the larger civil authority' (quoted in Daunton 1996, p. 204).

In short, in the century after Engels (1844) published his sensational account of the plight of the working class in Manchester, Britain positively bubbled with social innovation at the level of self-help, self-organization within working class communities, in the burgeoning voluntary sector, and in the realm of ideas, with radical liberals, non-conformists, Owenite co-operativists and guild socialists generating an enormous variety of visions for the taming of the self-regulating market. Even the innovation of limited liability for joint stock companies, which epitomized the modernizing dynamic of liberal capitalism, was seen by many reformers as a form of democratization, opening the door for ordinary working-class men to become shareholders (Loftus 2002).

Out of this clamour of social experimentation, proposal and counter-proposal, there was very little to suggest that the top-down regulatory model of Beveridge and Keynes would be the inevitable and progressive endpoint of Polanyi's double movement.[3] Quite the opposite was the case. At least until 1926 (the year of the general strike), the 'third way' of Guild Socialism presented a serious 'Associationalist' alternative to the top-down, bureaucratic and centralizing version of social democracy, which eventually came to hold sway in the Labour movement.[4] Certainly it was the case that, as Harris (1992, p. 116) pointed out, a social analyst in late nineteenth century Britain would have expected the continuation of a pattern of social welfare that was 'highly localized, amateur, voluntaristic and intimate in scale, by comparison with the more coercive and *étatist* schemes or her more continental neighbours.' Social welfare in Britain was purveyed, to a greater extent, through face-to-face relationships. Instead, the British system evolved into one of 'the most "rational" and bureaucratic of modern welfare states' (Harris 1992, p. 117). The implications of this in relation to current developments are explored below.

The Double Movement and 'Varieties of Capitalism'

The myth of the self-regulating market insisted and ultimately depended upon the unitary nature of capitalism. As Polanyi (2001 [1944], p. 138) noted 'nothing less than a self-regulating market on a world scale could ensure the functioning of this stupendous mechanism'. But as Dale (2008, p. 499) has argued, in the absence of such an integrated global system, there were from the start deep tensions between the need for a competitive labour market, the gold standard and international free-trade – the three pillars of the Victorian liberal economy. Internationalizing free-trade in the context of the gold standard inevitable necessitated protective measures such as capital controls and import quotas, and the strains of the free market shifted to and fro between the spheres of politics and economics. The very protective measures required to 'save society from the blind action of the market' simultaneously aggravated trade slumps and the catastrophic swings of the business cycle (Dale 2008, pp. 500–501). In the end, these strains led everywhere to the rejection of laissez faire internationalism. Systematic state intervention emerged first of all during the war, as an emergency measure (Berend 2006). From the 1930s, intervention became ideological and programmatic with a state socialist alternative to capitalist modernization in Russia, fascist corporatism in Nazi Germany and Italy and, elsewhere in Europe and the Anglophone democracies, social-democratic and liberal versions of a corporate social compact between capital and labour.

Different countries started at different times and took different routes to democracy, as capitalist modernization took very different forms (Moore 1966). Sequence had a great influence on such path-dependent routes, as successive countries played 'catch up' in response to the imperatives of national pride, economic self-interest and military security. Each case was characterized by a distinctive culture and inherited forms of *gemeinschaftlich* or social cohesion and non-market exchange. Patterns of solidarity within and between social classes and ethnic groups, cohesive we-identities and 'imagined communities' meshed in very different ways with the *gesellschaftlich* or space of national economies.

Together with the emergent patterns of Polanyi's double-movement, these nationally specific deviations from the purity of the self-regulating market engendered, in the twentieth century, distinctive national 'varieties of capitalism' (Albert 1993, Hampden-Turner and Trompenaars 1993, Aoki 2001, Hall and Soskice 2001, Hall 2007, Jackson and Deeg 2008). Institutional economists and economic sociologists have invested much time in the comparative analysis of different national models, and the extent to which they represent institutional arrangements which are, in principle, transferable. Although some have proved more durable and dynamic than others, the real lesson of the post-war period is that all such variety is vulnerable to the inherent restless nature of capitalism, dependent as it is on disruptive innovation and processes of 'creative destruction' (Metcalfe 2010). From a Polanyian perspective, any institutional barrier between politics and economics ends up with forms of protectionism, which undermine, and are undermined by, the intrinsic logic of global integration and expansion. The strains of the free market 'shifting between politics and economics, national and international spheres' (Dale 2008, pp. 500–501) mean that success in terms of societal protection is likely to be temporary and provisional, as is the durability or distinctiveness of any national capitalism.

The Keynesian Welfare State and Embeddedness

As Dale (2010) showed with regard to the potential and significance of the Keynesian and corporatist forms of social democracy that emerged in post-war Europe, there are two rather different interpretations of Polanyi. The 'hard' Polanyi saw Keynesian welfarism as, at best, a stepping-stone to a socialist mixed economy dominated by redistributive mechanisms (Lacher 2007). The 'soft' Polanyi saw the double-movement as a self-correcting mechanism that rectified the excesses of the self-regulating market, engendering a tamed market economy with an effective safety net and forms of governance, or a market economy 'embedded in and sustained by a market society' (Jessop and Sum 2006, p. 261 quoted in Dale 2010). As Dale argued, both interpretations are reasonable and reflect Polanyi's differences in emphasis and mood against seismic shifts in political context during the early to mid twentieth century.[5]

Lacher (2007) argued that the social compact associated with Fordism and Keynesian welfarism cannot be seen as any significant process of disembedding because the latter would surely imply a comprehensive decommodification of land, labour and money. In fact, as intuited by members of the Frankfurt School[6] and demonstrated by Marxian analysts working within the framework of 'regulation theory' (Boyer 2002), Keynesian demand management and welfare systems provided an essential foundation for the emergence of consumer societies in the second half of the twentieth century. Consumerism was predicated very much on the cultural transformations associated with education and youth culture, the construction of nuclear households as units of consumption, the systematic erosion of the extended household as a sphere of production and the entry of women into the labour market. In consequence, the apparent 'decommodification' through the provision of services such as childcare or health care, actually underpinned the *expansion* of the market elsewhere (for instance by allowing mothers to work) and rationalizing services and functions that have often since been the subject of privatization and partially or wholly exposed to the market.

With respect to Polanyi's integrating axes of redistribution, reciprocity, house-holding and exchange, one can envision a spectrum of paths that might be associated with the re-embedding of market activity, from pure top-down state redistribution at one end to familial mutualism and reciprocity at the other. The expansion of the social-democratic state:

- undermined and reduced the sphere of reciprocity in the context of communities, in extended and eventually in nuclear families;
- greatly expanded the circuits of redistribution in areas such as health, education and subsidized public transport; and
- serviced the enormous expansion of the market in adjacent spheres, and the encroachment of market relations and consumerism into previously insulated areas of the life-world such as family relationships, personal identity, security and happiness (the 'widening and deepening of commodity relations which took place under the umbrella of ... embedded liberalism' – Lacher 1999, p. 344).

To the extent that corporatist social democracy stabilized capitalism and laid down the framework for a long boom based on the emerging consumer society, Keynesian forms of redistribution serviced capitalist modernization.[7] The associated forms of rationalization further undermined any residual *gemeinschaftlich* forms of community – communities characterized by strong affective ties between people, reproduced over time (history) and in relation to particular landscapes and ecologies (Aristotle's *koinonia, philia* and *antipeponthos* – Polanyi 1968, Chapter 5).

Different societies have blended the integrating principles of reciprocity, redistribution, householding (autarchy) and exchange in different ways. At least in theoretical terms, the re-embedding of economic life might be achieved in different ways, by combining reciprocity and redistribution in different degrees. Not just Keynesian social democracy, but any socialist society oriented to continuous growth must, by definition, be weighted heavily in favour of redistribution. This is because growth implies the systematic accumulation that, in the absence of redistribution by a central authority, would quickly engender differentials in wealth and power incompatible with socialist egalitarianism. With regard to those welfare paths not taken, guild socialism, associationalism, distributivism and most varieties of anarchism imply movement further in the direction of *reciprocity* (e.g. Kropotkin 2009 [1902]) with more localized, face-to-face, *gemeinschaftlich* societal forms. From this perspective, English socialists in the tradition of Cole and Morris did not sufficiently reflect on the relationship between growth, modernization (progress) and *gesellschaftlich* social relations.

Finally, more reciprocal forms of re-embedding are probably only conceivable (though not necessarily desirable) in the context of 'de-growth' and the emergence of a more communitarian form of society on the back of a steady-state economy (Daly and Cobb 1990). Since 2008, perceived failures of mainstream sustainable development (particularly in relation to global climate change governance) combined with the economic crisis, have seen a renewed interest in the idea of limits to growth. Emerging in

France, degrowth ('decroissance') has become an international social movement associated with Transition and Relocalization initiatives (Kallis 2011 – see below). Any such scenario carries with it risks and trade-offs. De-growth is unlikely to be liberal or progressive in any straightforward way and *Gemeinschaft* might not be a place we want to live (Quilley 2011, 2012a).

'Roads not taken' and the Repertoire for Social Innovation and System Transformation

Metcalfe (2010) argued that all self-organizing systems have the capacity to transform themselves. Because post-war economics has privileged order and equilibrium, it has proved constitutionally unable to understand development or change. Drawing on Smith, Marshall, Schumpeter and Hayek, Metcalfe emphasized the key insight that the division of labour always implies divisions of knowledge and of knowing. The more extensive the division of labour, the richer the epistemic landscape (e.g. the available ideas and concepts), the greater are the opportunities for innovation through novel combinations of ideas and knowledge. This is what underlies the role of the entrepreneur in triggering gales of creative destruction – the re-ordering and (often traumatic) transformation of yesterday's equilibrium. Insights from evolutionary theory are relevant to institutional economics because the patterns of entrepreneurial innovation are then subject to the filtering process associated with 'patterns of coordinated activity whether in organizations or markets [which respond to] potential changes latent in any innovation ... [i.e.] a classic variation cum selection process' (Metcalfe 2010, p. 58).

The vigorous process of social innovation and political/policy debate which informed the development of the welfare state can be seen in exactly these terms, as the emergence of variety on the back of increasing social complexity. The political process of institution building and establishing legal and governance frameworks associated with Beveridge, Butler and Keynes, can likewise be seen in terms of a selection and filtering process. However, a key difference between social and biological selection processes is that in the former, selection is (at least in principle) reversible. However fleeting or marginal, social experimentation and the development of new ideas always permanently expand the social stock of knowledge and examples. During the 1930s, the 'selective environment' for welfare innovations ensured that radical approaches to the land question were marginalized. Possibilities for social citizenship dividends linked to associationalist conceptions of democracy and rooted in more *gemeinschaftlich* forms of community, were sidelined, along with the voluntarist, self-help and charitable forms of welfare dominant in the later Victorian period (see Van Trier 2002). But unlike less-favoured combinations of genetic *alleles*, such ideas have not been permanently deleted from the repertoire. Unlike Frost's 'roads not taken', such alternative pathways remain accessible and could be re-joined at a later date; innovations and ideas remain available for re-interpretation and re-use in new contexts.

Degrowth, System Innovation and a New 'Great Transformation'

Market Limits to System Innovation

From a Polanyian perspective, a significant feature of social innovation and social enterprise is the extent to which they seek to re-embed economic activity by making a virtue of social friction and increasing the potential transaction costs of capital mobility. Social enterprise implies a broader accounting framework, introducing non-economic, local factors into decisions about how, where, when and on what to spend money or invest capital. Decision making may increasingly be coloured by ethical, ecological, communitarian concerns, evaluated over longer-time horizons and with the market advantage tempered by pre-modern principles of exchange and distribution. Scaled-up to the economy as a whole, the cumulative impact of such changes suggests a radical transformation at the level of culture and personality, which is to say in the processes of psychological individuation. The Aristotelian vision of the Good Life implies not simply change at the level of ideas, but the whole anthropological pattern of life and childhood socialization. In this sense, it is not surprising that, in speculating about the impact of systemic limits to growth on economy and society, Ophuls (2011) has also sought to combine Aristotelian and Jeffersonian visions of communitarian localism (see Quilley 2012a). But this reassertion of place, family and community over capital mobility in space, also presents a challenge to individual choice and individual mobility. Whether it is experienced as such will depend on the speed of any process of transition.

The disembedding of economic activity involved the systematic loosening of the relationship between processes of production and consumption on the one hand and particular place-bound communities, on the other. Globalization is but the latest phase in the subordination of specific places as generic, interchangeable nodes in an abstract economic space (Lash and Urry 1994). By contrast, in the context of regeneration and community development, social innovation frequently seeks:

- to foster recursive and circular economic flows within communities and places;
- to link economic activity to the enhancement of social and cultural capital of local community members;
- to reduce the vulnerability of place-bound communities to the vagaries of market forces by embedding economic activity in the wider matrix of local social, cultural and political activity.[8]

To the extent that such innovation re-embeds economic activity in this way, it moves in the opposite direction of capitalist modernization. In this sense, even if social entrepreneurs do not see themselves as revolutionaries, the process of social innovation can be seen both to limit, and to enhance the salience of those extra-economic factors, regulating capital flows. Social innovation often exhibits at least a tendency towards the de-commodification of processes of production and consumption. In a general sense, social innovation can be interpreted as one dimension of the counter-movement for social protection. Developments such as micro-finance, not-for-profit business structures and the third sector more generally can be seen to expand the repertoire of social and institutional forms available for both organizing activity outside of the market and increasing the social traction and place-boundness of market activity.

If, from a Polanyian perspective, social innovation often pushes in the opposite direction to the process of marketization (and globalization), then one would expect to encounter particular difficulties in scaling up social innovations and apparently successful forms of social enterprise. Building on the theory of Complex Adaptive Systems, Resilience Theory and the model of the 'adaptive cycle' (Gunderson and Holling 2002), scholars have developed a coherent conceptual vocabulary, an expanding set of case studies and a distinctive methodology for analysing social innovation as a systemic phenomenon (Westley 2008, Westley and Antadze 2009). Although this version of social-ecological systems theory problematizes 'cross-scale linkages' (Resilience Alliance 2007, p. 12), empirical case studies of social ecological systems tend to be limited to bounded ecosystems amenable to discrete management regimes; and of social innovation, refer to examples that do not challenge the autonomous logic of the self-regulating market. With regard to social finance, it is possible to distinguish between:

- *socio-economic and social-ecological subsystems*: scaling up solutions to social problems which, although systemic in character, are discrete and not co-terminous with the economic system as a whole. Forms of social finance may rely on political or private largesse but as a framework for economic activity they are not 'contagious';
- *human ecology/economy as a whole*: scaling up sustainability-related innovations that challenge economic growth per se. Here, adaptive responses (almost by definition) are potentially destabilising. Both the activities themselves and the funding channels that sustain them either compete with and displace, or embed processes of market exchange in places and communities, thus blunting the impact and reach of global markets. In this case, successful social innovation implies a degree of 'contagion'. 'Scaling out' and 'scaling up' would be synonymous with either a new 'variety of capitalism', or an altogether different kind of productive economy. Systemic change of this kind suggests a paradigmatic shift away from economic growth and capital accumulation as drivers of social and economic change, a radical expansion of non-market forms of exchange and the attenuation of consumerism as a vehicle for both political legitimation and individual meaning (see Dickinson 2009, Becker 2011 [1973]). Over time, such radical social innovation would couple new socio-economic forms to a transformation at the level of structure.

An example of the former would be the Canadian 'Registered Disability Savings Plan' (Westley and Antadze 2010). This 'total innovation' triggered a wider debate about the meaning and institutions of citizenship with regard to disability. It began to change the relationship between state welfare and familial care, notably expanding the micro-circuits for redistribution and bypassing the top-down institutions of the state. Nevertheless, the domain of disability is, by definition, discrete, bounded and sub-systemic with regard to the economy as a whole. In the context of 'normal' economic growth, there are hard limits to whole-system innovation since this implies paradigmatic transformation in the balance between price-setting markets on the one hand and the integrating principles of house-holding, reciprocity and redistribution on the other. What this underlines is the degree to which systems are nested. Innovation is systemic only with regard to those levels or subsystems it contains.

Since the 1980s, global climate governance combined with attempts at local activism can be interpreted as an attempt to innovate at the level of human ecology as a whole. The abortive nature of this process is a testament to the impediments to system-wide transformation.

Globalization and New Social-ecological Crises

Since the 1970s, the combination of globalization (i.e. the geographical dispersal and functional integration of economic activity) and neo-liberal politics saw the Fordist regimes underpinning the Keynesian welfare states go into crisis (Boyer 2002, Dunford 1990). In developing countries, the IMF and the World Bank enforced what came to be known as the 'Washington Consensus' (Rodrik 2006), a retreat from interventionism and a package of free-trade measures and pro-market reforms. Taken as a whole, developments in the Western democracies, the post-communist economies of East and Central Europe and the global south, paralleled the earlier processes of marketization in nineteenth century Europe (Stewart 2009). In this new context, social entrepreneurs, policy innovators and political activists trying to foster new mechanisms for social protection have been hampered by the disjunction between national political systems and modes of identification and mobile capital flows creating an integrated global market. Re-creating the kind of redistributive circuits and Keynesian macro-management that characterized the post-war regime implied, if not a global state, then a degree of integrated global governance that did match political realities. Even in the European Union, the imperatives of capital and labour mobility easily outpaced the fiscal and democratic integration that would have been a necessary precursor to state-building. If the period between 1989 and 2008 was a rhetorical triumph for the self-regulating market, there were also significant advances for the neo-liberal agenda in so far as welfare interventions were at least contained, markets opened to competition and Keynesian management all but abandoned (Harvey 2007).

However, from a longer term perspective, the context for a new 'Great Transformation' has been changed utterly by a global ecological crisis that came clearly into view during the 1970s, was partially eclipsed during the 1980s and has now come once again to the foreground of political and cultural discourse with climate change, peak oil and evidence of converging ecological and resource limits to growth (Rockström *et al.* 2009).

For the most part the protective counter-movements of the late nineteenth and early twentieth centuries were oriented to ameliorating the conditions of Polanyi's 'detribalizsed and degraded natives'. However, as well as factory legislation regulating working conditions, unions pressing for higher wages, public health and education systems, and local authority interventions in the field of housing, there was also increasing pressure for state interventions to curb the worst excesses of pollution and environmental degradation associated with urban industry. These included creating drainage and waste management systems, legislating against factory pollution and constructing environmental health as a legitimate field of state activity. In Britain, such interventions culminated in the Clean Air Act of 1956. However, it is important to note that such interventions were narrowly anthropocentric, dealing with local environmental impacts associated with human health problems. They did not in any sense represent a wider awareness of the erosion of ecological capital. Polanyi himself was certainly aware of the threat to the ecological systems represented by disembedded markets, commenting: [Whereas traditionally land] 'is tied up with the organizations of kinship, neighbourhood, craft and creed – with tribe and temple, village guild and church . . . [with the establishment of 'One Big Market'] even the climate of a country . . . might suffer from the denudation of forests, from erosions and dust bowls' (Polanyi 2001 [1944], pp. 187, 193).

But by the end of the twentieth century, the existential threat of climate change as the most immediate dimension of a much broader ecological crisis was becoming difficult for even the most zealous market advocates to deny. In this context, any new Great Transformation will be directed not only at securing the social protection of vulnerable individuals and the social cohesion of communities at various scales but also, at the same time, safeguarding the ecological integrity of the biosphere. The latter would involve protecting biodiversity and vulnerable ecosystems and securing the self-organizing adaptive capacities of the biosphere. More specifically, any renewed 'counter movement' would need to address the following.

- Defence of existing circuits of redistribution and welfare provision in the West, whilst making them more responsive to the realities of a post-consumer society in which growth and accumulation cease to be the central organizing and ideological principles.
- The development of new circuits of redistribution and institutions for reciprocity and mutual aid rooted in families, communities and in the third sector.
- Sustainable trajectories of development in the global south, which avoid the metabolic excesses of consumer society and retain, albeit transformed, some of the protective institutions of traditional society, patterns of land tenure and kinship systems.
- Radical reduction in the overall throughput of energy and materials implied by the era of de-growth (Rockström *et al.* 2009, Kallis 2011).

Degrowth and Counter-Movements for the Protection of Both Social and Ecological Capital

System innovation has been constrained by the market logic of growth and modernization and the dependence of liberal states on capital accumulation in the private sector. Compared with the problem-set facing social entrepreneurs in late Victorian Britain, the twin imperatives of protecting both social and ecological capital make the domain of social innovation in the twenty-first century look complex and sometimes hopeless. But, at the same time, ecological crisis at the level of the biosphere may be generating an exogenous shock sufficiently large to trigger a genuinely system-wide transformation.

The degrowth movement, which has emerged in France over the last 15 years (Latouche 2004, Fabrice 2008, Fournier 2008) clearly draws upon well-established green and left critiques of growth (Cato 2006, Douthwaite 1992, Trainer 2002) which are, in turn, rooted in the 'limits to growth' tradition of the 1970s and its codification in ecological economics (Meadows *et al.* 1972, Daly and Cobb 1990, Trainer 2002). Like the original Meadows report, 'decroissance' coincides with a geo-political conjuncture of economic and ecological crisis, which has shaken taken-for-granted assumptions about economic growth and progress. Unlike in the 1970s, degrowth has also coincided with a popular movement for Relocalization/Transition, with which it has a natural affinity (Hopkins 2008, Barry and Quilley 2008, Quilley 2012b). Because the 'solutions' of both the social-democratic left and the neo-liberal right have been found wanting, there seems now to be a real space for thinking the unthinkable (Schneider *et al.* 2010).

In the degrowth literature, there is a presumption that the politics of energy and resource strain will allow the values and agendas of ecological integrity, social inclusion, environmental justice, peace and development in the global south, all to be reconciled (Martinez-Alier *et al.* 2010). Emerging in the aftermath of the economic crisis of 2008, proponents of degrowth argue that recession and economic contraction should be seen as an opportunity for radical transformation. Kallis (2011, p. 873), for instance, argued that sustainable degrowth is not only an 'inevitable hypothesis but also a potent political vision that can be socially transformative'. This may turn out to be optimistic. However, it is at least conceivable that the current stagnation of the world economy represents more than simply a turn of the business cycle. Heinberg (2011) is not alone in suggesting that the wheels are coming off the process of capitalist modernization and that the era of permanent growth is over. Any sustained metabolic stasis or contraction would present enormous political challenges, but also unprecedented opportunities for system innovation, i.e. sustained processes of social innovation rooted in community and the third sector and transforming the goals, institutional framework and scale of social and ecological protections orchestrated by the state. In an era of degrowth, the obstacles to whole-system innovation may begin to recede.

Conclusion

In recent decades, social enterprise, social entrepreneurship and social innovation, along with the wider academic interest in the concept of social capital, have been propelled into the ideological and policy vacuum left by the failure of non-market alternatives to capitalism. But whilst the vocabulary and many of the specific organizational and policy innovations are new, they speak to an old problem and can be seen to be an expression of the see-saw tension between the self-regulating market and diverse imperatives for societal protection, or what Polanyi conceptualized as the 'double movement'.

Social innovation is defined in this Special Issue as a process of introducing new products, processes or programmes that profoundly change the basic routines, resource and authority flows, or beliefs of the social system in which the innovation occurs. Such radical, systemic transformation is consistent with the Polanyian perspective in which social innovation intimates 'varieties' of capitalism (i.e. radical choices), or more paradigmatically, a vision of markets re-embedded (once again) in wider social and cultural patterns of life.

Polanyi drew on anthropology to recover a wider set of human experiences in managing the business of economy and society. Submerged during the course of capitalist modernization, these alternative visions of the 'the good life' involved greater reciprocity and non-market exchange than either the neo-liberal vision of free self-regulating markets or the top-down socialist/social democratic reflex of redistribution. The orchestrating visions of both right and left have been tied closely to growth and accumulation. Socialist, social democratic and liberal responses to crisis in the early twentieth century all sought to ameliorate the tensions produced by markets through state-controlled redistribution. Nowhere did the dominant political discourses question the *gesellschaftlich* vision of modernity based on individuation, muted familial and communal affiliations and the centralizing logic of the nation-state.

However, the 'back loop' phase (Biggs *et al*. 2010) of the Victorian liberal economy did generate all sorts of bottom-up, more communitarian, *gemeinschaftlich* visions of welfare – a repertoire of forgotten, but not lost, organizational, cultural and political possibilities. From the 1870s, against the backdrop of a world depression, socialists, philanthropists, utopians, social innovators and radicals of all persuasions understood clearly that the world was changing and that, left to itself, the self-regulating market was unlikely to engender long-term security. However, nobody could see into the future. They had no way of knowing where the arc of social protection might lead. It was difficult, from within the moment, to be sure that a historic taming of unfettered markets was under-way. Over the next 60 years, the Western world experienced devastating wars, revolution and social unrest on a massive scale; and responses included fascism, communist central planning, corporatist social democracy and varieties of Keynesian liberalism. In all cases the bureaucratic institutions of the nation-state took the lead. Countless innovations, self-help organizations, forms of philanthropy and proposals for bottom-up and participative welfare institutions emerged to see the light of day, only to be left by the wayside.

In short, the crisis generated a great variety of responses at the level of ideas, policy and practice, variety that was then ruthlessly culled in the selection environment of national politics. But, in human affairs, such variety in institutions and ideas does not disappear. The repertoire of possibilities expands continuously. Seeds can lie dormant to flower in different contexts, decades or even centuries later. Social complexity and the extension of the division of labour entail the enormous expansion of opportunities for combination and recombination of ideas, policies, institutions and practices.

From a Polanyian perspective, a key dimension will be the relative weight of top-down forms of redistribution under the aegis of the central state, and more localized, community and regional forms of redistribution and reciprocity. Yet it is impossible to predict the myriad of social and organizational forms that might cohere into a system of social and ecological protection, partially embedding and constraining unfettered markets.

After the excesses of twentieth century politics, it is doubtful if any single, totalizing ideological model would ever provide a convincing framework for institution building. Social innovators, public policy specialists and activists might embrace experimentation and self-consciously to adopt processes and forms of sponsorship and oversight, which open up possibilities for both genuine novelty as well as the re-combination of existing models with older, bypassed, superseded or unrealized innovations. Inspired by Malthus, Darwin and Veblen, Hodgson (1995, 210) refers to such pluralism as 'evotopia' – 'a mixed economy where variety and impurity are essential to test all structures and systems on a pragmatic, experimental and evolutionary basis'.

However, whilst Hodgson cautioned against the extremes of utopian thinking and the polarities of market or state, the reality of limits to growth – the acknowledgement that there is a 'safe operating space' (Rockström *et al.* 2009) for human activities in the biosphere, to step out of which imperils both civilization and global ecology – does at least narrow the options and dictate that some areas of the 'phase space' for ecology, economy and welfare are effectively uninhabitable. In practice this means that the trajectory of growth and modernization that provided the grounding premise for all those involved in welfare policy innovation and debates during the twentieth century must now give way to an assumption of degrowth.

In the early twentieth century, the 'double movement' for societal protection culminated in a social compact for the central redistribution of private wealth. In Polanyi's terms this led to only a very limited and distorted re-embedding of economic life in the cultural-institutional framework of society. Fiscal and welfare transfers remained highly abstract and 'economic' in nature, oriented very much to the narrow cost-benefit calculus and formal rationality of *Homo economicus*. In the context of degrowth any new 'Great Transformation' is likely to be associated with a greater localization of both economic activity and forms of social welfare and mutual support, and the re-emergence of the substantive economic rationality characteristic of more eco-cyclical, less growth-oriented, pre-modern societies. In this light, the parameters of a post-growth welfare regime might be expected to include a new social compact between 'mutualized' capital and partially decommodified labour along with a greater role for bottom-up, communitarian forms of welfare provision. It is more likely than has been the case under conditions of growth, that the selection environment may favour more 'embedded' forms of economic activity insulating both social and ecological capital from the predations of unregulated markets. A great deal will depend on the extent to which, in place of the insatiable appetite of individual consumers for 'things', social innovation engenders forms of life embodying a more Aristotelian conception of the good life oriented towards family and community participation, civic virtue and the fullest expression of human nature through conscious, collaborative, creative activity. Arguably, this could be framed in terms of a shift from a consumer society to a 'maker society' centred on 'prosumption', collaborative consumption, product service systems and collaborative lifestyles – changes that may already be in process (see Botsman and Rogers 2010). Either way, as was the case in *fin de siècle* Victorian Britain, the central and overriding issue will be the relationship between the state, the self-organizing associations of community and the self-regulating market. Social entrepreneurs and strategists of social innovation are likely to be at the very centre of this debate.

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Notes

1. Of course this insight is not unique to Polanyi, an earlier generation of anthropologists (Mauss 1954 [1925]) having developed an idea that had been clearly appreciated by even Adam Smith (1982 [1759]). More recently, Offer (1997, p. 451) has reviewed voluminous evidence that gift giving and non-market exchange have remained a central and essential feature of Western market economies, impeding and even in some cases rolling back '"the great transformation" into market exchange'.
2. See Davidson (1902) and Beer (1920) for early reviews of these eighteenth and nineteenth century precursors of Henry George, Van-Trier (2002) for a detailed account of these twentieth century proposals, and Widerquist *et al.* (2005) for a review of modern basic income proposals. The concept of land as commonwealth was itself the continuation of a tradition of English radicalism going back to the ideas of Gerard Winstanley and the tradition established by the Diggers and Levellers during and after the civil war. See Petergorsky (1995 [1940]) and Hill (1972).
3. The Whiggish view of progressive incrementalism (e.g. Gilbert 1966, Bruce 1966, Roberts 1960, Henriques 1988, Jordan 1959, Owen 1964) is now routinely challenged and rejected by specialists in the field (e.g. Harris 2004, Lees 2007, Maier 1987). For a standard synthesis account see Fraser (2009).
4. Guild socialism drew on the ideas of Russell (1918), Penty (1906), Belloc (1913) and the 'Distributivists', and Cole (1920). See Hirst (1994) for a discussion, as well as Crawford (1985) on the Arts and Crafts Movement and Barker (1978) on the Distributivists. This subaltern tradition of English socialism has found recent expression in the form of Blue Labour. The 'new politics of reciprocity, mutuality and solidarity' articulated by Lord Glasman and others centred on a critique of the top-down, overly bureaucratic welfare state and a new emphasis on local and community self-management. Blue Labour

draws explicitly on the Aristotlean view of the economy articulated by Karl Polanyi (Finlayson 2011). Blue Labour is, to an extent, mirrored in the communitarian vision of Red Toryism (Blond 2012).
5. Although he notes that both Polanyi's wife Ilona Duczynska and daughter Kari Polanyi-Levitt insist that the hard interpretation is closer to Polanyi's intention.
6. Marcuse's *One dimensional man*; Horkheimer and Adorno's *The dialectic of enlightenment*; Erich Fromm's *To have or to be*. In this respect, Habermas's more positive *Theory of communicative action* represents a departure from the tradition of the Frankfurt School.
7. The regulation tradition of political economy has done the most to establish the relationship between Keynesian welfarism and the post-war consumer society and, following Aglietta's (1979) study of the United States, has established variations on this broad pattern across the range of advanced capitalist economies (see Boyer 2002 for a review, Lipietz 1987). Hilton (2003) provides a superb historical account of this period in the UK.
8. The New Economic Foundation's Local Multiplier 3 (LM3) tool is designed to allow local communities to harness the multiplier effect and embed local money flows in exactly this way (see Sacks 2002).

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