POLITIK EKONOMIK KURAM

Research Article

The Economy Disembedded: Property and Development Today from a Polanyian Perspective

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Abstract: This article analyzes the link between property and economic development through Karl Polanyi's theories. The question is whether his fundamental argument, positing that capitalism is not a natural system but rather a constructed social order that deeply transforms societal structures, has any counterpart or validity in today's economy. Central to this is Polanyi's concept of "disembedding"—the process of separating the economy from its social and political foundations to function by its own self-regulating logic. A key mechanism of disembedding is the treatment of land, labor, and money as "fictitious commodities." Forcing these entities into a market framework creates inherent instability, provoking protective "counter-movements." Thus, state intervention is not a market distortion but an inevitable response to a disembedded economy's destructive effects. The article applies this framework to contemporary globalization, linking increased inequality to neoliberal policies (deregulation, privatization) that accelerated disembedding. In contrast, Polanyi's ideal of an "embedded economy" calls for markets to be reintegrated within social and moral norms. Consequently, modern inequalities are seen not as temporary failures but as structural flaws of capitalism. True development requires understanding the economy as part of social life, not its master.

Keywords: Polanyi, Property, Development
Jel Codes: O15, P16, D63

Toplumdan Koparılan Ekonomi: Polanyi Perspektifinden Günümüzde Mülkiyet ve Kalkınma

Öz: Bu makale, mülkiyet ve ekonomik kalkınma arasındaki ilişkiyi Karl Polanyi'nin teorik lensinden incelemektedir. Onun temel argümanı olan, kapitalizmin doğal bir sistem olmadığı, toplumsal yapıları derinden dönüştüren inşa edilmiş bir sosyal düzen olduğu argümanının günümüzdeki ekonomisindeki karşılığının olup olmadığıdır. Bu analizin merkezinde Polanyi'nin "ayrışma" kavramı yer alır; ekonominin sosyal ve siyasi bağlamından koparılarak kendi kendini düzenleyen bir mantıkla işlemesi sürecini tanımlar. Ayrışmanın temel bir unsuru, toprak, emek ve paranın "kurgusal meta"lar olarak ele alınmasıdır. Piyasa için üretilmemiş bu varlıkların piyasa çerçevesine zorlanması, toplumsal istikrarsızlık yaratır ve sosyal koruma arayışındaki "karşı hareketleri" zorunlu kılar. Dolayısıyla devlet müdahalesi, doğal bir piyasa düzeninin bozulması değil, ayrışmış ekonominin yıkıcı sonuçlarına kaçınılmaz bir toplumsal tepkidir. Makale, bu çerçeveyi günümüz küresel ekonomisine uygulayarak, artan eşitsizlikleri neoliberal politikaların hızlandırdığı ayrışma sürecine bağlar. Buna karşılık Polanyi'nin "gömülü ekonomi" ideali, piyasaların sosyal ve ahlaki normlarla bütünleşmesini savunur. Bu perspektiften, çağdaş eşitsizlikler geçici piyasa aksaklıkları değil, kapitalizmin yapısal kusurlarının doğrudan sonuçlarıdır. Anlamlı bir kalkınma anlayışı, ekonominin toplumsal yaşamın bir parçası olduğunu kabul etmekle başlamalıdır.

Anahtar Kelimeler: Polanyi, Mülkiyet, Kalkınma
Jel Kodları: O15, P16, D63

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1. Introduction

The concept of development, while relatively recent in academic and policy discourse, has been the subject of extensive analysis from a multitude of perspectives. Throughout the twentieth century, scholars and practitioners have attempted to define and understand development by emphasising various core features such as modernity, industrial capacity, and pure economic growth. This considerable diversity in interpretation largely stems from the sudden and profoundly uneven nature of global development processes. The military, economic, scientific, and cultural advancements that originated primarily in Europe led to a new global hierarchy, effectively classifying vast regions of the world as underdeveloped. Researchers from numerous disciplines including history, sociology, and economics have consequently sought to understand the reasons behind this great divergence, proposing a wide array of often conflicting explanations. For instance, Immanuel Wallerstein explained the phenomenon through the structural relationship between core and periphery nations, whereas Daron Acemoglu focused on the critical role of inclusive versus extractive institutional structures. Jared Diamond, conversely, emphasised geographical and historical contingencies as decisive factors.

A particularly poignant dialogue shared by Diamond underscores a crucial element often at the heart of these discussions about property and development. A Papua New Guinean man once asked him, "Why do white men have so much cargo, while we have none?" This simple yet profound question highlights the undeniable importance of ownership and consumption patterns in defining development. Indeed, within developed nations, levels of consumption are significantly higher, reflecting not only greater economic prosperity but also the entrenched characteristics of a consumer society. However, the concept of consumption extends beyond the immediate use of goods and services; it is intrinsically linked to the broader accumulation of total wealth within a society. On the other hand, the related concept of supply holds equivalent importance. According to the dominant liberal narrative, the market functions as a spontaneous and self regulating entity, operating as part of a natural and inevitable order. The influential economist and social theorist Karl Polanyi, however, rigorously challenges this assumption by revealing the deep social implications of this very mechanism. He argues that wealth accumulation is not an autonomous process but is actively shaped and facilitated by the state through its regulation of social relations. Therefore, capital accumulation must be understood as a deeply political, historical, and social process in which the state plays a central and constitutive role. The market mechanism, by obfuscating this fact, generates destructive consequences for social welfare. In response, society often resists through what Polanyi famously termed the double movement, a collective reaction against the dominance of the market in the interest of protecting social needs and communal integrity.

Accordingly, Polanyi approaches the concept of property from a distinctly historical perspective. In his view, property cannot function independently of society; rather, it is a product of evolving sociological and political relationships. Contrary to entrenched liberal assumptions, property rights and capital accumulation are not natural or static institutions but are socially constructed and contested. This study will therefore examine the concept of development primarily from the perspective of social welfare. Enhancing social welfare entails far more than merely increasing the quantity and quality of consumption opportunities; it also illuminates the inner workings of the capitalist system concerning the distribution of income and the accumulation of wealth. From a normative standpoint, as emphasised by Polanyi, property is not a fixed institution. It must be continuously structured and restructured in accordance with broader social objectives and human needs. Moreover, capitalism itself is not a static system; it is dynamic and constantly evolving. These transformations have precipitated significant changes in income distribution, wealth concentration, and property relations even within the most advanced industrialised nations. In the twenty first century, rapidly accelerating technological change is inducing further profound changes within capitalism, a process that can in fact be traced back to the structural transformations that began in the 1970s. It is essential, therefore, to interpret these contemporary shifts through the critical lens of Polanyi's framework to fundamentally rethink the meaning and goals of development in the modern era.

2. Capitalism and Polanyi's Critical Perspective

As is well known, capitalism was first theorized by Adam Smith in 1776. The foundational theory rested upon the functioning of market mechanisms. As is often the case in the social sciences, this was not an invention but rather a discovery; the system already existed, but its theoretical formulation emerged after this date. According to Smith, the economy was fundamentally based on the division of labor and specialization, forming the basis of a market economy. The main actors in this system were producers, merchants, and consumers. In later periods, the financial sector (finance capital) was integrated into the system in alignment with the market logic.

According to the core theory, the state does not take part in this mechanism; in fact, any state intervention is seen as a disruption of the "natural" functioning of the market economy. This is because the state, unlike producers who seek profit and consumers who seek utility, does not act with natural economic motives. It is believed that the state would be inefficient in economic affairs, leading to higher taxes and, consequently, inefficiencies (Smith, 2005, p. 675). This theoretical perspective continued with neoclassical economists and is still defended to varying degrees by liberal, neoliberal, and even libertarian[1] schools of thought. At the heart of this approach lies the principle of freedom of private enterprise and the sanctity of private property. Within capitalist logic, the right to private property is a non-negotiable entitlement. It is assumed that individuals naturally pursue profit and utility, which in turn drives development. State intervention, in this view, disrupts these natural conditions—not only economically but also politically. From the classical (and neoclassical) perspective, planned state intervention is seen as a threat to freedom (Hayek, 2014, p. 32–40).

However, contrary to the claims of classical and neoclassical economists, the discourse of free trade—or more precisely, the free market economy—has remained largely rhetorical. In practice, state intervention has been actively present from the earliest stages of capitalism (Chang & Grabel, 2016, p. 23).

Capitalism has also been subject to serious criticism. The most prominent of these critiques stems from the Marxist tradition. Karl Marx argued that capitalism is insufficient both in theory and in practice, and that it would inevitably collapse over time (Marx, 2003: Vol. I, p. 658). Subsequent critiques emerged from various other economists, giving rise to numerous schools of thought beyond the Classical School. The Marxist School and, later, the Dependency School are among the most well-known of these.

Among the pioneering scholars who analyzed inequality and class distinctions beyond traditional critiques of capitalism, Max Weber stands out. Weber's theory of social stratification offers a distinct framework for examining societal structures. He categorizes social strata and classes differently, emphasizing the separation between class and status.

For Weber, class is rooted in individuals' economic positions, such as the working class and the bourgeoisie, while status reflects social prestige, as seen in aristocratic groups. In modern societies, Weber argues, class dynamics dominate. However, his analysis also introduces the concept of property classes, divided into:

Positively privileged classes (property owners)

Negatively privileged classes (those without property).

[1] Libertarianism is a viewpoint that advocates the market economy more radically than liberalism. It rejects state intervention far more strictly and sharply than liberalism, claiming that social problems can be resolved through private property rights and competition (Vossen, 2017).

Additionally, acquisition classes emerge based on economic roles and productive contributions, exemplified by managers and skilled laborers. Class dependence, therefore, is shaped by the economic standing of one's social group (Barbalet, 1980, p. 404–405).

While these early capitalist-era analyses remain foundational, they require reinterpretation in contemporary contexts. Later in this study, Yanis Varoufakis's theory of techno-feudalism will be examined, revealing how the positively privileged classes accumulate wealth while the negatively privileged face impoverishment. Contrary to Weber's emphasis on the prominence of classes in modern societies, evidence suggests that acquisition classes are increasingly marginalized, both economically and in terms of status.

Most critiques of capitalism approach the issue from an economic standpoint. However, Karl Polanyi's approach extends beyond economics to include historical and sociological dimensions. In The Great Transformation, Polanyi contends that capitalism is not a natural system, as often claimed. According to Polanyi, the capitalist system profoundly altered both historical and social structures. While he does not reject private property per se, he argues that capitalism commodified land, labor, and even money. In his view, economic activity could no longer remain embedded in the social fabric. Capitalism disembedded the economy from society and confined it within an artificial market mechanism (Polanyi, 2010, p. 118). The separation of society and the economy refers to a process that took place during the 19th century. This separation occurs through five differentiations. With functional differentiation, the basic functions in society became separated from each other. Through cultural differentiation, the economy separated from society and established an autonomous domain. Institutional differentiation caused institutions (markets) to separate from personal relationships. The differentiation of social roles is the diversification of individuals' roles and identities; however, these roles are not accessible to everyone. The internal differentiation of the economy refers to the process of internal specialization within the economy.

Differentiation can be interpreted from two perspectives: modernization theory and the critical approach. Modernization theory treats differentiation as an evolutionary advantage, arguing that it leads to increased efficiency. According to the critical approach, it creates a problem of social integration and leads to conflict.

In his work *Economy and Society* (Holton, 1992, p. 43-45), Robert Holton aligns more closely with the critical approach. While he acknowledges that differentiation has positive effects, such as increased efficiency, he argues that it is not an inevitably beneficial and problem-free process. He states that the real advantage is achieved through a *balanced differentiation*. This is because the autonomy granted to markets leads to problems such as inequality. Political and cultural institutions must mitigate these problems.

As a contribution to Polanyi's approach, Guy Standing (Standing, 2021, p. 137–138) advocates for a "citizenship income," that is, a basic income, as a response to the commodification of labor. He argues that people have the right to a better life and that professions should be pursued with higher ideals. On the other hand, he also states that this commodification has led to environmental problems.

From Polanyi's perspective, state intervention is not an unnatural interference; rather, it is a social response to an unnatural market mechanism. This is because the economy is an integral part of society. He conceptualizes this with the term embeddedness, asserting that economic life is enmeshed with moral, cultural, and political norms. Capitalism, however, disrupts and transforms these norms. At this point, Polanyi's critique directly challenges the core assumptions of classical and neoclassical economic thought—most notably, the claim that capitalism is a natural system. Karl Polanyi's analysis has also received various criticisms. Polanyi has been criticized for his critiques remaining on a cultural level, rather than on an economic and exploitative plane. Furthermore, it can be stated that his prediction that 'the market system is unsustainable' was wrong, and that the post-World War II period was again a market-centric, but state-controlled, era (Lacher, 2021, p. 84-88). While Adam Smith's homo economicus is a utilitymaximizing individual driven by self-interest, Polanyi rejects this notion, instead emphasizing an individual embedded in society, shaped by culture, ethics, and collective values beyond profit and utility. Contrary to Adam Smith's approach, the market is not a natural phenomenon but an institutional construct that has come into existence through the involvement of the state. Therefore, the self-interested individual (homo economicus) and competition are merely actors within the market. In fact, the market can never operate as a truly free market on its own and must be regulated by the state (Gökten, 2013, p. 132). On the other hand, some have contributed to Polanyi's work by adding information to his list of fictitious commodities. The addition of knowledge and information to his observation that land, labour, and money are not inherently commodities but have been commodified is a particularly important addition in the context of contemporary capitalism. Personal property rights are considered as intellectual labor, thus making it 'produced knowledge,' which is then appropriated by the patent holder. However, like other fictitious commodities, knowledge is not a commodity. It has been commodified within the market system following the information revolution (Jessop, 2021, p. 166-177). At this point, powerful states, particularly the United States (US), appropriate this knowledge in favor of the capital groups they support, thereby hindering the development of late-capitalizing countries. This, in turn, leads to the perpetuation of global inequality (Irzık, 2021, p. 232-233). In this sense, Polanyi's critiques of the market system are materializing in today's world through the liberal state.

Thus, rational or self-interested behavior, as assumed in classical economics, takes on a different meaning in Polanyi's framework. The role of state intervention is also fundamentally reinterpreted. From the Polanyian perspective, state intervention is a corrective response to the market disruptions imposed by capitalism (Polanyi, 2010, p. 204). This view aligns with the increasing expectations placed on the state throughout the 20th century.

Polanyi's approach is incompatible with the notion (prevalent in capitalist thinking) that private property is the central institution of capitalism, that capital accumulation leads to growth, and that wealth eventually trickles down to benefit all (Piketty, 2020, p. 786). It also stands in contrast to recent critiques emphasizing the inadequacy of this logic (Güder & Atalay, 2022, p. 148). Therefore, Karl Polanyi rejects the fundamental assumption upon which the capitalist approach is based. This theoretical critique is a particularly robust one. Polanyi argues that the capitalist system does not merely generate inequality; it also fundamentally transforms society. In his view, contrary to its claims, the system fails to provide prosperity through a trickle-down process and, instead, by being disembedded from society, becomes a source of social conflict.

3. Development, Growth, and Social Welfare

The concept of economic growth lies at the core of the objectives of the capitalist system. Its initial theoretical foundation is based on increasing the total amount of goods and services through the enhancement of the division of labor and specialization. This path has been developed not only at the national level but also internationally through theories such as absolute advantage and its successors. Naturally, this objective requires capital accumulation. Capital accumulation, in turn, entails a greater share of income from economic activities accruing to the bourgeois class. However, as previously mentioned, according to classical economic theory, growth achieved through this process is expected to increase overall welfare via the "trickle-down effect."[2] Within this framework, it is not incorrect to argue that classical theory and its derivatives lack a genuine developmental

[2] Trickle-Down Effect: Contrary to common belief, the trickle-down effect did not emerge in the 1970s; Indian leader Jawaharlal Nehru used this expression as early as 1933, and he was likely the first to employ it in an economic context. According to Nehru, part of the wealth that Britain accumulated by exploiting colonies such as India had "trickled down" to the British working class, thereby raising their standard of living. Some economists argue that economic development programs are not necessarily required to reduce poverty in their initial phases; instead, the primary objective should be to enhance the overall economic capacity. According to this perspective, poverty may increase in the short term during the development process, but over time, prosperity will "trickle down" to the lower segments of society as well (Basu, 2012, p. 362).

perspective. According to this approach, the market mechanism will naturally lead to an increase in total welfare and generate progress. The market mechanism resolves class-based conflicts of interest by shifting them from the political to the economic sphere (Vahabi, 2009, p. 818). On the other hand, the concept of development emerged outside of the classical school of thought and its derivatives, which form the mainstream of economic theory.

Conceptually, development has been expressed in a variety of ways. While it was initially understood in the early 20th century as modernization or Westernization, it has since been approached through dimensions such as economic growth, industrialization, human development, and sustainable development (Mıhçı, 1996, p. 80–81). Yet development is a concept that cannot be captured by any single one of these dimensions. There are cases such as Hong Kong or New Zealand where industrialization is not the leading sector, as well as examples like Qatar or Saudi Arabia, which possess large economies but are not typically considered developed countries.

In this context, the term "progress," often used interchangeably with "development," gains significance. Progress implies a process of improvement. Such improvement does not solely refer to producing or consuming more; rather, it suggests a broader qualitative transformation. Although development lacks a universally objective measure, many argue that it requires sociological and political explanations in addition to economic ones. In this regard, a variety of parameters and indices are used—such as poverty indices, civil and political liberties, democracy indices, life expectancy, education levels, and income distribution (e.g., the Gini coefficient). Therefore, development, while referring to increased production and material welfare in economic terms, also signifies a better and higher-quality standard of living (Sen, 1988, p. 23).

Furthermore, although the literature frequently discusses development or progress, it rarely addresses the notion of regression. Yet, societies and nations do not always move in a forward direction in all these parameters. In fact, even stagnation—i.e., the absence of progress—may result in falling behind in the dynamic global economy and political order.

A review of the development literature reveals certain core economic indicators such as Gross Domestic Product (GDP) and Gross National Income per capita (GNI), which reflect economic magnitude and average income. Alongside these, distribution-oriented parameters such as the Gini coefficient or poverty levels are also emphasized. However, most of these metrics tend to focus on income. Another crucial factor that influences social welfare is the accumulation and distribution of wealth and consequently, capital accumulation which is directly related to income (Piketty, 2015, p. 178–179). When examining Developed Countries (DCs), it is evident that they possess higher levels of capital accumulation. Therefore, Middle-Developed Countries (MDCs) and Less Developed Countries (LDCs) often rely on foreign borrowing and short-term capital inflows to compensate for their capital deficits. This dependence makes MDCs and LDCs more indebted (Kazgan, 2005, p. 136–137). As a result, DCs enjoy a clear structural advantage: wealth-owning individuals and institutions in these countries benefit from higher-quality financial advisory services, which in turn allows them to further increase their wealth (Piketty, 2015, p. 465–470).

Prior to analyzing capital accumulation, income distribution, and wealth dynamics, a critical engagement with Karl Polanyi’s critique of orthodox economic narratives on growth and welfare is necessary.As previously noted, Polanyi rejects the idea that the market mechanism is a natural component of the capitalist system. Accordingly, he opposes the assumption that economic growth will occur naturally through the market mechanism and that this growth will result in increased development and overall welfare via the trickle-down effect. For this reason, his position aligns more closely with developmentalist perspectives. In Polanyi’s view, economic activities within the market mechanism generate “fictitious commodities” that is, labor, land, and money have become commodified. From this standpoint, capital accumulation is nothing more than the accumulation of these fictitious commodities (Polanyi, 2010, p. 230). Growth, therefore, may be interpreted as the expansion of this process. Consequently, there can be no real development without an increase in social welfare.

According to Polanyi, increases in welfare do not occur naturally through capital accumulation or the trickle-down of income generated by this process because the process itself is not natural. Economic activities have been disembedded from the social sphere and are now governed by artificial rules within an artificial system. Hence, Polanyi advocates for re-embedding these activities within society's cultural, moral, and historical framework. From this perspective, development can only be achieved through mechanisms of collective decision-making, social safety nets, and public regulation. Polanyi maintains that social welfare can only be realized through direct state intervention and the regulation of property relations (Özel, 2018, p. 120).

4. Globalization and the Role of the Public Sector

Different theoretical perspectives on capitalism advocate varying views regarding the role of the state in the economy. Among these perspectives, theories rooted in classical economics became particularly dominant following the OPEC crisis. It would not be incorrect to assume that the rising and persistent inequalities emerged as a consequence of policies shaped by mainstream economic schools.

After the 1970s oil crisis, also known as the OPEC crisis, the global economy rapidly restructured itself within the framework of neoclassical policies. The 1980s witnessed deindustrialization in the UK, while globalization regained momentum, labor rights were suppressed due to rising costs, and free trade—particularly the unrestricted flow of financial capital—was promoted. These became defining characteristics of this period. Following the dissolution of the Union of Soviet Socialist Republics (USSR) in the 1990s, a unipolar world emerged, with liberalism establishing itself as the sole and absolute system. Francis Fukuyama even termed this triumph of liberalism as "the end of history," anticipating its inevitable lead to liberal democracies (Fukuyama, 2012, p. 427). Fukuyama later acknowledged that some of his views in The End of History were mistaken, expressing this indirectly and offering self-criticism in several different sections of Liberalism and Its Discontents (Fukuyama, 2022).

During this process, the state's role in the economy diminished rapidly. State-Owned Enterprises (SOEs) were privatized, regulations were reduced, exchange rate regimes shifted to free-floating systems, trade was liberalized, and customs tariffs were either abolished or significantly lowered through bilateral agreements and unions. The economy, in Polanyi's terms, was "disembedded" from society and reconfigured entirely according to the dynamics of the free market. This era saw accelerated privatizations worldwide, the convertibility of national currencies, the removal of capital controls for financial capital, and the expansion of foreign direct investment.

The Washington Consensus had already charted the course of the global economy. As Krugman notes, the Washington Consensus was an agreement among the International Monetary Fund (IMF), the World Bank (WB), think tanks, thought leaders in Washington, and investment and financial bankers (Marangos, 2009, p. 350). In reality, this was less a "consensus" in the sense of reconciling opposing views and more a manifesto of like-minded actors. Thus, the Washington Consensus was not so much a compromise as it was a declaration outlining a new "development" paradigm. However, this notion of development was not framed according to state planning or societal needs but was instead presented as a universal prescription for the entire world, strictly adhering to free-market principles (Rodrik, 2006, p. 976).

Table 1. Articles of the Washington Consensus

1	Fiscal Discipline	**11**	Governance Reform
2	Reorientation of Public Expenditures	**12**	Anti-Corruption Measures
3	Tax Reform	**13**	Flexible Labor Markets
4	Financial Liberalization	**14**	WTO Agreements
5	Unified & Competitive Exchange Rates	**15**	Financial Regulations & Standards
6	Trade Liberalization	**16**	"Prudent" Capital Account Opening
7	Openness to Foreign Direct Investment	**17**	Non-Intermediate Exchange Rate Regime
8	Privatization	**18**	Independent Central Bank / Inflation Targeting
9	Deregulation	**19**	Social Safety Nets
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8	Privatization	**18**	Independent Central Bank / Inflation Targeting
9	Deregulation	**19**	Social Safety Nets
10	Secure Property Rights	**20**	Poverty Reduction Targets

Williamson, 1993

As expected, the original 1989 'manifesto' drew heavy criticism. Its revised version which was expanded by ten points, became known as the 'Second Washington Consensus.While the initial ten points were met with backlash, the appended measures (particularly points 19 and 20) were insufficiently implemented and, in any case, inconsistent with points 9 and 10. In essence, by the 1990s, the world had decisively entered an era dominated by neoliberal policies. Consequently, the economy was no longer seen as an intrinsic dynamic of society but as a separate entity with its own rules, one to which societies, and even entire populations, had to adapt. In this new world order, the market assumed the decisive role. The resulting inequalities, property relations, and wealth disparities can thus be interpreted or more largely as outcomes of these policies.

5. Income and Property

Polanyi argues that wealth and capital accumulation have been achieved through artificial mechanisms, with historically constructed economic institutions generating inequality as a consequence. Central to this process is the commodification by the market system of inherently non-produced assets such as labor, land, and money. He emphasizes the fictitious commodities created by market mechanisms in relation to property and income, highlighting the prominence of the liberal state concept in this context (Özel, 2018, p. 117).

Countries that underwent early capitalist development naturally began accumulating capital much sooner than others. Due to private property rights—a fundamental feature of capitalism—personal and institutional wealth grew rapidly. In his critique of capitalism, Marx describes it as a system in which a large number of workers, who possess very little, produce commodities for a small number of capitalists who possess a great deal (Ritzer & Stepnisky, 2018, p. 55).

With economic, scientific, and military advancements centered in Europe and America, these regions became hubs of production and innovation. This transformation enabled them to evolve into high-income countries with substantial capital and wealth accumulation. However, capital accumulation and wealth accumulation are not synonymous; therefore, economic growth does not necessarily imply increased wealth.

According to Thomas Piketty, based on 2010 data, wealth can be divided into two categories. While average income per capita in the EU was approximately €30,000, average wealth stood at €180,000, with about €90,000 attributed to property (i.e., housing) and the remainder held as savings (Piketty, 2014, p. 55).

Although the concepts of income, capital, and wealth are distinct, their interrelationship is evident. The suppression of wages for salaried workers is one of the factors contributing to income inequality and imbalances in wealth distribution. This suppression may result from inadequate or restricted union activities as well as tax policies. The marginal tax rates applied to low- and high-income groups play a critical role in this dynamic. In this sense, inequitable tax structures across income groups can create a 'poverty trap,' reinforcing imbalances in wealth distribution (Piketty, 2022, p. 139-147).

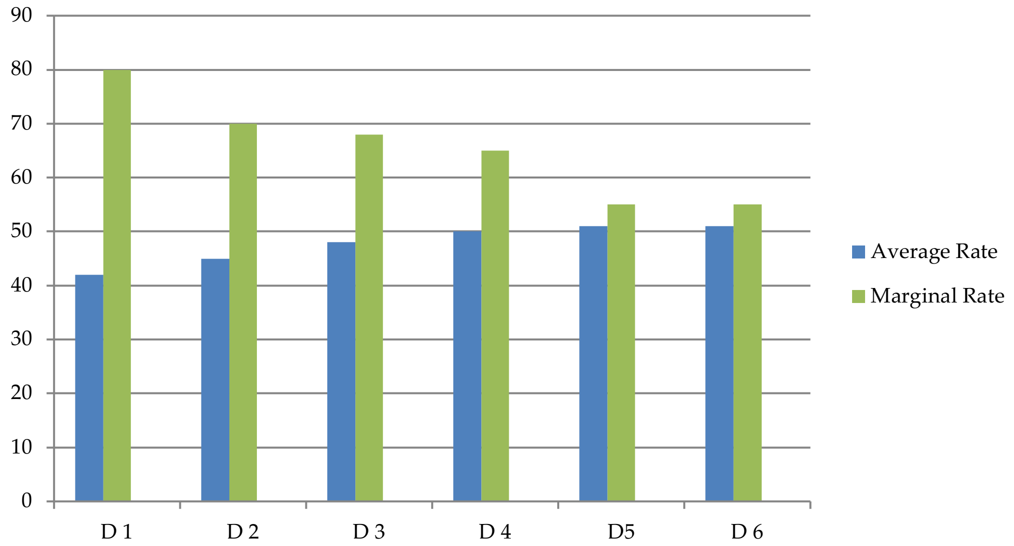

Figure 1. Effective Average and Marginal Rates Observed in France (1996) (Piketty, 2022, p. 139).

6. Income Inequality in the Post-1980 Period

The primary theory regarding inequality between countries is the convergence theory. According to this theory, countries that are further behind will grow at higher rates than developed countries, thus achieving convergence with them. However, this is certainly not valid for all poor countries; it is a general framework. Here, the assessment must be made in terms of per capita income. Even if countries experience high growth rates, in populous countries, the translation of this growth into a tangible increase in prosperity will not be straightforward. Furthermore, the expectation generated by globalization has resulted not in convergence but in divergence for most countries. Two Kuznets Waves are significant. The first refers to the early and late stages of the industrialization process, while the second refers to the early and late stages of the digitalization process. Consequently, inequalities may decrease when a developed country is in the late stage of the first wave, yet they may increase when a developed country is in the early stages of the second wave. However, explaining inequalities solely through economic factors will be insufficient. Non-economic factors, which are unpredictable or very difficult to predict, are also important. At this point, non-economic influences such as political developments and historical events come into play. Political instability and ideological transformations are also critically important for growth and development (Milanovic, 2016, p.161-165). Polanyi attempted to analyze these transformations as well, striving to foresee the political consequences of the disembedding of the economy from society. In the present day, the developments following the globalization process have led to increased inequalities even from the perspective of developed countries.

Even many developed countries (DCs) experienced relatively lower income growth after 1980. With the technological revolution of the 1980s, technology companies gradually became dominant in the global economy. During this period, numerous DCs transitioned to service-oriented economies through deindustrialization policies. Today, technology firms have rapidly risen to rank among the world's largest corporations.

Income inequality is not solely driven by tax policies. Figure 3 presents average wage growth in the United States (U.S.) between 1979 and 2019, revealing a widening gap: while the bottom 10% of earners faced deteriorating conditions, top earners saw significantly higher wage growth. This disparity also manifested along racial lines, with Black and Hispanic workers experiencing markedly slower wage growth compared to their White counterparts (Keightley, 2018).

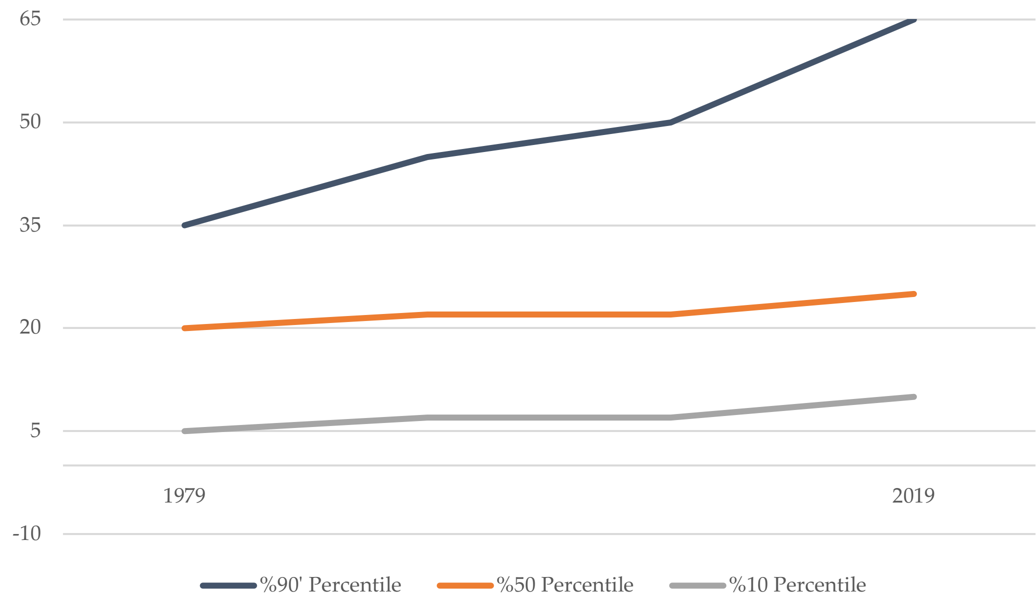

Figure 2. Changes in U.S. Wages (1979-2019) (Keightley, 2018)

As shown in Figure 3, the general trend of weekly real wages in the U.S. between 1980 and 2025, based on Federal Reserve Bank data, reveals that real wages increased by only $58 over this 45-year period. Notably, weekly incomes temporarily surged to $393 in 2020 due to the pandemic, but declined again after the pandemic's effects subsided.

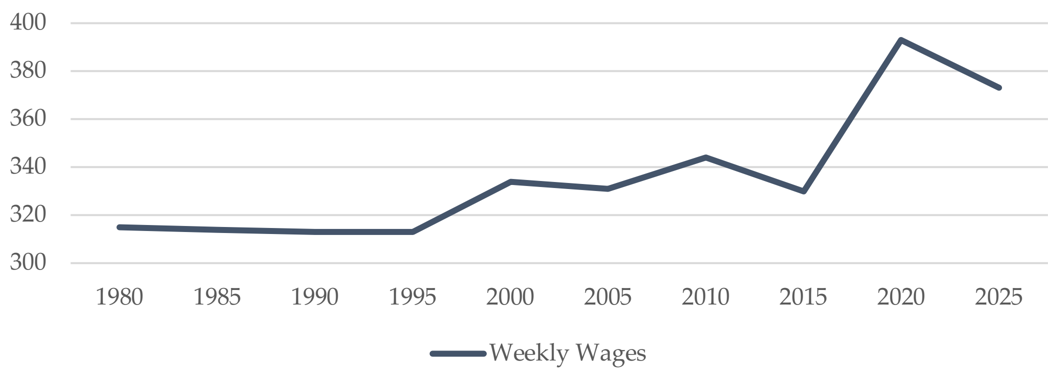

Figure 3. Weekly Wage Changes in the United States (1980-2025) ($) (Federal Reserve Bank of St. Louis, 2024)

The data reveal increasing inequality not only in income distribution but also in property ownership, indicating a rise in rentier capitalism. As evidenced by the National Bureau of Economic Research (NBER) report on U.S. housing market dynamics, while housing production and rental prices have shown significant fluctuations, a distinct divergence has emerged particularly since the 2000s. Despite government-supported growth in real estate values, rental price increases have substantially outpaced overall property appreciation (Harvard Joint Center for Housing Studies, 2023, p. 23).

Figure 4, inspired by the logarithmic calculations presented in this report, demonstrates that although both real rents and homeownership rates declined following the 2008 mortgage crisis, both indicators rebounded post-2010. Crucially, real rent growth has significantly exceeded the rate of property ownership gains. This divergence suggests that while property ownership rates remained stable, the relative burden of rental costs increased markedly for non-owners. The data clearly illustrate how housing affordability pressures have exacerbated wealth inequality, as renters face disproportionately higher housing expenditures compared to property owners.

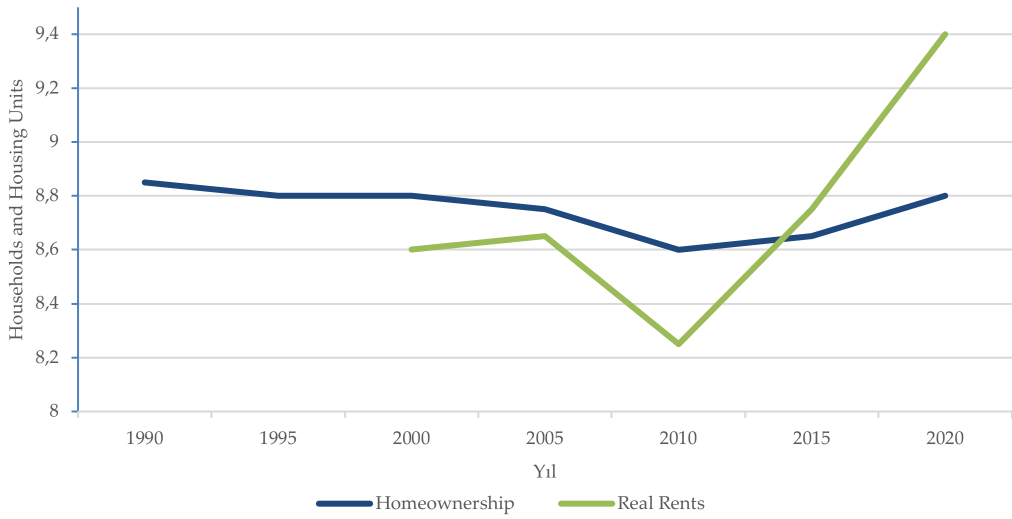

Figure 4. Homeownership Rates and Real Rent Trends in the United States (1990-2020) (Harvard Joint Center for Housing Studies, 2023)

In addition to property ownership yielding significantly lower average returns compared to rental payments by non-owners, a substantial wealth transfer has occurred. Over the past two decades, the number of millionaires has increased dramatically (Oxfam, 2025, p. 27). Figure 5 illustrates the disparity in assets, millionaire concentration, and population distribution between the Western world and the rest of the globe, highlighting this unequal trend.

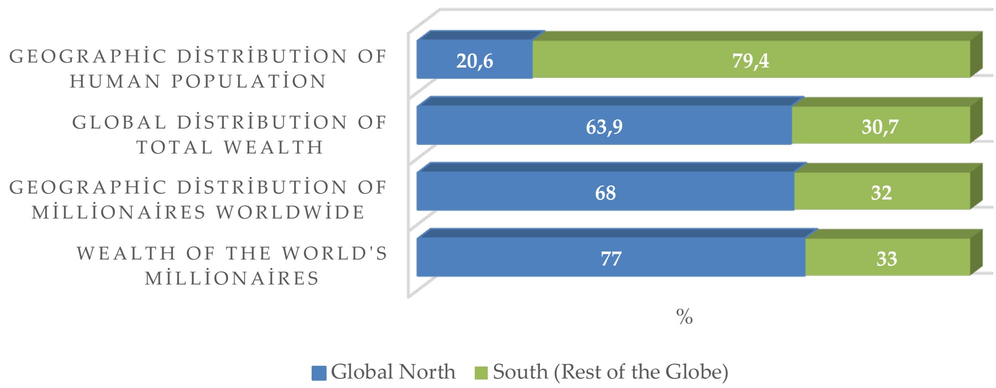

Figure 5. Geographic Distribution of Global Wealth (Oxfam, 2025, p. 27)

Figure 6 demonstrates the stark divergence in wealth accumulation patterns globally between 2000 and 2024, drawing on Oxfam's analysis of Forbes data. The data reveal that billionaire wealth expanded dramatically during this period, while incomes at the lower end of the distribution showed negligible growth. This pattern provides empirical support for Piketty's foundational r > g theorem[3], where capital returns consistently surpass broader economic growth, creating self-perpetuating inequality cycles.

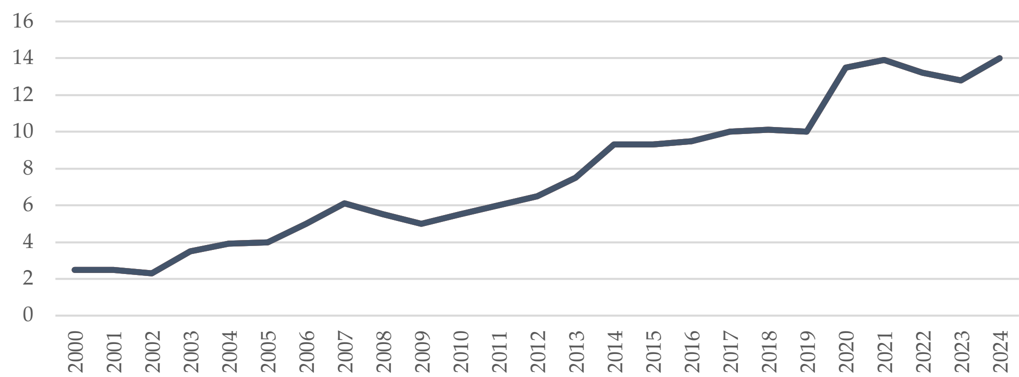

Figure 6. Billionaire Wealth Accumulation: 2000-2024 (Trillions USD) (Oxfam, 2025, p. 27)

7. Piketty’s Laws of Capitalism and Inequality

Thomas Piketty, in his book Capital in the Twenty-First Century, explains the functioning of capitalism through two fundamental laws. These laws aim to clarify why wealth inequality increases and how it will evolve in the future.

Piketty’s first law is expressed as:

$$\alpha = r \times \beta$$

Here, α represents capital’s share of national income, r is the average rate of return on capital, and β is the capital-to-income ratio. This law states that capital’s share of income equals the product of the return on capital and the capital-to-income ratio. According to Piketty, if the return on capital (r) exceeds the economic growth rate (g) over

[3] Piketty's r > g theorem establishes that when capital returns exceed economic growth rates, wealth concentration becomes inevitable (Piketty, 2014, p. 25). The observed trends in billionaire wealth expansion relative to overall economic performance align precisely with this theoretical framework.

the long term (r > g), capital owners accumulate wealth at an accelerating pace, leading to rising inequality (Dubay & Furth, 2014, p. 13).

Piketty's second law is:

$$\beta = s / g$$

Where s is the net savings rate and g is the economic growth rate. This law indicates that the capital-to-income ratio (β) is determined by the savings rate relative to economic growth.

Piketty's framework suggests that wealth concentrates among capital owners while the poor become poorer, resulting in escalating inequality. Contemporary data supports this view, demonstrating a rapid increase in income inequality in the 21st century, consistent with Piketty's predictions (Dubay & Furth, 2014, p. 13).

Some economists, such as Acemoğlu and Krusell, challenge Piketty's conclusions. They argue that r > g does not inevitably lead to wealth concentration, citing factors like taxation, inheritance distribution, and unproductive investments as potential counterbalances. They also contend that high returns on capital (r) could stimulate innovation (Acemoğlu, 2014, p. 4). Nevertheless, recent empirical evidence largely validates Piketty's laws, particularly in countries with weak or regressive tax systems. Moreover, as Piketty highlights, the wealthy benefit from superior investment advisory services, reinforcing their economic advantage.

A key critique, informed by the perspective of free-market institutions, challenges the breadth of Piketty's capital definition. Think tanks like the Heritage Foundation operate on a framework that equates capital primarily with productive assets that drive investment and growth (Heritage Foundation, n.d.). From this viewpoint, classifying non-productive holdings like luxury real estate as "capital" is a categorical error that conflates wealth with productive capacity. This conceptual expansion is seen as a foundational step that can be used to legitimize policies, such as global wealth taxes, which these institutions argue would ultimately discourage the formation of productive capital.

The consequences of rising inequality extend beyond economics, contributing to political instability. Capitalism's purported aversion to government intervention often vanishes during crises, as seen in the 2008 bank bailouts. Similarly, the austerity measures imposed on Greece after its 2015 debt crisis triggered social fragmentation and a crisis of democratic legitimacy. Globalization, with its reliance on cheap migrant labor and the erosion of national identities, has further fueled these tensions, leading to the rise of populism (Varoufakis & Papadimitriou, 2014). These developments align with Polanyi's theories, which warned that disembedding markets from society could provoke authoritarian backlashes.

However, contemporary control mechanisms have evolved. As Varoufakis (2023, p. 134) notes, China has developed a form of "techno-feudalism" through its "Cloud Rent" and "Cloud Finance" systems. Chinese tech conglomerates such as Alibaba and Tencent are tightly integrated with the state. They merge communications, commerce, finance, and surveillance into unified platforms. This ecosystem grants the Chinese state unprecedented oversight, enabling it to regulate urban life, manage healthcare access, conduct biometric surveillance, and even extend its influence through initiatives like the Belt and Road Project. Unlike their Western counterparts, these entities combine cloud capital with financialization, achieving a level of behavioral control that redefines power in the digital age.

Social and political reactions no longer unfold as they once did. The technological revolution has transformed the methods of protest and organization. For instance, in the Occupy Wall Street movement, people organized through social media. This movement differed characteristically from traditional ideological or class-based actions. In this context, three types of identities were represented in these protests: legitimizing identities, oppositional identities, and project identities. Legitimizing identities were those without grievances against dominant political institutions and often carried nationalist traits. Oppositional identities consisted of groups resisting the established order, seeking justice, and operating on solidarity. Project identities represented those aiming for societal transformation, embracing diversity and alternative visions.

All these distinct groups converged in the Occupy Wall Street protests, demonstrating technology's influence. People from different social classes, ideologies, and even apolitical backgrounds were able to unite (Jensen & Bang, 2013, p. 457).

At this point, China's technological consolidation highlights not only its significance but also the political fractures predicted by Polanyi. These protests perfectly reflect Polanyi's concept of the "double movement" a societal reflex against the unchecked expansion of markets. Of course, Polanyi was not a prophet; he theorized this based on earlier observations, such as the 1830s restrictions on child labor in factories or the post-1929 crisis New Deal policies of the 1930s. However, the structure of the Occupy Wall Street protests differed due to technology's impact on organizing.

Polanyi saw state intervention as the second part of the double movement, a societal reaction. Yet, China's state capitalism model, with its control over social media and databases, must be analyzed differently. This reality goes beyond Varoufakis' concept of "techno-feudalism", it represents state capitalism countering unregulated free markets. Today, China not only possesses this capability but is actively expanding it, constituting what is termed a "digital authoritarian" model (Yılmaz, 2025, p. 41-42)."

8. Conclusion: The Liberal Paradigm and Its Discontents

The intellectual tradition of classical economics and its subsequent neoliberal iterations fundamentally conceptualise state intervention in the economy as an external and distorting force. Within this framework, the state is not considered a natural market agent akin to producers or consumers, and its interference is presumed to disrupt the putative natural equilibrium of the market mechanism. This disruption is theorised to lead to a reduction in aggregate economic output and overall societal welfare. Despite being the subject of continuous critique since its inception in the eighteenth century, this paradigm achieved unprecedented global dominance following the economic upheavals of the 1970s and the subsequent formalisation of the Washington Consensus in 1989. The collapse of the Soviet Union further reinforced the perceived hegemony of liberal economics, with prominent proponents such as Francis Fukuyama argued that this model would inevitably spread liberal democracy worldwide and reduce large-scale geopolitical conflict. Thinkers like Friedrich Hayek argued that government intervention intrinsically curtails individual freedom, while contending that unfettered markets would generate widespread economic prosperity that would benefit all social classes through mechanisms such as the trickle down effect.

A powerful counter narrative to this orthodoxy is provided by the work of Karl Polanyi, whose critique reveals the fundamental historical and social construction of the market system. Polanyi argues that the project of liberal economics involved a deliberate and violent process of disembedding the economy from its social foundations. This process required the transformation of essential social elements, specifically land, labour, and money, into fictitious commodities to be subjected to market logic. This artificial separation of the economic sphere from the rest of society was not a natural evolution but a politically engineered endeavour. Consequently, this disembedding has consistently provoked profound social resistance, a phenomenon Polanyi termed the double movement, and has been a significant source of political instability throughout the history of capitalism. The ideal of a minimal state is largely illusory; in reality, liberal states are invariably active in constructing and enforcing market principles, a process that often reconfigures citizens into isolated economic units and weakens the social bonds that constitute community resilience.

The empirical outcomes of the recent era of globalisation present a stark contradiction to the promises of liberal theory. This period has been characterised by a dramatic accumulation of wealth at the very apex of the global income distribution, coinciding with intensifying poverty and insecurity for the most vulnerable segments of society. Income inequality has accelerated at a historically remarkable pace across many advanced economies. Furthermore, soaring housing costs in numerous nations have placed an immense burden on low and middle income populations, exacerbating wealth disparities and severely constraining social mobility. These tangible trends demonstrate a fundamental failure of liberal economic policies to generate the inclusive and widespread prosperity they ostensibly champion.

The systemic pressures generated by a disembedded global economy, combined with the social dislocations associated with large scale international migration, have catalysed the rise of nationalist and populist political movements across Europe and North America. These movements frequently gain traction by criticising the social and expansionary policies of institutions like the European Union, often fuelled by a perception that social benefits are disproportionately allocated to immigrant populations. This sentiment has contributed to a deep seated political crisis of legitimacy for traditional centrist parties and the broader project of European integration.

A growing body of contemporary academic research provides robust empirical support for this Polanyian interpretation of current events. For instance, a multidimensional analysis of welfare state trajectories in Sweden, Germany, and the United Kingdom reveals a concerning trend whereby relatively stable levels of social spending and programme generosity can coexist with, and even mask, sharply increasing levels of inequality and poverty (Sowula et al., 2024, p. 794). This indicates a significant policy drift in which welfare states are failing to adapt their outputs to changing societal needs and economic realities, leading to deteriorating social outcomes. Similarly, studies of political behaviour note a growing divergence in attitudes towards European social policy, further complicating the EU's political landscape (Im, 2024, p. 634).

When synthesised, findings from across diverse fields including political economy, sociology, and social policy converge to support a central contention: the disembedding of markets creates profound systemic vulnerabilities. These vulnerabilities manifest not only as escalating economic disparity but also as a corrosion of social cohesion and a destabilisation of democratic political systems. The contemporary global condition, characterised by extreme inequality, political polarisation, and social fragmentation, offers compelling evidence that validates the critical thesis advanced by Karl Polanyi in the middle of the twentieth century.

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