

Polanyi in Brussels: Supranational Institutions and the Transnational Embedding of Markets

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In 1982, John Ruggie opened a debate on the relationship between international free trade and domestic social compensation, giving rise to the term “embedded liberalism.” Part of the impact of Ruggie’s article was due to the analogy he drew between Karl Polanyi’s *The Great Transformation* and the post-World War Two international trade regime. But perhaps the most important reason for the article’s influence was that it offered an early benchmark for the challenges to embedded liberalism that would later emerge from the transformations in both domestic and international political economies. One of these transformations lies within the political economies of capitalist countries, which succumbed to the lure of neo-liberalism; the other is in the realm of the international economic order. A second lies in the growing intervention of international institutions into areas once considered the province of domestic politics. As is well known, these trends are particularly striking in Europe, where relations among states, international institutions and citizens have become multilevel; where transnational governance networks have been formed; where international legalization is far advanced; and where the European Court of Justice (ECJ) interprets European Union treaties and regulations in ways that profoundly affect domestic economic, social and cultural life.

In this paper we will examine how the ECJ has intervened between the European free market regime and domestic structures to begin to create what we regard as a structure of *supranational embedded liberal compromises*. We argue that while there is no European social policy on the horizon, the Court has been slowly moving into the realm of social regulation, sometimes advancing but sometimes modifying the free market doctrine at the heart of the EU’s mission. As such, the ECJ plays a key role in linking supranational legalization with transnational mobilization. Drawing, as Ruggie did, on the foundational work of Karl Polanyi, we turn to the free movement of labor in the EU and its implications for social regulation. Rather than examine adjustments by *national* authorities to protect their citizens from the vagaries of open international trade, we study how the European Court of Justice has been shaping a *transnational* regime for the protection of rights.

We first turn to the role of states and markets in Europe’s first great transformation, drawing on Polanyi’s concept of “embeddedness,” specifying the term in three complementary ways and showing how Ruggie applied it to the postwar international political economy. We then turn briefly to the interactions between domestic and European social policy. We will argue that, while the relationship between European integration and national social policy regimes is controversial, the ECJ has emerged as *a regulatory arbiter of compromises between international openness and social concerns*. The third part of the paper focuses on the Court’s decisions regarding the free movement of labor. We will present evidence that the Court has both worked to perfect markets and gone beyond market-making to embed the market in what it considers the legitimate social purpose of protecting the rights of workers and their families. We close with a reflection on the future of contention over social rights in the European Union, which we see as analogous and contributory to the enduring struggle over embedded liberalism in the international political economy.