

STUDIES IN HISTORY, ECONOMICS AND
PUBLIC LAW

Edited by the
FACULTY OF POLITICAL SCIENCE
OF COLUMBIA UNIVERSITY

Number 553

HAS MARKET CAPITALISM COLLAPSED?

*A Critique of Karl Polanyi's
New Economics*

BY
ALLEN MORRIS SIEVERS

HAS MARKET CAPITALISM COLLAPSED?

*A Critique of Karl Polanyi's
New Economics*

BY

ALLEN MORRIS SIEVERS

AMS PRESS
NEW YORK

COLUMBIA UNIVERSITY
STUDIES IN THE
SOCIAL SCIENCES

553

The Series was formerly known as *Studies in History,
Economics and Public Law*.

Reprinted with the permission of Columbia University Press
From the edition of 1949, New York
First AMS EDITION published 1968
Manufactured in the United States of America

Library of Congress Catalogue Card Number: 68-58621

AMS PRESS, INC.
New York, N.Y. 10003

For Dad

PREFACE

THIS book is in the form of a critique of the theories of Karl Polanyi, but in actuality it uses this technique for an even more fundamental purpose; viz., to examine the relevance actual and potential of economics, and social thought in general, both to the attainment of a comprehension of the causes and significance of the great climacteric facing modern society, and to the search for guidance in acting so that man may survive the great ordeal. In an unpublished manuscript, *Nomics and Economics* (written in the spring of 1942), I attempted to explore the philosophical roots of Smithian, classical, Marxian, and contemporary economics, and I came to the conclusion that some philosophical misconceptions were at the root of the contemporary economist's comparative neglect of the truly chief problems with which he should have been concerned—the conditions of permanent institutional stability, the forces making for a dynamic of irrevocable change, and the possibilities of social control over the direction and rate of social evolution.

The essence of my strictures was first that traditional value theory was too mechanistic in its conception of an "automaton" economy, a "self-operating" economic system; and, secondly, that the genetic approach as practiced was too organismic and biological. Polanyi points out that the biological bias is responsible for classical mechanism, and that market society tends actually to be automatic and self-regulating—due at least in part to the philosophical errors of the classical agitators for the establishment of the liberal economy. Whereas I had condemned the theory as misrepresenting the nature of man and society, the while pointing out the inherent restrictiveness of capitalism, Polanyi clarifies further by showing the causal relationship between the perverted classical conception of society and the aberrant social system which the classicists helped to create.

One deficiency in Polanyi, however, is the lack of a specifically philosophical indictment of the classicists and of a positive philosophical elaboration. In Chapter IV, accordingly, an effort is made to introduce as much of the philosophical analysis from the earlier manuscript as seems necessary to supplement Polanyi's analysis. The critique of Smith in my earlier manuscript is also drawn upon to some extent, although an originally contemplated appendix on Smith was abandoned as too long and too slightly related to the immediate discussion.

I should like to paraphrase here some other relevant passages from my earlier manuscript to clarify the spirit in which Polanyi is approached, and to show the context for the hope that his work will prove to be indeed a theoretician's contribution to the solution of the world's practical problems:

Rene Etiemble has aptly termed the present military conflict *World Civil War No. 1*. It is the first civil war of mankind's first world-wide culture. Civil War is civil chaos. Yet this war is but symptomatic of deeper disruptive forces which have long been progressively disorganizing human society. In the most fundamental sense, human history has been a continuous struggle to build civilization and fulfill humanity against the vast ordered cosmos in which man is a glob of anarchy. The freedom of the human will to establish order on man's own terms is in constant opposition to the blind cosmic forces whose order would demand extinction of the rational species. The restoration of peace among men will be but one step toward achieving rational social order, that eternal desideratum ever threatened by the heedless irruption of the primordial forces of unreason and disintegration. The prime weapon must be human reason, both specialized in professional thinkers and dispersed throughout society. The social disciplines should mediate between the world of abstract thought and the world of intelligent action. We already know by their help that society has some degree of rigidity and determinateness imposing routines of behavior and certain predetermined sequences of change; but we also know that society can be molded by human reason. Mankind today is at a major juncture where,

on the one hand, informed, moral intelligence can guide the present race of men once more toward the true *Novus Ordo Seclorum* of liberal faith, or else, on the other hand, the anti-liberal impostor "New Order" may win by default—the "order" which means latter-day barbarism and the ultimate defeat of humankind. Mankind has a history, which is the phylogeny of the human species, and the social scientist can provide guidance for the social evolution of the species towards desired goals. The economist has seldom examined capitalism, that stage of human evolution with which he has been chiefly concerned, with a view to controlling its long-run development, and he has rarely plumbed the freedom-unfreedom complex which the democratic-capitalistic era manifests. Yet the great problem which confronts the economist is this: What are the genuine potentialities at the present time for achieving a free, just, and ordered socio-economic system? The economist should examine capitalism as a dynamic entity, a developmental entity, capable of diverse courses among which intelligent and informed collective control can select and pursue the best. The contemporary crisis makes it most urgent for the economist to do this now.

The problem of the present book is to evaluate Polanyi's offer of intellectual succour to the human race at this time of crucial need.

In conclusion, I should like to acknowledge some indebtednesses. I wish first to thank Professor Polanyi himself for being so gracious about encouraging me to undertake this critique. I consulted him before I started, but decided not to avail myself of his generous willingness to be consulted during the course of writing, in order that my evaluations and judgments would be based solely upon what anyone could find in the printed word. In this way I doubtless sacrificed much illumination I could have received from him as to proper interpretation and as to points that baffled me, but it seemed best to approach *The Great Transformation* on the same footing as it is necessary to approach *The Wealth of Nations*.

To Professor J. M. Clark, who played the maieutic role throughout the long parturition of this book, it is as impossible to express my gratitude for his time, effort, care, patience, and helpfulness as it would be to thank a physician who had assisted in the successful birth of an infant.

A. M. S.

MEDFORD, MASSACHUSETTS
FEBRUARY, 1949

TABLE OF CONTENTS

	PAGE
PREFACE	7
CHAPTER I	
Introduction	13
CHAPTER II	
Capitalism the Anomaly	18
CHAPTER III	
The Rise of Market Society	46
CHAPTER IV	
The Classical Economists and the New Society	97
CHAPTER V	
The Dilemma of Market Society	166
CHAPTER VI	
Disruption and Transformation	223
CHAPTER VII	
Polanyi's Positive Program	284
CHAPTER VIII	
General Evaluation and Conclusion	313
BIBLIOGRAPHY	369
INDEX	375

CHAPTER I

INTRODUCTION

"HERE is a book that makes most books in its field seem obsolete or outworn"—so Professor R. M. MacIver, in the Foreword, hails Karl Polanyi's *The Great Transformation*.¹ When a distinguished scholar singles out so emphatically one from the constant flow of new books, it becomes worthy of examination. Examination reveals that in truth a mighty enterprise has been undertaken, for Professor Polanyi has attempted even more than Professor MacIver indicates he has achieved. For the true field of his work is broader than that of economic history which is Professor Polanyi's specialty and presumed focal point in his researches which culminated in the writing of this book and its sequel, "Our Obsolete Market Mentality".² The finished work embraces most of the social sciences—certainly economics, history, sociology, social anthropology, social psychology, and political science. Quite aside from his thesis and his success or lack of success in establishing it, a work of such ambitious magnitude demands at least a preliminary examination by the social scientist.

Professor Polanyi, then, attempts to establish new theses of the most fundamental sort, seeks to integrate the social sciences in his attempt, and formulates by implication and direct statement an analysis of the nature of the social sciences. All of this in some three hundred pages! Obviously we have here an essay, however successful, at writing a masterwork in the social sciences.

1 *The Great Transformation*, p. ix.

2 "Our Obsolete Market Mentality", *Commentary*, vol. III, No. 2, February, 1947. The author wishes to express appreciation to Rinehart & Co. and to the editors of *Commentary*, the copyright owners respectively of *The Great Transformation* and "Our Obsolete Market Mentality", for permission to quote therefrom throughout this book.

Yet this is not all. Polanyi follows the tradition of Adam Smith and Karl Marx in not being satisfied with an effort (1) to be scientific, (2) to found a new science or to reconstitute an old science, (3) to account for the whole of society in the process; but also, and above all, he seeks to do all this for one major purpose—to instigate a change in society based on what the nature of society dictates. Perhaps this critique is not the proper place to elaborate an argument, if indeed it is open to debate, that such was the intention of Smith and Marx, though I should like to state this position briefly. In any case, it certainly is the intention of Polanyi. We shall see that Polanyi's work is thoroughly polemical. He inveighs against the defense of capitalism as a fallacy and against economic liberals as guilty of scientific error. His positive program is not so strongly put, but he is no less to be considered polemical on that account.

Let us examine briefly the view that Polanyi would seem to be following in the tradition of the founders of two of the greatest schools in economics, Smith and Marx. A polemical interest is perhaps more taken for granted in the case of Marx, since today the Marxists are perhaps the more vociferous, and they reiterate the relation between the communist revolution and Marx's analysis of society—"scientific socialism." Marx, of course, sought the elimination of exploitation, of surplus value, of the profit motive, of class oppression in general, and ultimately of political society. He explained his objectives as the necessary end-results of the laws of social dynamics. Smith was concerned with the political mal-administration of the social order, and attempted to show that the true nature of social organization was such that economic life would best prosper if capital were free to be employed wherever most productive, and that the contemporary discouragement of agriculture and encouragement of commerce was not the best way to promote the wealth of nations. Polanyi believes, like Smith, that an error must be rectified, and shares with Marx some of the latter's ideals. But though agreeing with each in

the broad social science methodology and also agreeing in some concrete doctrines, Polanyi takes basically still a third tack. He believes that a new social science would reinterpret the social phenomena of the nineteenth century, "Nineteenth Century Civilization", so that both Smith and Marx would be proved to have misread the facts; that in truth fascism was the result of the vacuum created by the failure of capitalism to function, that capitalism was essentially a non-viable form of social life, that capitalism was a deliberate man-made experiment, and that the social scientists of early industrial times were responsible, in part, for the great blunder. In the case of Polanyi, as in the case of Smith and Marx, the object is to know in order to act.

The scope of Polanyi's undertaking is indeed classic. It is incumbent upon social scientists to investigate whether the execution justifies ranking *The Great Transformation* with *The Wealth of Nations* or *Capital*. More to the point, it is of great interest to social scientists to discover whether Polanyi has redirected the fundamentals of their branch of learning and has made substantial contributions to their understanding of the great social crisis which is now upon us. In the final analysis, it is this last which is of the most importance both from Polanyi's and the reader's point of view: What is the etiology of the climacteric of modern society, and what is the prescription?

The purpose of this critique is to perform this labor of investigation as a preliminary guide for those interested in the significance of Polanyi's work. It is impossible to cover completely all the many aspects of *The Great Transformation* and the companion "Our Obsolete Market Mentality", so our effort at selection will aim at the points which we have already indicated; viz., (1) Polanyi's major theses and auxiliary propositions, (2) his methodology, (3) his analysis of the nature of social science and the specific social sciences, (4) his polemical position, (5) his overall success in elucidating

the current crisis and rectifying erroneous ideas in the social sciences.

The next six chapters will each take up a separate problem posed by Polanyi, but the unified nature of his work will be kept in mind and no strict division of topic adhered to. In other words, six separate problems will be discussed, with the emphasis on each in turn, but with the interrelationship of the six maintained by freely mentioning all six in each chapter when clarity is gained by doing so. The first problem is the nature of capitalism as a type of economy and as a type of society among other economies and societies of which we have knowledge, primitive and civilized, historical and contemporary. Chapter II, "Capitalism the Anomaly", will therefore present and analyze Polanyi's thesis that capitalism, the economy of Nineteenth Century Civilization, is the only exception to a threefold classification of all human societies and economies. The second problem is the origins and causes of the birth of capitalistic society. Hence Chapter III, "The Rise of Market Society", will present Polanyi's account of the history of capitalism and the reasons for its coming into being. The third problem is the historical effect of the ideas of social scientists, and particularly economists, upon the development of capitalistic society. Therefore Chapter IV, "The Classical Economists and the New Society", will discuss Polanyi's view that capitalism and the science of economics arose together, and that failure to understand the economic order led the economists to espouse economic liberalism and to help create the market economy. The fourth problem is the cause of the dynamics of capitalism and the antithetical forces at work in it. So Chapter V, "The Dilemma of Market Society", will discuss Polanyi's position that the inevitability of self-protection necessarily undermined the foundation of capitalism, self-regulation. The fifth problem is the cause of the collapse of capitalism and the origin of fascism; in short, the central problem, the nature of the Great Transformation. Chapter VI, "Disruption and Transformation", accordingly, will discuss

Polanyi's explanation, in terms of the antithesis between self-protection and automaticity, of the failure of capitalism and the rise of fascism. The last of the six problems is the practical problem, the problem of action. Thus Chapter VII, "Polanyi's Positive Program", discusses Polanyi's alternative program, both for what might have been instead of capitalism, and what should now be instead of fascism.

Each of these six chapters—Chapters II through VII—will be divided into two major parts: the first will attempt a restatement of Polanyi's ideas on a subject, and the second will be devoted to criticism. In other words, the early sections of each of these chapters represent mere exposition of Polanyi's position (substantiated by extensive quotation of Polanyi's own formulation), whereas the later sections represent the present writer's critique of the material contained in the exposition of that chapter. The reader is to be cautioned against holding the present author responsible for the ideas in the expository sections;³ however, he must take responsibility for interpreting Polanyi's meaning, for reorganizing Polanyi's material, and occasionally for substituting his own terminology for Polanyi's.

Chapter VIII, the last chapter, will depart from this plan. It is devised according to a somewhat schematic arrangement to give a brief *résumé* of each chapter in turn, sections 2 through 7 being respectively devoted to Chapters II through VII. The final section, section 8, examines Polanyi's work as a complete whole and attempts an overall evaluation.

³ As will be pointed out in each chapter in turn, the exposition in Chapter II consists of sections 1 through 4; in Chapter III, sections 1 through 3; in Chapter IV, sections 1 through 4; in Chapter V, sections 1 through 3; in Chapter VI, sections 1 through 4; and in Chapter VII, sections 1 and 2.

CHAPTER II

CAPITALISM THE ANOMALY¹

I.

AT the very outset we must perhaps misrepresent Polanyi somewhat by using the term "capitalism" which he for the most part eschews. As Maurice Dobb has pointed out,² the variety of meanings attached to this controversial word has resulted in considerable ambiguity about its referent. That economic system which Polanyi is chiefly concerned with is named by him, somewhat awkwardly, *market economy*, for excellent reasons, as we shall see. In concession to popular usage, however, it seemed best arbitrarily to ignore Polanyi's careful avoidance of the term "capitalism", and even more arbitrarily to use it as precisely synonymous with "market economy". Our justification is that in his more popularly written article, "Our Obsolete Market Mentality", Polanyi himself does the same.³ A compromise term, which may be but an unfortunate hybrid, was used in the title of this volume, "market capitalism". The hoped-for virtue of this invention was to make it clear from the first that we are talking about something very familiar, yet viewed under an utterly new light. It may also serve to underscore one of the differences we have with Polanyi—that however unique market economy is as a species of economic organization, it nevertheless belongs to a familiar species in an historical continuum. We shall discuss this point further later on, and for the present let it be taken as a mere matter of arbitrary usage that "mar-

¹ This chapter is based on *The Great Transformation*, Chapters IV, V and VI, and the complete paper "Our Market Mentality". In this chapter, sections 1 through 4 represent a paraphrase of Polanyi's work; sections 5 through 7 present this writer's ideas.

² Maurice Dobb, *Studies in the Development of Capitalism*, Chapter I, "Capitalism".

³ "Our Obsolete Market Mentality", p. 114.

ket capitalism " and " capitalism " shall be identical in meaning with " market economy ".

Polanyi's fundamental thesis is that capitalism is a distinct anomaly in the history of mankind, a monster among human societies, a " stark utopia ".⁴ It is an anomaly because it alone subordinated " the substance of society itself " ⁵ to the laws of the automatic market system which characterizes this type of economy. It is a monster because it degrades man, subverts the basic function of social organization, and is unworkable. It was a stark utopia because it was the result of deliberate human plan and act based upon a chimerical vision of ideal perfection; and yet was foredoomed to a disastrous life and a catastrophic collapse. Fascism was the grim resultant of its failure. The " Great Transformation " is the present-day transition to the new order from the nineteenth century institutional complex based on the market system.

The roots of the transformation, so fateful for the human race, lie in the Industrial Revolution which brought on the fatal dynamic of the self-regulating market system. Inasmuch as the development of this concept of the Industrial Revolution and market dynamics consumes the greater portion of Polanyi's work, we shall not analyze it at this time. Our present concern is with the prior theses that the " internal market " is special to mercantilism, that a market economy is unknown prior to modern times, and that the capitalistic motives of barter, gain, and hunger are not inherently " economic " motives and do not play a significant role in the economic lives of pre-capitalistic peoples. Polanyi believes that these propositions require for their establishment a study of economic history and of comparative cultural anthropology.

2.

Polanyi relies for his data upon scholars (notably Richard Thurnwald and Bronislaw Malinowski) of primitive and an-

⁴ *The Great Transformation*, p. 3.

⁵ *Ibid.*, p. 71.

cient societies, and upon scholars (notably Henri Pirenne) of European history—which data he interprets for himself to prove that, aside from the case of capitalism, markets in no known human society, primitive or civilized, were ever more than external accessories of economic life, and certainly never affected the basic social organization of any society. Further, motivation to carry on economic functions is never specific but is always directed toward the ends of “social good-will, social status, social assets”⁶ which govern man’s behavior in general. He divides markets into three types: (1) long-distance or foreign markets, (2) local or neighborhood markets, and (3) internal markets.

Foreign markets, (1), operate as a carrying trade over relatively long distances to provide goods not available locally, provided that they are light-weight. Such “trade” may even exist without markets—as in the case of war, piracy, blackmail, or mutual exchange of gifts (reciprocity). It need not be competitive even after it is established on a market basis. In late medieval times in Europe, after the growth of towns, it is true that foreign trade was on a proto-capitalistic basis in that there existed competition, wholesaling, production for export, and the wage system. But this trade was excluded by guild regulation from affecting the internal functioning of the town economy. Even this proto-capitalistic type of market has no tendency to expand and to invade the internal economy.

Historically, peaceful foreign trade grows out of warlike plunder; and barter emerges after peace; it is the consequent, not the cause. This proposition refutes the position of Adam Smith and the classicists regarding the primacy of the natural propensity of all men to barter.

Although local markets, (2), are of obscure origin, it is clear that they likewise did not stem from individual acts of barter, which customarily were governed by a strict etiquette designed to discourage voluntaristic bargaining and higgling.

⁶ *Commentary*, p. 112.

Local markets are often complementary to foreign trade, limited to goods peculiar to the region and not suited to long hauling. Local markets are always incidental to the dominant mode of economic organization. Medieval towns grew out of markets, but protected the economic organization from the market at the same time they safeguarded the market. Primitive villages are like medieval towns in this respect. Although the market and village or town were important to the community, they never altered the prevailing economic system.

The third type of market is the internal market (3). Since this is unique to the nation-states of modern Europe, it can be called the national market. The market escaped from the town and became widespread over the countryside as the result of the deliberate mercantilistic policies of the nation-builders. These new markets were to some degree competitive, as the local markets were not. But they were carefully regulated and thus still did not uproot the basic system of economic life. But this internalization was a prerequisite to the market economy inaugurated by the Industrial Revolution which did uproot and supplant the prevailing economy.

3.

Polanyi's arguments concerning motivation are psychological as well as anthropological. Polanyi argues that there is no such thing as specific motives, and it was only the peculiar mechanism of capitalism which linked hunger and gain to production. Moreover, generally society provides for material welfare, and the individual simply behaves as a social being and thereby automatically performs his economic function. As to anthropology, Polanyi attempts to show that known societies behave as he indicates, and not as the classical school maintains. We shall examine this survey of other cultures in the next section.

Polanyi holds that capitalistic psychology is a creation of capitalistic society, and not inherent in the nature of man nor common to all societies. By capitalistic psychology he seems to

mean the desire to sell one's labor for fear of starvation. Under capitalism, a man must earn an income in order to live, an income earned by some sort of sale motivated by either fear of hunger or hope of gain. Also under capitalism, all sales, sought for income, contribute to production. Hence under capitalism production depends upon the incentives of hunger and gain.

According to Polanyi this arrangement is neither natural, necessary, nor known outside capitalism. Polanyi asserts the "changelessness of man as a social being" ⁷ throughout history. This unchanging being in all societies but capitalism "does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only in so far as they serve this end. Neither the process of production nor that of distribution is linked to specific economic interests attached to the possession of goods; but every single step in that process is geared to a number of social interests which eventually insure that the required step be taken." ⁸

Aristotle is taken as the scholar who first understood Polanyi's basic point. "...We must concede that his famous distinction of householding proper and money-making, in the introductory chapters of his *Politics*, was probably the most prophetic pointer ever made in the realm of the social sciences; it is certainly the best analysis of the subject we possess." ⁹ Polanyi believes that, in Polanyi's words, Aristotle realized that "man is not an economic, but a social being." ¹⁰ "...The distinction between the principle of use and that of gain was the key to the utterly different civilization the outlines of which Aristotle accurately forecast two thousand

⁷ *The Great Transformation*, p. 46.

⁸ *Idem*.

⁹ *Ibid.*, pp. 53, 54.

¹⁰ *Commentary*, p. 112.

years before its advent. . .”¹¹ In other words, Aristotle recognized the contrast between traditional society where the economy was based on production for use, and a peculiarly *economic* society where production is for gain. Further, Aristotle condemned the latter, as does Polanyi, as being unnatural: “In denouncing the principle of production for gain ‘as not natural to man’, as boundless and limitless, Aristotle was, in effect, aiming at the crucial point, namely the divorcedness of a separate economic motive from the social relations in which these limitations inhered.”¹²

Polanyi argues, without much elaboration, that there is really no such thing as an economic motive, except when deliberately created. He is not very clear about the nature of the category he is denying, but presumably he means that there is no necessary relationship between any human drive and specific economy activity; that is, the activity of producing and distributing material goods. He further explains by saying that men do have experiences which can be said to be truly religious, aesthetic, or sexual because “these. . .give rise to motives that broadly aim at evoking similar experiences.”¹³ The implicit argument seems to be that specific motives can be said to exist if they bring satisfaction and a desire for repetition of the satisfaction, but no motive is specifically economic because the act of material production does not bring satisfaction nor the desire for a repetition of the act. In other words, a pure economic motive would be an incentive to produce, and there is no such natural incentive. Hunger is perfectly natural, but is not synonymous with an incentive to produce. It becomes such an incentive only if society makes eating explicitly dependent upon producing, which capitalistic society alone does. “Intrinsically, hunger and gain are no more ‘economic’ than love or hate, pride or prejudice. No human

¹¹ *The Great Transformation*, p. 54.

¹² *Idem.*

¹³ *Commentary*, p. 111.

motive is *per se* economic. There is no such thing as a *sui generis* economic experience. . . The economic factor, which underlies all social life, no more gives rise to definite incentives than the equally universal law of gravitation." ¹⁴

Polanyi goes on to stress that hunger and other motives are individual, while economic life is social. "With man, the political animal, everything is given not by natural, but by social circumstance." ¹⁵ Society organizes economic life, and has a number of motives to draw upon to impel its members to perform their economic functions. In capitalistic society, it is true, hunger and gain were the incentives which society employed. However, other societies have employed religious incentives (e.g. medieval monks), aesthetic incentives (Trobriand Islanders), honorific incentives (the Kwakiutl), and political incentives, that is, power and glory (mercantilistic Europe). In general, "...incentives are of that 'mixed' character which we associate with the endeavor to gain social approval. . ." ¹⁶ Even in capitalistic society mixed motives were the fact, and "economic" motives the theory. But it is the theory which caused the trouble.

It is the non-existence of true economic motives, and the proper subordination of economic activity to general social institutions which makes capitalism monstrous, with its fabrication of economic motives (fear of hunger and desire for profit) and subordination of society to the economy. "*Man's economy is, as a rule, submerged in his social relations.* The change from this to a society which was, on the contrary, submerged in the economic system was an entirely novel development." ¹⁷ "...Instead of the economic system being embedded in social relationships, these relationships were now embedded in the

¹⁴ *Idem.*

¹⁵ *Idem.*

¹⁶ *Ibid.*, p. 112.

¹⁷ *Idem.*

economic system.”¹⁸ This change is pernicious and unnatural. “. . . It is pernicious to *institutionalize* the separation of the ‘material’ and ‘ideal’¹⁹ components of man’s being. . . [The field of economy] . . . has been ‘separated out’ of society as the realm of hunger and gain. . . Our humiliating enslavement to the ‘material’, which all human culture is designed to mitigate, was deliberately made more rigorous. This is the root of the ‘sickness of an acquisitive society’ that Tawney warned of. And Robert Owen’s genius was at its best when, a century before, he described the profit motive as ‘a principle entirely unfavorable to individual and public happiness.’ ”²⁰

4.

To establish his view that the role of the market and the existence of economic motives are unique to capitalism, Polanyi introduces a study of comparative economic systems on a much broader basis than the usual study under that name which limits itself to twentieth century economies. His study is intended to be all-inclusive of human societies over time and space. His thesis is that in all societies except our own, the production and distribution of economic goods is provided for as a subordinate and ancillary part of the constitution of society, and no special economic motives needed.

“. . . Man’s economy, as a rule, is submerged in his social relationships.”²¹

The most that can be said in behalf of a specific economic side of society is that there is a certain behavior principle characteristic of each society which serves the economic needs of that society. But correlative with each such behavior principle is a special pattern of sociological institutions which is likewise characteristic of a society. The economic behavior principle is an extension of the societal pattern:

¹⁸ *Ibid.*, p. 114.

¹⁹ Polanyi denies the validity of the dichotomy.

²⁰ *Commentary*, p. 115.

²¹ *The Great Transformation*, p. 46.

"The economic system is, in effect, a mere function of social organization."²²

As has been said, the individual in society is motivated by broad social aims, not specific economic ends. Social ties and social interests are fundamental. Human nature is not different in non-capitalistic and capitalistic societies, but it is directed in non-capitalistic societies toward non-economic goals. All the psychological characteristics of liberal "economic man" are lacking outside nineteenth century society. Goods are customarily wanted merely as a means to social conformity.

To demonstrate his thesis Polanyi asserts that all societies can be accounted for by four behavior principles and four correlative institutional patterns. The barter principle and market pattern constitute a category which contains just one member, nineteenth century capitalism. The four pairs of principles are as follows:

	<i>Economic Behavior Principle</i>	<i>Social Institutional Pattern</i>
(1)	Reciprocity	Symmetry
(2)	Redistribution	Centricity
(3)	Householding	Autarchy
(4)	Barter	Market

Reciprocity (1) is the principle of mutual giving. There is a chain of giving so that in the end each individual has given something and has received something, even though he may have given to somebody other than the one from whom he has received. The principle extends beyond economic exchange to sex and other social needs. The behavior system is governed by such controls as etiquette and magic, not by the profit motive. It can lead to very complex trading relationships, as in the Kula ring of western Melanesia. But Reciprocity would be impossible without the institutional pattern of Symmetry. That is, there must be some sort of partnership system whereby every individual is assured of being a recipient as well as a giver. Not only individuals, but villages may have partners in a system of reciprocal trade. Symmetry really does not create

²² *Ibid.*, p. 49.

separate institutions in the tribe or society. Polanyi cites only the Melanesians as examples, although he quotes Malinowski and Thurnwald to indicate that this type of "economy" is widespread among primitive societies.²³ Polanyi stresses that Reciprocity is not merely a means of distribution but provides a motive for labor and production completely without assistance of the gain motive, although such motives may be involved as joy of work, social approbation, or competition in excellence of skill.

Redistribution (2) is a refinement of Reciprocity, where a specialist at Reciprocity is introduced as a central figure or intermediary whose function it is to receive from all and to give to all (though not necessarily equally or in proportion to amount received). It may be as simple as the case of a tribal chief who collects each hunter's game and later redistributes the whole catch to the entire tribe. Or it may be like the great archaic civilizations which employed an elaborate system of collection, storage, transfer, restorage, and eventual distribution. All the pre-money civilizations were of this type, and the archaic kingdoms even used metal currencies for the special purposes of paying taxes and salaries without upsetting the basic system by this use of money. Feudalism, also, universally implied the Redistribution system.

Along with a Redistribution economy there always existed the social pattern of Centricity. Regardless of whether a class or classless society existed, and regardless of the equality or inequality of distributive shares, an institutional focal point was always requisite for the functioning of the Redistribution system. Thus distinctive social institutions may or may not be present with Redistribution and Centricity. Political power, when it exists, stems from the distribution function of the central agent, but the central agent with that function may exist in an egalitarian hunting society. In all classes Redistribution-Centricity, like Reciprocity-Symmetry, is a type of economic

²³ *Ibid.*, Appendix 6, section (f), p. 272.

organization which is embedded in the general organization of the society:

"...Redistribution also tends to enmesh the economic system proper in social relationships. . . . As a rule, the process of redistribution [forms a] part of the prevailing political regime. . ." ²⁴

Various motives will be involved according to the *political* authority of the central agent, but no specific economic motive is required, no profit motive.

"...Intensely vivid experiences. . . offer superabundant non-economic motivation for every act performed in the frame of the social system as a whole." ²⁵

Like Reciprocity-Symmetry again, the Redistribution system provides for division of labor and guarantees production and distribution of goods. It actually provides in some cases "vast economic achievement . . . [and] an elaborate division of labor." ²⁶ Polanyi cites as examples of this system Hammurabi's Babylonia, the New Kingdom of Egypt, ancient China, the Inca civilization, and the kingdoms of India—as well as all feudal and many primitive societies. He implies that certain city-states also employ this system. ²⁷

Householding (3) appears when a society is sufficiently complex to contain sub-societies which have their own Reciprocity-Centricity systems. ²⁸ The emphasis is upon a society made up of autarchical sub-societies where each produces, stores, and redistributes to its own members. The sub-society may be a family, a settlement, or a manor. The nucleus may be, respectively, sex, locality, or political power. The internal organization may be anywhere from complete despotism to

²⁴ *The Great Transformation*, p. 52.

²⁵ *Ibid.*, p. 48.

²⁶ *Ibid.*, p. 52.

²⁷ *Idem.*

²⁸ This statement of origin is my own interpretation and is only implicit in Polanyi.

full democracy. It may vary in territorial extent from a small strip to a vast domain. Whatever these accidental features, the economic characteristics are the same. And in no case need trade or the market play any greater role than in the Reciprocity-Symmetry or the Redistribution-Centricity systems. Production is for *use*, not for gain. Trade *may* exist also, however, without disrupting the basic pattern. Trade is useful, but just to dispose of surpluses. The Greek city-state, while a Household economy, put great reliance on wholesale trade and loan capital. The Roman empire, for all its highly developed trade, redistributed grain after the manner of the Redistribution-Centricity system, yet was generally a Householding economy.

It is obvious that a combination of systems is possible as in the case of the Roman empire. But aside from modern Europe, nowhere, at no time, is there a barter-market economy, or even an economy where there is a subordinate barter-market *system*, although there are instances of trading and markets ancillary to some other type of system. The meaning of this distinction is explained in the section discussing the Barter-Market Economy.

"...The rule [is] that up to the end of the Middle Ages, markets played no important part in the economic system; other institutional patterns prevailed."²⁹

The Barter-Market economy (4) is the most difficult to explain because of its essential uniqueness. *Barter*, and even isolated Markets, may exist in economies which are dominantly based on one of the other three systems, but the Market *institutional pattern* cannot so coexist as a subordinate pattern with other patterns. The Market institutional pattern is the only one of the four institutional patterns which is essentially economic. It is based on special motives and a specific institution—the motives of truck or Barter, hunger, and desire for gain; and the institution of the Market. No other economic system requires a specifically economic institution, nor a spe-

²⁹ *The Great Transformation*, p. 55.

cifically economic motive. Or, more generally, no other economic system requires any specific social arrangements. No other economic system is a distinct system from the rest of the society. It is this characteristic of the Barter-Market economy which means that the *society* where it exists is a different kind of society from all other societies. Such a society must function as an adjunct to the Market, and all social institutions become subordinate to the Market institution:

"Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society; it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result.³⁰ For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. "This is the meaning of the familiar assertion that a market economy can function only in a market society."³¹

According to Polanyi the establishment of this market society took place in two stages, all within "modern" times. Late medievalism saw the rise of towns and the increase of markets. But markets are not naturally expansive and do not lead of their own accord to a Market economy. It was the nation-building policies of the mercantilist rulers of the late fifteenth and the sixteenth century which encouraged the development of an internal or national market. Yet even so it was a controlled society and the market was regulated and subordinate. The second stage was the deliberate establishment of the self-regulating market in the late eighteenth and the nine-

³⁰ That is, Polanyi recognizes that although a separate economic organization need not exist in every society, nevertheless, every society must produce and distribute economic goods.

³¹ *The Great Transformation*, p. 57.

teenth century. This stage is characterized by the *laissez-faire* principle, unique to human societies, and leading to a unique social system in which all human activity is subordinated to the functionings of the automatic market economy.

"Internal trade in Western Europe was actually created by the intervention of the state. Right up to the time of the Commercial Revolution what may appear to us as national trade was not national but municipal. . . Trade was limited to organized townships which carried it on either locally as neighborhood trade or as long-distance trade—the two were strictly separated, and neither was allowed to infiltrate the countryside indiscriminately." ³²

As production for export grew and wage labor was introduced in the cloth trade, the towns reacted with stricter controls:

"An increasingly strict separation of local trade from export trade was the reaction of urban life to the threat of mobile capital to disintegrate the institutions of the town. The typical medieval town. . . met the peril squarely by enforcing with the utmost rigor that policy of exclusion and protection which was the *rationale* of its existence." ³³

The capitalist wholesaler, not the guild masters, sought the internal, national market. It was the national state which overruled the towns and principalities and forced the introduction of the mercantile system with its national market in place of the protectionistic system of the local governments. The sources of the system were the Commercial Revolution and its evocation of a centralized state, the growth of mobile capital peculiarly suited for the development of trade, and the expansion of the administrative system of the towns to the state. The state now exercised the restriction and protection formerly exercised by the guilds. Unregulated markets presented two dangers—competition and monopoly; the nation-state now

³² *Ibid.*, p. 63.

³³ *Ibid.*, pp. 64, 65.

had to protect the community against these dangers formerly forestalled by the towns. Competition was a danger because it upset continuity and regularity, destroyed the market, and created monopoly. That is, outside incursions into the market were temporary but served to drive off regular sellers, resulting ultimately in monopoly. The state, in destroying particularism, admitted some degree of competition and thereby permitted transient interlopers to scoop the market; but this new competition was subordinated to an overall pattern of regulation. The household system remained dominant:

"The self-sufficing household of the peasant laboring for his subsistence remained the broad basis of the economic system, which was being integrated into large national units through the formation of the internal market."³⁴

"The 'freeing' of trade performed by mercantilism merely liberated trade from particularism, but at the same time extended the scope of regulation. The economic system was submerged in general social relations; markets were merely an accessory feature of an institutional setting controlled and regulated more than ever by social authority."³⁵

"Regulation and markets, in effect, grew up together."³⁶

This far, despite the inauguration of modern times and the rise of the powerful centralized state and the establishment of national markets, social organization is essentially unchanged. The great revolution in society occurred toward the end of the eighteenth century and the early nineteenth century when the self-regulated market was deliberately introduced. A self-regulated market implies that all the elements of the economy are for sale and find their price on the market—goods, factors of production, and money. All are commodities—goods produced for the purpose of sale in the market at prices determined by the supply-and-demand mechanism. The protection over each had to be removed, and each had to be commer-

³⁴ *Ibid.*, p. 66.

³⁵ *Ibid.*, p. 67.

³⁶ *Ibid.*, p. 68.

cialized. The fiction that labor, land, and money are commodities had to be established. In England, laborers were protected by the Speenhamland law (1795) so that land and money were commercialized before labor. Already two conflicting social forces were at work which made the protection of labor infeasible in an increasingly market economy. The two forces were revolutionary expansion of the market organization, and traditional paternalistic protectionism. During this first period, from 1795 to 1834, the working men paid the penalty of near starvation for the government's excessive paternalism (as represented now by Speenhamland) in the face of the laws of the market economy. This conflict between market laws and tendencies to social self-protection continued throughout the nineteenth century, even after the creation of the labor market and eventually led to the collapse of the market system itself. That is, the basic sociological law of protection continued to operate in the market society which postulated no protection, and the antithesis, ultimately, brought disintegration and collapse. The market economy was essentially impossible, a stark utopia.

Three separate problems, at least, are broached in this brief analysis, and further development must wait for a later time. All three hinge upon the problem of governmental control versus *laissez-faire*: the problem of the wisdom and necessity for the policies from Speenhamland to the Poor Law Reform Act of 1834; the problem of the inevitability of the collapse of the market system; and the problem of fascism. These three problems and their central core of the role of control deserve careful treatment later on. Our present concern is with the doctrine that a market economy implies a special indeed a unique, organization of society, and that such a unique society occurred just once in human history. Let us proceed to a criticism of Polanyi's thesis as thus far developed.

5.

The reader must understand at the outset in approaching Polanyi's exposition that he is presupposing an opposition, the

liberal economists and their progenitor, Adam Smith. The argument as developed in this chapter is concerned with Smith's false views of other societies. The question arises, granted that modern social science has contributed to our knowledge of other societies, what real significance does it have to know that Smith erred? Smith postulated economic man, the natural propensity to barter, the dependence of the division of labor upon exchange, and similar doctrines that may be wrong from a historical point of view. What bearing do these doctrines have on Smith's system, and, more meaningful to us, what bearing upon our understanding of the contemporary economic scene? The second major consideration in examining Polanyi's interpretation of the history of economics is, of course, is it itself accurate and significant? Do his theories reasonably account for the anthropological evidence of first-hand investigators? Do they disprove the postulates of Smith's system? Does his substitute analysis lead to a more significant explanation of our present-day economy?

In respect to the first problem, Polanyi is surely not the first to question Smith's economic-man assumption, nor the first to go on to question the doctrine that *laissez-faire* is the only natural order. The dissenters have from the beginning been numerous and voluble and have made just as many pretensions to science and scholarship. In fact, it would seem that today the whole argument is somewhat anachronistic. Economists today know of modern psychology and find that they can continue to account for the functioning of an exchange economy without supposing that exchange is basic to human psychology or that other economies could not have thrived without exchange. As to economic liberalism, modern exponents do not defend the principle of one hundred per cent self-regulation nor do they defend their system of modified liberalism so much on the grounds that it is natural as that it is the most just and free.

It certainly does not follow, however, that Polanyi's analysis and criticism is worthless. He is not concerned with Smith as a dead historical issue, nor with Smith's technical value

theory. His chief concern is with the influence that Smith's ideas have on contemporary thought. In particular, he is concerned with defending the contrary of Smith's practical program; viz., that regulation is natural, well-nigh universal, practicable, and alone desirable. This is the implicit doctrine which pervades *The Great Transformation*, and perhaps the most serious stricture that can be laid against the author is that he does not ever stop to develop this doctrine explicitly. Nevertheless, Polanyi appears to be a polemicist; he wants to change society.

Viewing Polanyi's intentions in this way, it becomes more meaningful for him to show that human society has consistently managed without the gain incentive, and that society (not necessarily government) has consistently regulated economic activity. In the former doctrine, he stands with the socialist tradition which holds that a communistic society is practicable, a society which does not employ the profit motive. In the second doctrine he stands not merely with the twentieth century reformers of left and right, but with the neo-mercantilists in economic theory. We shall examine his practical program in Chapter VII.

Returning to the question of the relevance of the attack on Smith, Polanyi attempts to stress the brevity of the market aberration in the whole expanse of human history. He wishes to remove at the outset any predilection in favor of the market economy based on the assumption that it is endowed with prestige either because all earlier forms were "primitive" or that all forms were evolving toward an ever higher stage culminating in the market economy. He feels that social anthropology has been neglected although it would have put the market economy into its proper perspective. Therefore he undertakes to set the record straight. His purpose is frankly polemical as well as scientific: it is not merely true that capitalism is an anomaly, according to Polanyi, but it must be generally recognized that this is so to disabuse contemporary men of their market psychology. Polanyi intimates this in these words:

"...Primitive economics was relegated to prehistory. Unconsciously, this led to a weighting of the scales in favor of a market psychology...We cannot continue today on these lines."³⁷

So the significance of the attack on Smith is its general undermining of the apology for *laissez-faire* rather than of Smith's technical system. It may be argued in Smith's defense that his anthropology was a useful fiction the historical validity of which is irrelevant to his system. Just as the social contract theorists need never have asserted the historical existence of a pre-political "state of nature" to make their point that the function of government is to exercise a common rule, so Smith's explanation of an exchange economy remains substantially unaffected by the untruth of the assumption that there is in all men a natural propensity to barter which led historically to a division of labor and a market economy. The more recent assumption of a Robinson Crusoe economy is recognized as a construct useful for analytical purposes but of no historical significance. We shall discuss Polanyi's attack on Smith as a scientist in Chapter IV.

More significant even than the overthrowing of the liberal theory is, of course, Polanyi's attack upon the actual schism in society which Polanyi believes to be the consequent of the theory. The schism is an actuality; yet is a product of men's minds. Hence the attack on the theory is necessary to re-establish a unified society. Although market economy has collapsed everywhere in the world except in the United States, market psychology persists both in the United States and in other countries. Practical reform demands ideological reform. Polanyi seeks to base his ideology upon a true view of the nature of society.

6.

Distinct from his polemical objective, Polanyi has an independent project which must be examined on its own merits. This is the attempt to establish what might be regarded as a

³⁷ *Ibid.*, pp. 44, 45.

generic economic science which accounts for all human economies. As Polanyi is the first to admit, such a generic economics is very unlike the formulation of economic laws which has hitherto played such an important role in economics, for the reason that only capitalism, about which economics has been thus far almost wholly concerned, has an independent existence and independent laws. As Polanyi constantly reiterates: "...Man's economy, as a rule, is submerged in his social relationships." ³⁸ So the generic economics rests on general social relationships which Polanyi seeks under the name of social anthropology. It is the general social relationships which must be understood first, and then how they manifest themselves in the economic sphere.

My first complaint of this undertaking is that Polanyi does not really attempt it. He gives us an impression which he illuminates by anthropological data, but he does not elaborate the social framework he utilizes. He never defines what he means by a behavior principle or an institutional pattern, or how they are related. He does not really explain how Symmetry, Centricity, and Self-Sufficiency operate in society aside from their economic application. It is not very meaningful to say that economic life is just one aspect of the general social arrangement unless that is proved by explaining the general social framework.

Polanyi seems to be more successful so far in trail-blazing than in stopping to build. At best he shows that there might be such a thing as generic economic science, rather than creating such a science. Yet at the same time that he stops short of thorough establishment, he seems to feel that he has actually established. It is a big claim to assert that he has penetrated to the fundamentals of all human societies and has succeeded in comprehending their essence and classifying them into four basic categories—at least insofar as their economic arrangements are concerned. He attempts to give a firm and substantial picture with his definite language and specific terminology.

³⁸ *Ibid.*, pp. 46, 52; *Commentary*, p. 112.

Yet the picture grows shadowy and insubstantial when it becomes clear that the key terms are left undefined. He attempts to borrow from a non-existent reservoir of general social science to create his economics. His real scientific problem would seem to be to create this general social science. In short, his thesis of the unity of society would imply the unity of social science, and his attempt to broaden conventional economic science really implies broadening it till it becomes merely a facet of generic social science. But generic social science, as such, is still a vast uncultivated potential. Therefore his primary problem becomes the establishment of general laws of society so that he can then explain economic life as a corollary of these laws. He makes exploration in this direction, but does not follow along far enough to justify the implicit claim that he has proved what he has only intimated. His emphasis on the unity of society, on the self-protective nature of society, on institutions as the basic social instruments, on the subservience of social organization to human nature and human ends—all these provide the basis for his enterprise. But the task still remains to be done. This criticism is equivalent to complaining that Polanyi did not set right at one fell swoop the cardinal errors of the whole development of modern social science. Yet this criticism is fair enough because such was Polanyi's endeavor. It might be said that Polanyi has written the prolegomena to the future social science; the true social science itself has yet to be created.

Polanyi, of course, has two motives in his writings. His first and fundamental motive is polemical; he wishes to change society. His second motive is to explain why and how. His basic failing in *The Great Transformation* is his over-reaching himself. He did not need to attempt to regenerate social science *ab ovo* in order to make a contribution to his polemical aim. Or if he felt the need to be unassailable in his position, then his enterprise should have been on a vaster scale which would possibly have taken him a large part of a life-time to write. His work is an outline that needs much labor to fill in. The fault is not that this is so, but that he seems to claim a definite-

ness in his conclusions which would indicate that the filling-in had already been accomplished. It would have been better if he had been more tentative in his analyses of the societies—had said, “As far as we know now, this is as justifiable a hypothesis as any.”

Having regretted that Polanyi did not set right the efforts of the leaders of social science for over a hundred and fifty years, it does not follow that his over-ambition was completely fruitless. On the contrary, the complaint is not that he did not accomplish anything, but that he was not satisfied with his accomplishment. It is the journalistic zeal with which his true contributions are magnified to classic proportions which seems objectionable. It seems to the present writer that it must be granted that he has paved the way to a new understanding of our society. Even if his only contribution were to show the anomalous character of capitalistic society, he would require attention. It is possible to make this demonstration without accounting completely for all other societies.

The single point that Polanyi needed to have established at this stage of his argument is not that Smith erred but that Marx erred; that the Marxist thesis is true only of capitalistic society; i.e., that only capitalism had a materialistic base; only capitalism had independent economic laws, laws which imperialistically ruled not merely the economy but the whole of social life. It seems to the present writer that this could have been done satisfactorily on a negative basis without the extravagant effort to classify all known societies as to their economic arrangements. It further seems superfluous to belittle the role of the mercantile element in human history, or the desire for material gain. Not that these efforts do not have relevance, but, as has been said, they need greater elaboration than Polanyi had time to give, and, as has not been said till now, they are unnecessary to make the needful point.

The problem of the contribution made by Polanyi on this point is a problem of the methodology of the social sciences. Polanyi attempted proof on the level of complete explanation of social phenomena. Marx based his proof partly on the meta-