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Karl Polanyi's Concept of Non-Market Trade

I

KARL POLANYI'S studies in economic history were concerned with an unusually wide range of economies and societies.[1] Aristotle's Greece, the ancient Near East and Hammurabi's Babylonia, pre-colonial West Africa, and the laissez-faire economy of the nineteenth century were among the areas which he explored. The main focus of his work might well be summed up by the title of the present conference, "The Organizational Forms of Economic Life and Their Evolution," and equally well by the subtitle, "Non-Capitalistic Organization." To talk of organizational forms (in the plural) and of non-capitalistic organization is to focus attention on different kinds of economic institutions and on ways of distinguishing among them. To raise this question in an evolutionary context is to suggest a departure from a notion of unilineal development that would tend to see earlier economies as miniature replicas or potential versions of our own market economy.

Such a task requires, in the first instance, a broader frame of reference for the study of the human economy than the one we possess. Our present conceptual tools, originating as they do from the study of modern market economies, carry their own special advantages in illuminating these economies; but they carry equally their own inherent bias and limitations in the selection and interpretation of economic phenomena from other cultures. (Our present impasse in the study of underdeveloped countries may offer just one example.) Such limitations are characteristic of all conceptual systems; we can only attempt to become conscious of them and then to proceed beyond existing limits.

Polanyi's major concern was to extend our conceptual apparatus so that it could provide a common framework for comparative and developmental studies of economics in a wide variety of social and historical settings. He regarded himself as an institutionalist, but he did not subscribe to the common connotations of the term. He was not concerned merely to prepare a catalogue of the "imperfect,"

[1] I am indebted to my colleague, Melville H. Watkins, for helpful comments on this paper.

"sticky," and eccentric or exotic features of our own and of distant economies—a litany of exceptions that would inhibit the operation of these economies within the framework of "market rationality." Such rear-guard action hardly leads anywhere. He meant instead to identify hitherto unrecognized patterns or flows of economic goods, *sui generis* features of distant economies that took their place beside, or were functional alternatives to, the usual nexus of exchange relationships. This also required an analysis of the institutions (both economic and non-economic) that channeled or directed flows of material goods, and semantics that were appropriate to the task.

Polanyi made some fundamental contributions to the theme which is presently before us, although he did not aim to present a comprehensive evolutionary scheme. He was able to identify organizational forms that operated in lieu of market organization in the domestic economic sphere, namely reciprocity and redistribution which were characteristic of the economies of primitive society and of antiquity. In the field of long-distance trade, which is the immediate subject of this paper, he identified two additional modes of trading that correspond roughly to these domestic patterns, namely gift trade and administered trade.

A general review of Polanyi's conceptual system or of his empirical findings cannot be attempted in this short paper. We shall confine ourselves to the sphere of long-distance trade carried on in the absence of the typical constraints of market institutions. The discussion of internal or domestic patterns of economic organization will be omitted as well as the discussion of the semantics of a general economic history.[2]

Two examples drawn from the present may serve to widen our institutional perspective and offer *prima facie* evidence for the concept of non-market trade. I have in mind, first of all, the modern

[2] The best general discussion of Karl Polanyi's work is the article by S. C. Humphreys, "History, Economics, and Anthropology: The Work of Karl Polanyi," *History and Theory*, VIII, 2 (1969), 165-212. Polanyi sets out his conceptual framework in the essay "The Economy As Instituted Process," in K. Polanyi, C. M. Arensberg, and H. W. Pearson (eds.), *Trade and Market in the Early Empires* (Glencoe, Illinois: The Free Press and The Falcon's Wing Press, 1957), pp. 243-70. This volume will be referred to here as *Trade and Market*. Domestic economic patterns or "forms of integration" were originally set out by Polanyi in *The Great Transformation* (New York: Rinehart, 1944; Boston: Beacon Press, paperback, 1957). See chap. 4, "Societies and Economic Systems," pp. 43-55. See also, George Dalton (ed.), *Primitive, Archaic and Modern Economies: Essays of Karl Polanyi* (Garden City, N.Y.: Anchor Books, 1968) where both of the aforementioned chapters are reprinted, pp. 3-25, and pp. 139-74.

multi-national corporation with its trade between parent and subsidiary (and among subsidiaries) in different countries. The prices at which goods such as parts, components, and finished products change hands are governed chiefly by taxation and accounting advantages obtainable in the various countries where the corporation is located. Prices are set accordingly and bear no necessary relation to the market prices for these goods (if indeed market prices exist for them at all). There is no doubt that these transactions are generally regarded as trade, for they are universally included in the foreign trade and balance of payments statistics of the respective countries. Subsidiaries, moreover, are formally incorporated in the countries in which they are located.

A second example is the trade between the state-trading corporations of communist countries. A variety of factors govern the prices at which goods are traded here, including the political relations and national security objectives of members of the communist bloc. Such prices bear no necessary relation to world market prices for these same goods.

These two instances differ as much from each other as they differ respectively from conventional market trade. What these examples do share in common can be described negatively: the partners to these trade transactions are not trading at arm's length, and the prices are not formed in the market. Unless we are prepared to exclude such transactions from our concept of trade (thus excluding a rapidly growing portion of world commerce), we must accept in the present period the existence side by side of market and non-market trade in the international economy. (Those who deny that the above examples constitute trade must of necessity provide some alternative designation for goods which are formally bought and sold and shipped across international borders by corporations which are legally discrete entities.)

For the economic historian this should suggest at least the logical possibility that other variants of non-market trade have existed in the past. It would also suggest the requirement for criteria by which these are to be gauged and for a general definition of trade to which both market and non-market variants might be related.

Market institutions may exist in many variants that are as different from each other as the Greek agora, the West African bush market, and the New York Stock Exchange. Yet they all share at least some of the characteristics of this institution, for example, the existence of a "supply crowd" and a "demand crowd," each competing among themselves; prices formed in the market through the operation of the price mechanism; and an arm's-length relationship between the trading partners.

Any or all of these characteristics may be modified or altogether absent in certain types of trade. In lieu of an arm's-length relationship, for example, there may be political, military, administrative, tribal, or kinship relations between the trading partners. The nature of the trade may be substantially affected by such relations, as we have seen earlier in the cases of the multi-national corporation and the state-trading corporation.[3] Generally speaking, when the major underpinnings of the market institution are absent, we may well raise the question of what kind of trade is being carried on.

The foregoing is an attempt to set Polanyi's work on non-market trade in the context of some modern developments. These are not arguments which he himself has adduced, but they may be helpful in the following exposition of his own approach.

II

Polanyi's concept of trade refers initially to the basic physical and substantive elements involved. "Trade is a relatively peaceful method of acquiring goods which are not available on the spot. . . . The two-sidedness of the movement . . . ensures its broadly peaceful and fairly regular character."[4] The constituents of all trade relations necessarily include personnel, goods, carrying, and two-sidedness, which have both their sociological and technological aspects.

The three main classes of trade are gift trade, administered trade, and market trade. Gift trade may be found in primitive societies where goods are exchanged between "guest friends" from different tribes (Malinowski's famous Kula ring is a variant). It also includes trade between monarchs and chiefs. Special embassies and ceremonial presentations are a feature of this trade; the exchange is carried on in the form of gift and counter-gift, and the goods tend

[3] The foregoing discussion may appear reminiscent of the debate about imperfect competition which has been conducted by economic theorists for several decades. This debate, however, has been confined to "imperfections" of the market institution itself, and along a single dimension only, namely the spectrum between pure competition and monopoly. The question of non-market trade has not been raised in this debate.

[4] *Trade and Market*, pp. 257-58.

to be treasure or luxury goods of an élite character. Sociological factors are the key to the rates at which goods are exchanged. The relative status of the two parties, for example, may be one such determinant.

Administered trade, characteristic of much of antiquity, is governed by a more or less formal treaty between the trading partners. The trade is carried on by administrative methods which extend to the rates or prices at which goods are exchanged as well as to other elements of the transaction, including quality, weight, storage, safekeeping, and payment. The import interest—the acquisition of goods not available locally—is predominant, and governmental or semi-governmental channels organize the export goods needed in payment. Higgling and haggling are avoided, and fixed rates or equivalencies predominate over long periods. Alterations or adjustments to meet special conditions are made on quality, measures, or means of payment, with a tendency to keep prices unchanged.

Market trade, the pattern most familiar to us, operates within its own institutional framework centered on the supply-demand-price mechanism. The impersonal relationship of the trading partners permits them to focus on the optimum advantages to be sought from the "gains from trade." Usually, there is a supporting institutional structure for the various constituents of the trade; this is also organized through markets such as the markets for transportation, personnel, credit, and insurance.[5] Within this broader institutional perspective, Polanyi and his associates are able to analyze a number of instances of non-market trade over a wide range of history.

In the Ancient Near East, Polanyi contended, the economy of Babylonia, whose cuneiform tablets indicate an advanced level of economic life, possessed neither market places nor a functioning market system. Herodotus, who had visited Babylon between 470 and 460 B.C., insisted emphatically that "the Persians do not frequent market places and in effect, do not possess in their country a single market place" (Her. 1, 153). This passage had been consistently ignored by economic historians of the period.

The conduct of non-market trade in Hammurabi's time was sketched out from the records of a trading post near Kanish on the river Halys. These records cover some three generations of a group

[5] *Ibid.*, pp. 262-63, for a description of the three main types of trade.

of businessmen, the *Karum*, who were traders by status. They dealt in cloth and in metals such as copper, lead, and silver. Their revenue derived entirely from turnover, and not from profit made on prices. The surprising feature of these records is that there is hardly a mention of losses on bad debts. The key to this "risk-free trading" was that prices did not fluctuate in the absence of price-making markets. Also, the trader deposited with a governmental authority full collateral equivalent to the value of the trade goods he received on consignment. No sales took place except for cash, and, in principle, all obligations were guaranteed by the public authority. Prices were established by statute, proclamation, or custom. As Polanyi summed up the matter, "In this marketless trade there was no loss on prices, no speculation, no failure of debtors . . . [and it was] risk-free as a business."[6]

A second case can be found among the Aztecs of Mexico in the pre-Columbian period. Trading among the Aztecs was a hereditary profession, and status traders were known as *pochteca*. Among these were a group of royal administrative trade officials, known as *teucunenenque* or king's traders. Sahagun narrates a scene of their arrival at Xicalango, at the bottom of the Gulf of Mexico, where luxury goods of great value were exchanged as gift trade with the local ruler on behalf of their king.[7] The ports at the bottom of the Gulf of Mexico were sites for the encounter of the *pochteca* with the Maya traders from Yucatan, known as *ppolom*, who were also status traders from among the nobility. Evidence points to administered trade carried on between these groups on behalf of the public interest.

Eighteenth century Whydah, on the West African coast, was the site of a neutral enclave where several European nations traded for slaves with status traders from Dahomey. There was a sharp institutional separation of these trading officials and their activities from the local market, which was organized as a domestic institution staffed mainly by women. Trade and market in Whydah had noth-

[6] *Ibid.*, Karl Polanyi, "Marketless Trading in Hammurabi's Time," pp. 12-26. The quoted passage is on p. 22. Polanyi makes a brief reference to two other cases of non-market trade: caravan trade in the second millenium B.C. between Pharaonic Egypt and Kassite Babylonia, and, in more modern times, between the Western and Central Sudan. Karl Polanyi, "The Early Development of Trade, Money, and Market Institutions," in *Year Book of the American Philosophical Society*, 1960, p. 336.

[7] *Trade and Market*, p. 128 where the passage from Sahagun is quoted. This discussion follows Anne Chapman's paper, "Port of Trade Enclaves in Aztec and Maya Civilization," pp. 114-53.

ing in common and were organized by two different sets of officials.[8] One French administrator summed up the conduct of the slave trade toward the end of the eighteenth century in the phrase, "*le prix des marchandises ne varie jamais.*"[9] A modern student of the trade notes that "*les noirs évaluant les marchandises de troc d'après un barème fixé*" (a fixed standard).[10] Through the royal intervention and regulation of the Dahomean court, the slave trade was carried on as administered trade.

Turning finally to the early fur trade in North America in the eighteenth century, the most eminent student of the Hudson Bay Company, Professor E. E. Rich, states categorically, "There was no escaping the conclusion that in trade with Indians the price mechanism did not work." He adds that "Indians' habits of trade . . . were quite alien to a European trade system."[11] A study by the present author of the eighteenth-century operations of two Hudson Bay Company trading posts, Albany Fort and York Fort, reveals that rates of barter of European goods for furs remained essentially unchanged for over 100 years. This was so, in spite of the regular fluctuation of fur prices on the London fur market. Administered trade was in operation at the Bay and market trade in London.[12]

III

The disengagement of trade from the market perspective to which it has traditionally been bound suggests a similar procedure in re-

[8] Cf. Rosemary Arnold, "A Port of Trade: Whydah on the Guinea Coast," and "Separation of Trade and Market: Great Market of Whydah," in *Trade and Market*, pp. 154-76 and 177-87 respectively. See also, Karl Polanyi in collaboration with Abraham Rotstein, *Dahomey and the Slave Trade: An Analysis of An Archaic Economy* (Seattle: University of Washington Press, 1966).

[9] M. Gourg, "Ancien Mémoire sur le Dahomey," *Mémorial de l'Artillerie de la Marine*, 2e Serie, Tome XX (1892), p. 769.

[10] S. Berbain, *Le Comptoir Français de Juda (Ouidah) au XVIIIe Siècle*, Mémoire No. 3 (Paris: Institut Français d'Afrique Noir, 1942), p. 68.

[11] E. E. Rich, "Trade Habits and Economic Motivation Among the Indians of North America," *The Canadian Journal of Economics and Political Science*, XXVI (Feb. 1960), pp. 49 and 42 respectively. Further evidence on this point may be found in my unpublished dissertation, "Fur Trade and Empire: An Institutional Analysis," University of Toronto, 1967, pp. 61-66 and pp. 89-98.

[12] The statistical tables for this study have been completed, and the work will be ready for publication shortly under the title, "The Two Economies of the Hudson's Bay Company." Temptations to revert to "kinks in the supply curve" or to similar geometrical ingenuities to explain this phenomenon should, in my opinion, be avoided. "Supply" in this analysis is chiefly linked to security conditions and related political factors rather than to price, cf. Rich's statement about the absence of the price mechanism cited above. In any case, a clear distinction should be made between the economy and economies.

gard to certain closely related issues, such as the history and functions of money. In the past, money has tended to be linked in an indivisible package with trade and markets. Since trade can be articulated through means other than market structures, a parallel question arises in regard to money. To review briefly the uncritical procedures of the past: trade has been defined as the movement of goods through the market; money was regarded as a means of indirect exchange to facilitate trade; and the market was the locus or site for these transactions. This is what Polanyi meant by his "catallactic triad" (catallactics being the older term for exchange).

Viewed as an exchange system, or, in brief, catallactically, trade, money and market form an indivisible whole. Their common conceptual framework is the market. Trade appears as a two-way movement of goods through the market, and money as quantifiable goods used for indirect exchange in order to facilitate that movement. Such an approach must induce a more or less passive acceptance of the heuristic principle according to which, where trade is in evidence, markets should be assumed and where money is in evidence trade, and therefore markets, should be assumed. Naturally, this leads to seeing markets where there are none and ignoring trade and money where they are present, because markets happen to be absent. The cumulative effect must be to create a stereotype of the economics of less familiar times and places, something in the way of an artificial landscape with only little or no resemblance to the original.[13]

This semantic fusion of three crucial elements of economic life obscures the fact of their separate and independent origins. The history of money, for example, may detail the separate beginnings of the different money uses: as a means of payment, as a standard, and much later as a means of indirect exchange. The first two uses need have no connection with markets. Money objects may be used in the payment of wergild, fines, and bride wealth. As a standard, money may be used for accounting purposes, that is to say, for adding up "apples and pears," where taxation is collected in kind. Money may also be used as a standard for purposes of substitution where payment of taxes allows the money object, such as barley, to be paid in oil or wool to meet the tax levy. Different objects could be employed for the different money uses quite independently of each other in the period prior to modern "all-purpose" money. The origin of money, in short, following empirical methods and operational definitions, may be released from its semantic and conceptual fusion with market relationships in the same way as trade.[14]

[13] *Trade and Market*, p. 257.
[14] *Ibid.*, pp. 264-66. See also, K. Polanyi, "On the Comparative Treatment of

The differentiation of the various forms of trade relationships also suggests a reexamination of the constituent elements of the trade process such as transportation, personnel, the sources and disposition of the goods, and so on, under different kinds of trade. In a market setting, these constituent elements have a common denominator insofar as all are organized through their respective markets. The homogeneous manner in which they are mobilized obscures intrinsic physical, geographical, or other distinctions; the discussion tends to be confined to the operation of their respective markets. As Polanyi notes:

> What nature made distinct, the market makes homogeneous. Even the difference between goods and their transportation may be obliterated, since in the market both can be bought and sold—the one in the commodity market, the other in the freight and insurance market. In either case there is supply and demand and prices are formed in the same fashion. Carrying and goods, these constituents of trade, acquire a common denominator in terms of cost. Preoccupation with the market and its artificial homogeneity thus makes for good economic theory rather than for good economic history. Eventually, we will find that trade routes, too, as well as means of transportation may be of no less incisive importance for the institutional forms of trade than the types of goods carried. For in all these cases the geographical and technological conditions interpenetrate with the social structure.[15]

In the absence of such an ancillary network of markets, however, the supporting elements of trade must be handled through specific administered methods, although custom and prestige also play their part here.

Another question which is closely related to non-market trade is the physical site or locale where trading takes place and goods change hands. Prior to the development of international markets, the typical site of administered trade was the "port of trade." Here security requirements in unpoliced areas and administration "prevailed over the economic procedure of competition." Thus the port of trade was a neutral site that served over millenia as a functional alternative to the market.[16] Early examples from antiquity include Ugarit and Al Mina, Sidon and Tyre, followed much later by neutral

Economic Institutions in Antiquity with Illustrations from Athens, Mycenae and Alalakh," in C. H. Kraeling and R. M. Adams (eds.), *City Invincible: A Symposium on Urbanization and Cultural Development in the Ancient Near East* (Chicago: University of Chicago Press, 1960), pp. 329-50. Reprinted in George Dalton (ed.), *Primitive, Archaic and Modern Economies.*

[15] *Trade and Market,* p. 261.

[16] K. Polanyi, "Ports of Trade in Early Societies," THE JOURNAL OF ECONOMIC HISTORY, XXIII (March 1963), 30-45.

ports for Aztec-Maya trade in pre-Columbian Mesoamerica, and the eighteenth-century slave trade port of Whydah.

IV

In summary, the concept of non-market trade seems to be a potentially fruitful one through which economic historians may become alert to important distinctions in the institutional setting of trade in primitive society and antiquity, and, as we have seen, in post-market settings as well. Political, social, and administrative factors, insofar as they channel the movements of goods (and have an influence on price formation), are given an explicit role in this conceptual framework in their own right. By contrast, non-economic factors are only given an indirect role under an exclusively market perspective, insofar as they are necessarily transmuted into effects on the "supply curve," the "demand curve," or both. The varied influences on the trade of the multi-national corporation, for example, its legal and political relations with the host country, are a case in point, for they are not amenable to analysis by traditional trade theory. This also holds true for the state-trading corporation.

Polanyi's concepts, however, are not intended to displace the body of theoretical work built up by trade theorists as long as this work is not misdirected to institutional horizons for which it was not intended. There is a comparative advantage in retaining traditional concepts of economic analysis for market settings and their close variants.

At a time when comparative and developmental studies of economies in different times and cultures are of growing interest, Polanyi's intent was to widen our institutional horizons and to develop appropriate concepts for a general economic history. In regard to the development of trade, Polanyi leaves his inquiry at the following point:

> The main interest of the economic historian today turns towards the questions: When and how did trade become linked with markets? At what time and place do we meet the general result known as market trade?[17]

It is a question whose very formulation, not to speak of its solution, depends on the expanded horizon which Polanyi has introduced.

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[17] *Trade and Market*, p. 263.