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got a clear understanding of the figures which have emerged in the world economy--this is one of the grandest and most simplifying theories which ever existed.

What becomes important is that there is a system of prices: the system of prices and the system of markets is the theory of economics. Everything else was super-added to this theory.

Menger himself thought that this theory was not, in fact, capable of answering all of the questions which were, more or less carelessly, put to it and explained by it. As a result, he never let the book be reprinted or translated because he wanted to find an even more general theory. Menger intermittently worked on this more general theory for about 50 years. After his death, it was published. In the second edition of the Grundsätze, he retained his original theory--he retained, in fact, every word of the original book, but made a more general theory of the economy in order that he could make a place for history, anthropology, etc. In this second edition, he said that there are two meanings of "economy".

The reaction in economics was to assume that poor old Menger had not understood his own theory. Their position was that it was not necessary to bring in a more general theory in order to understand perfectly all economic activity. The price mechanism, and the additions on it--those made by Jevons and the mathematical economists, the restatement of it as the marginal theory of utility--all this could explain everything. [It is precisely this position that the anthropologist must attack: he does not try to say that economists are wrong, but only that their theory is not the most general theory. He has been left out in the cold, and he is trying to get back in to grace; an economist, Menger, pointed the way to this state of grace, and instead of that the economists have settled for a theory (also Menger's) which allows them only a pleasant corner ~~at~~ outside the gates.]

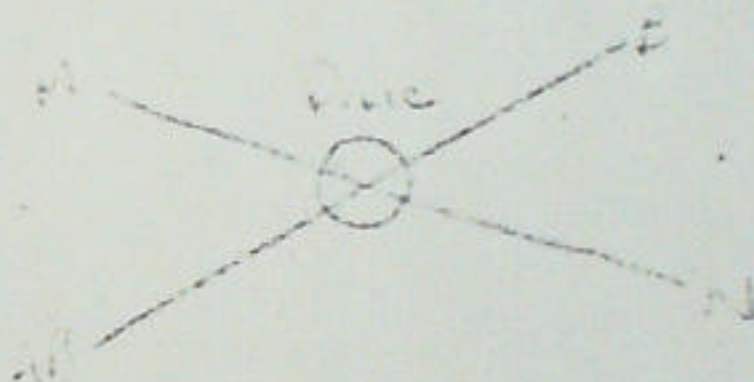
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12 April 1958.

KP's remarks on Menger, Brunner & the history of thought about the substantive economy:

When Neo-Classical economics was born in 1871, it was developed along the lines of Menger [Grundriss, Second Edition 1923 (first 1871)]. It starts from human wants and needs which can be satisfied from scarce resources; it is possible to show through analysis of actions of people dealing with fulfilling these needs, that if a group of people meets and one lot has horses to sell and the other wants to buy horses, that a price will be fixed at approximately the point at which the desire to buy and the desire to sell overlap:

If AB represents the price which a man is willing to pay for a horse, and if MN represents the price which another man is willing to take for a horse, the price will be approximately at the point where the lines cross.



Conceptualization of the "market process" in this way was one of the greatest feats of the human mind--it showed that price resulted from human activity, and discarded forever the notion that value was intrinsic in a thing [in Adam Smith's case, it was put there by the amount of work expended in making the thing]. We have a thorough-going operational definition or viewpoint of price and value. Value is what somebody is willing to give for something.

This changed completely man's attitude to what price is and what the economy is. What is new here is that price is a subjective affair. Price is, thus, not an attribute of the item but of the person and of the social relationship. This turns out to be so, even if the price refers to money, land and labor, and also can be extended to decisions about whether you will save or invest or whether you will spend. Rent, interests, wages--all can be seen in terms of this formula. No further theory is needed to

Chapter IV, Section 1, "On the Economy and Economic Goods"

- (2) p. 60. "Thus every actual economy has a subjective and an objective side to it. Under the subjective aspect the economy represents an allocation of the goods that are immediately available to a person, who thus imparts to them a definite direction and a destination aimed at providing for his ultimate requirements. Under its objective aspect, on the other hand, the economy represents an aggregate of the available goods themselves as engaged in the actual movements induced by the allocative acts. The subject may be a single person or a group of persons; the goods may be available by virtue of the natural or of the social situation; the goods shall be understood to include labor services; whether the person's own or those belonging to others; the allocation itself may be for use in technological production or use in exchange."

*The first of the sections bears the title: "The technico-economic allocation." The second is entitled: "The saving or economizing direction of the human economy as induced by insufficiency of the available means."

NOTES ON THE SCARCITY DEFINITION OF "ECONOMIC"
AS PRESENTED IN Menger's "GRUNDSAETZE" AND
LIONEL ROBBINS' "NATURE AND SIGNIFICANCE OF ECONOMIC SCIENCE"

The quotations are from Menger's GRUNDSAETZE, second edition (post-humus) of 1923, as translated from the German original.

Robbins' NATURE AND SIGNIFICANCE, second edition, revised and extended 1935, reprinted 1946.

ROBBINS: Chapter I, Section 3, "The Scarcity Definition of Economics"

- (1) p. 15. "Scarcity of means to satisfy ends of varied importance is an almost [my italics] ubiquitous condition of human behavior."

Chapter IV, Section 7, "Statics and Dynamics"

- (2) p. 99. "In the light of all that has been said the nature of economic analysis should now be plain. It consists of deductions from a series of postulates, the chief of which are almost [my italics] universal factors of experience present whenever human activity has an economic aspect...."

MENGER: Chapter IV, Section (c), "The two elemental directions of the human economy"

- (1) p. 77. "I shall designate the two directions in which the human economy may point -- the technical and the economizing -- as elemental, for this reason. Although in the actual economy these two directions as presented in the two previous sections occur as a rule [my italics] together, and indeed almost [my italics] never found separately, they nevertheless spring from essentially different and mutually independent sources [Menger's italics]. In some fields of economic activity the two occur, in fact, separately, and in some not inconceivable types of economies either of them may in fact regularly appear without the other....The two directions in which the human economy may point are not mutually dependent upon one another; both are primary and elemental. Their regular joint occurrence in the actual economy results merely from the circumstance that the causative factors that give rise to each of them almost [my italics] without exception happen to coincide."

"The particular directions in which man's economic endeavors, under the invariably determinative influence of actual circumstances, seek a vent, derive from the one or from the other of these elemental directions, if not, as usually [my italics], from their conjunction. Accordingly, the particular endeavors are merely variants or manifestations of these elemental directions or a combination of the two [my italics]."

From p. 4 of MS
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NOTES ON THE SCARCITY DEFINITION OF "ECONOMIC" AS PRESENTED IN Menger's "GRUNDSATZTE" AND LIONEL ROBBINS' "NATURE AND SIGNIFICANCE OF ECONOMIC SCIENCE"

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given below Grundsätze

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EMU

the phenomenon of human livelihood in general. What seemed to Robbins a negligible quantity, appeared in this way to Menger as ~~an~~ indisputable evidence for the need of a substantive as against a formal meaning of "economic." Instead of ~~compounding~~ ^{compounding} as Robbins did, the scarcity and the subsistence meaning into one universally applicable concept of the economy, ^{Menger,} ~~he~~ on the contrary, constructed a comprehensive definition of ~~the~~ "economic" which while leaving room for both meanings, ^{would} ~~permitted~~ them to be related to one another according to the empirical conditions which caused them to be present ~~whether separately or conjointly.~~

Robbins'

¶ [The crucial sentence of ~~his~~ argument

admits the presence of a gap, which it nevertheless fails to bridge. Menger ~~had~~ noted ^{the} ~~the~~ gap, and accounted for it by the two meanings of economic which he calls "the two elemental directions of the human economy." Robbins ~~proceeds~~ ^d to ignore the consequences of the gap, and produced a definition of economic exclusively suited to the needs of ^[formal] economic analysis; Menger ^{'s} ~~is~~ ^{superior precision} ~~is~~ ^{in X} developing the implications of the ~~gap~~ eventually created a concept of the human economy, which can be consistently applied to all the social sciences ^{that treat of the economy} including ~~the~~ economic analysis itself.] ^{that part of the}

page.

Superior precision

¶ The

produce them; and above all, a distinction between the economy as the sphere of man's livelihood, and the differing forms of integration through which the economy as a unit was institutionalized.

It is easy to see that it was ^{an} the expansion of the Grundsatzze, ~~was~~ to make room for a theory of wants and needs; ^{for} the 'disjunctive determination' of nodes of production, but more than anything else ~~the attempt at~~ ^{for} a definition of the "economy" which would satisfy the requirements of the social sciences ^{dealing with the economy} without sacrificing the ~~distinctive~~ ^{in general} criteria ~~specification to the economy~~ ^{of the} ~~instituted through a~~ ^{instituted through a} competitive market system.

It is at this point that the achievement of the posthumous edition of 1923 becomes strikingly apparent. Take Lionel Robbins' well known popularization of the scarcity definition as an example.

[ent]

Robbins wrote: "Scarcity of means to satisfy ends of varying importance ^[my italics, K.P.] is an almost ubiquitous condition of human behavior" (p.15). And accordingly he concluded: "In the light of all that has been said the nature of economic analysis should now be plain. It consists of deductions from a series of postulates, the chief of which are almost ^{K.P.} ^[my italics] universal facts of experience present whenever human activity has an economic aspect ...".
Langer ^{who} also noted the fact that scarcity "almost" overlapped with the economy, ^{complete congruence} draw from this lack of ~~congruence~~ the opposite conclusion, namely, that the scarcity meaning of economic, could not be universalized so as to cover



complete congruence

fully completed ^{new} chapters. ^{At} least one of ~~these~~ ^{these is} of prime theoretical importance ^{presently} for the problems of definition and method that ~~exercise~~ ^{exercise} the minds of contemporary scholars in this field.

It was mainly after Menger's death that the ~~new~~ influences began to be felt which transcended the economists' treatment of economics and pointed towards the need for broader terms. Cultural anthropology and primitive economics as represented by Boas or Malinowski, sociology on the lines of Durkheim or Pareto, general economic history as first formulated by Max Weber were more hampered than helped by the ^{of} scarcity definition ^{of economics}.

~~of economics~~ initiated by Menger. ~~It was~~ propagated by the works of the ~~various~~ ^{concept} social scientists whose achievements that ~~concept~~ subtly hampered the economists' ~~concept~~ of the economic now permeated the whole field of social sciences.

as it was beginning to be called

This was the period when cultural anthropologists excelled in discovering economic institutions of ~~the most~~ strikingly anti-economic character such as the ^{Manus} potlatch, ^{the} kula trade, or the matrimonial ^{finance} ~~purpose~~ of the ~~Manus~~ Islanders. ^{the} A rationalist and utilitarian ^{fall} ~~part~~ even indulged in the construction of 'irrational' residues as the roots of history; and Max Weber, who strictly followed Menger, and ~~Lieser~~ ^{in economics} devoted a decade to tracing ~~the~~ the religious origins of business ethics from Confucian China to Benjamin Franklin's America. Yet what ^{then} appeared as ^{of a} paradox was no more than the ~~continuous~~ incessant confusion of the two meanings of 'economic,'

the one appropriate to the discipline of economic analysis, the other to the other social sciences ~~in general~~, with the sole exception of the economic analysis.

Accordingly, ~~Menger's~~ ^{In his} second edition ~~consciously~~ ^{Menger} extended the range of inquiry so as to comprise the facts of anthropology, sociology and economic history. Theoretically, this required a system of wants and needs, which would permit a distinction between man's physiological requirements, and ~~those~~ ^{of these requirements} cultural definition, in terms of needs; a distinction between definite consumer's goods and the variety of combination^s of different goods of higher order which according to the state of technological skill, might serve to

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It is fervently to be hoped

My (16)

A NOTE ON THE TRANSLATION OF MENGER'S 'GRUNDSATZGE'

Menger's When ~~this~~ classic of modern economic theory was ~~originally~~ published in English the translators decided ^{then,} to use for that purpose the text offered by the first edition of 1871. The second ^{revised} edition of 1923, with its ~~revised~~ text expanded to ^{twice} double the original length, was passed over ~~entirely~~ with the briefest of explanations. ~~I confidently hope~~ ^{It is to be hoped} that it will not take another 79 years before the English speaking public is enabled to benefit from that posthumous edition of Menger's 'Grundsatzge' with its theoretical anticipations the full significance of which can perhaps be gauged only in our days.

But let me quote the translators themselves for their reasons for ignoring the text of the second edition.

"The translation presented here," they write in their Preface, "is a complete rendering of the edition of the 'Grundsatzge' which was published in Vienna in 1871. A second German edition was published in Vienna ^[in 1923] two years after Menger's death. We rejected the possibility of a variorum translation because it was the first edition only that influenced the development of economic doctrine, because of the posthumous character of the second edition, and because the numerous differences between the two editions make a variorum translation impractical."

Too much, I feel, ^{here} was left ~~unsaid~~ ^{that F} ~~and none surpassed~~ ^{and none surpassed} ~~at the risk of self~~ ^{obliteration.} Such ~~a sense of responsibility in an author commits~~ ~~are perpetuating his work.~~ The translators' concise note ~~was~~ ^{He} ~~assured it~~ ^{to be common knowledge} ~~that~~ ^{He} had refused to permit either a reprint or a translation of the text of the first edition, which he deemed in need of completion; ~~that~~ he resigned his chair at the University of Vienna in order to devote himself exclusively to that task; ~~and~~ ^{an} after ~~a~~ ^{an} ~~continued~~ ^{of} effort ~~of~~ ^{fifty years} ~~during~~ ^{during} which he seems to have again and again ~~reverted~~ ^{reverted} to the task, altogether ~~he~~ ^{he} left a manuscript behind him, which included four ~~of~~ ^{of} ~~which~~ ^{of} ~~he~~ ^{he} seems to have again and again ~~reverted~~ ^{reverted} to the

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Smith

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Menger himself thought that this theory was not, in fact, capable of answering all of the questions which were, more or less carelessly, put to it and explained by it. As a result, he never let ^{his} the book be reprinted or translated because he ^{wanted} ~~wanted~~ to find an even more general theory. Menger interittently worked on this more general theory for about 50 years. After his death, it was published. In the second edition of the Grundsätze ⁽¹⁹²³⁾, he retained his original theory--he retained, in fact, every word of the original book, but made a more general theory of the economy in order that he could make a place for history, anthropology, ^{and sociology}. In this second edition, he said that there are two meanings of "economy".

and sociology

The reaction ^{of economists} ~~in economics~~ was to assume that poor old Menger had not understood his own theory. ~~Their position was that it~~ was not necessary ^{that they felt} to bring in a more general theory in order to understand perfectly all economic activity. The price mechanisms, ^{with} ~~and~~ the additions ^{to} ~~to~~ those made by Jevons and the mathematical economists, the restatement of it as the marginal theory of utility--~~all this~~ could explain everything. (It is precisely this position that the anthropologist must attack: he does not try to say that economists are wrong, but only that their theory is not the most general theory. He has been left out in the cold, and he is trying to get back in to grace; an economist, Menger, pointed the way to this state of grace, and instead of that the economists have settled for a theory, ^(also Menger's) which allows them only a pleasant corner ~~of~~ outside the gates.)

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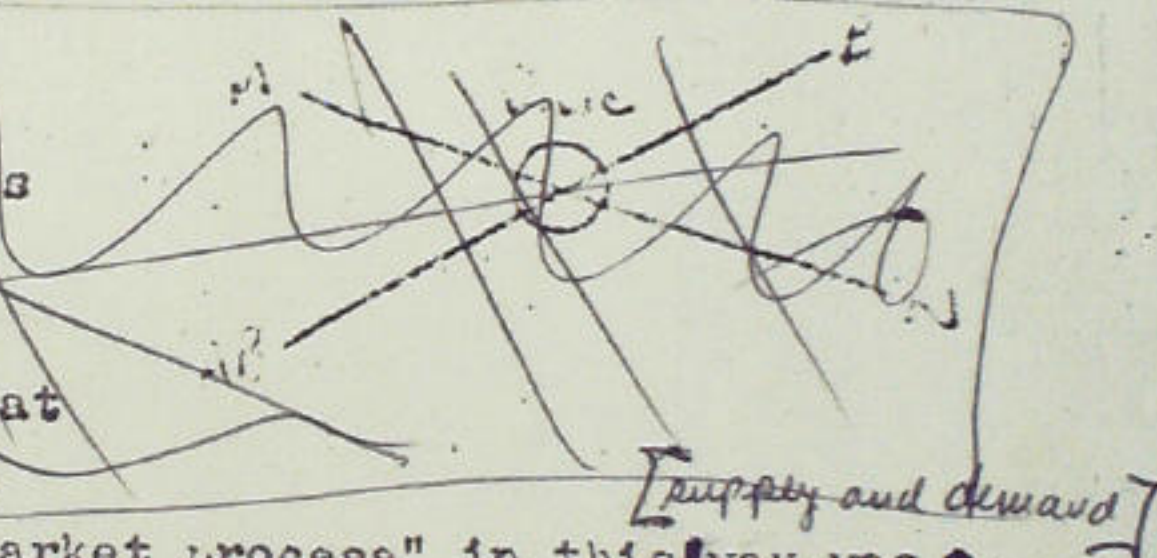
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Appendix

Note on The Translation of Menger's Grundsätze

When Neo-Classical economics was born in 1871, it was developed along the lines of Menger (Grundsätze, Second Edition 1923; first 1871). It starts ^{ed} from human wants and needs which can be satisfied from scarce resources; it is possible to show through analysis of actions of people dealing with fulfilling these needs, that if a group of people meets and one lot has horses ^{to} sell and the other wants to buy horses, that a price will ^{emerge} ~~be fixed~~ at approximately the point at which the desire to buy and the desire to sell overlap [as in the now familiar supply and demand curve analysis].

If AB represents the price which a man is willing to pay for a horse, and if MN represents the price which another man is willing to take for a horse, the price will be approximately at the point where the lines cross.



Conceptualization of the "market process" in this way was one of the greatest features of the human mind—it showed that price resulted from human activity, and discarded forever the notion that value was intrinsic ~~in a thing~~ (in Adam Smith's case, it was put there by the amount of work expended in making the thing). We have a thorough-going operational definition or viewpoint of price and value. Value is what somebody is willing to give for something.

This changed completely ~~our~~ ^{our theoretical} attitude to what price is and what the economy is. What is new here is that price is a subjective affair. Price is, thus, not an attribute of the item but of the person and of the social relationship. This turns out to be so, even if the price refers to ^{the price of} money, land, and labor; and also can be extended to decisions about whether you will save or invest or whether you will spend. Rent, interests, wages—all can be seen in terms of this formula. No further theory is needed to

seen

of the original context. Such a procedure which reduces any phase of the economy to operational and situational terms rests in the last resort on our approach to the economy as an instituted process.

The gist of this formulation was given by Menger himself in his posthumous work. The actual economy, he wrote, consisted of goods that are moving in the process of production and exchange, as well as of persons responsible for putting them in motion, whether their activity be caused by the insufficiency of the means (economizing direction) or by the requirements of production irrespective of such an insufficiency (techno-economic direction). Goods without persons - persons without goods, cannot make an economy, he wrote. For persons who are economically active cannot be conceived of in the absence of things to which their activities relate; nor do things by themselves constitute an economy in the absence of persons who are acting in relation to them. The two are inseparable constituents of the economy. Menger takes his "order of goods" -- their distance from consumption -- for granted. He can do so, since his definition of the economy is based on the concept of a provision for material want satisfaction, hence materiality enters both into the process of production and exchange, as well as into the situations responsible for the movements of the things on the other hand.

A → Appendix

~~The success of the procedure outlined here cannot be taken for granted, for more than one reason. It may not be possible to strip a particular economic trait entirely of its associations with the system in which it functions. Even if successfully isolated, it may prove vain to look for a trait of identical functions under another system. Needless to say, even a successful translation of terms from one semantic sequence into another, even though consistently performed, ensures no more than formal correctness, not necessarily also a gain in substantive knowledge. For the points thus clarified may have been no more than system-difficulties, which arose out of the procedure applied, not problems~~

Continue on

Appendix

Hence for comparative purposes our patterns A, B ^{and} C have a particular significance. We must aim at comparing corresponding culture traits as they occur under those patterns. For instance, such familiar institutional traits as money, price, or long-distance trade should be compared with broadly corresponding economic culture traits in non-market economies. ~~This approach will be followed up here, and some tentative results given.~~

~~The distinction between market and non-market economy involves as we saw, the economy as a whole. The two non-market patterns may concern only single sectors of the economy. Nevertheless, this should allow a comparison of definite economic traits as they vary under patterns A, B and C and even to generalize: how far do these traits show similar variants under the different patterns? And eventually to what extent, if any, do these similarities help to explain the working of the economy as a whole under these patterns?~~

~~Admittedly, semantic difficulties arise: having identified the trait, as e.g. money or price, in its familiar context, we must re-define that trait in general terms; then compare this model (A) with its assumed analogue in the context (B) and (C) and fix its institutional setting there. The crux of the matter is how to generalize the trait in terms which do not restrict it to the familiar context, yet ~~perhaps~~ leave us reasonable freedom to identify its variants in another context.~~

~~However,~~ Our definition of the economy offers a clue how to proceed. The economic process is conceived as a locational or appropriational movement of things while the institutional integument consists for us of "persons in situations" causing the movements to happen. This should allow the reduction of "economic" traits to a combination of things in movement and persons in situations. The movements of the things can be circumscribed operationally, the situations can be determined sociologically, thus avoiding such valuational or motivational terms that may be potentially biased by virtue of the associations

Redistribution postulates centrality, that is, things are directly or indirectly allocated from a center (on a small scale the ubiquitous peasant household belongs here). (C)

A system of price-making markets, ^{institutional} symmetry and ^{institutional} centrality are structural requirements of the three basic patterns, respectively.

Apart from the market economy, the patterns are not mutually exclusive in a particular economy, rather they tend to co-exist with one more prominent than the others. Long-distance trade for instance, ran between the empires of antiquity regularly as gift-trade, between the rulers, i.e., on reciprocative lines, while the things exported and those imported by the rulers were domestic-ally collected and distributed by them through the ^{redistributive} channels of a central administration. Similarly, isolated markets are frequently found interspersed with non-market forms of integration.

Nevertheless, three patterns of movements are distinctive and significant causing stability and unity, i.e., a certain measure of recurrence and of interdependence of the parts. These patterns have therefore an integrative function, Hence their designation as "patterns of integration".

As a rule it is impossible to classify economies according to ^{a single} basic patterns, since ^{reciprocity, redistribution, and market exchange} ~~these~~ are not mutually exclusive, and dominance can not, as a rule, be claimed for any one of them (except again, in case of the market system). However, definite branches or levels of the economy, can be often ascribed to one of the patterns, which may then serve as a frame of reference in regard to that sector. In ancient ~~Israel~~ Israel or in Dahomey, reciprocity prevailed on the village level, while on the nation level the redistributive pattern obtained. Similarly, in the domestic sector of trade, redistribution took care of the movements of imported and exported goods, while in the foreign sector of trade as between the rulers, reciprocity prevailed.

by an economic institution: the dignitary may help boost the sales of an authorized work; or by exerting an influence on an economic institution as such, e.g., the book market; the dignitary may favor or frown upon censorship of literary publications --thus influencing the effectiveness of the book market.

Analysis must obviously start with the distinguishing of market economies from non-market economies.

While owing to the absence of market institutions to guide him, the economist was prevented from penetrating the socio-cultural tangle in ^{underdeveloped} ~~backward~~ societies, the social scientists, though experts in cultural settings that discount "rational motives", nevertheless failed to explain the course of the economic process, since no alternative pattern underlying the economy appeared available to serve as a referent.

What, it appears, has not been sufficiently considered was the possibility that under the surface other explanatory patterns might operate, different from ^[market] exchange, and not yet explored.

Market economies are as we have seen, readily identifiable by the dominance over the whole of a ^{network, a} self-regulating system of price-making markets; non-market economies in contrast show a baffling socio-cultural variety of patterns. However, such economies have been found to be instituted in two basic patterns: reciprocity and redistribution, or a combination of the two. Together with market exchange this raises the number of patterns here distinguished to three.

^["commodities" -- natural resources, labor, goods, and services]

Under a market system things ^{are} moving at the most favorable rate within a self-regulating system of price-making markets, ^{a widely integrative} exchange pattern unique to our times. (A)

Reciprocity implies that things are moving between two or more symmetrically placed persons or groups. (B)

categorically from "advanced" ones; nor was this tried later by other social scientists. For the purposes of such a task, involving as it does a comparison of market and pre-industrial non-market economies, a broader approach to the economy may be needed. Such a concept of the economy may indeed be found to lie nearer to the classical than to the neo-classical school of economic thought.

Basic Patterns of Integration

~~BASIC PATTERNS~~

The economy as a sub-system in society may be defined as a process of continuous material supply channeled through definite institutions. The process consists of movements of things, the movements being caused by persons acting in situations created by those institutions.

This picture of the economy as an instituted process contains, I believe, in nuce all the semantic elements needed for our theoretical purposes. The economic process and its institutional integument made up of "persons in situations", forms a complex whole. In actuality, things and persons in situations, are inseparably linked, while analytically they are ^{separable.} ~~separate.~~

Institutions are called economic if they typically create situations that determine the movements of which the process consists. The institutions ~~with~~ together with the process form the economy as a sub-system. Its boundaries are elastic since the economic character of the institutions is a matter of the degree ~~of both~~ ^{which} to ~~they~~ ^{typically} they contribute to the forming of those situations and the immediacy with which these affect the process. Other institutions, less indirectly affecting the process, are political, religious or otherwise "non-economic." These exert their influence on the economic process only exceptionally-- either accidentally or peripherally --for instance by creating untypical situations, as when a church dignitary who happens to be a successful author claims royalties on a best seller. As a rule, non-economic institutions exert an influence only by entering into a situation that is typically created

economy (Verkehrswirtschaft). The posthumous edition abounds in references to the exchange or market economy for which the "Principles" were designed, on the one hand, and the non-market or backward economies, on the other.

Only quite recently has attention turned again towards the economy of the under-developed and backward countries. Menger's discussion of economic development has, however, been forgotten. The posthumous edition, where the distinction between the two directions of the economy is made, was never translated into English. No presentation of neo-classical economics --including Lionel Robbins' (1935)-- deals with the "two directions". The London School of Economics edition of the "Principles" in its ^{re} ~~rate~~ book series (1933) chose the first edition. Hayek, in a preface to this "replica" edition helped to remove the posthumous Menger from the consciousness of economists by passing over the manuscript ^[of the second edition] as "fragmentary and disordered". "For the present, at any rate," Professor Hayek concluded, "the results of the work of Menger's later years must be regarded as lost." Some seventeen years later, when the "Principles", with F.H. Knight's preface, were translated into English (1950), the first edition --half the size of the second-- was once more selected. Moreover, the translation rendered throughout the book the term "wirtschaftend" (literally: engaged in economic activity) by "economizing". Yet, according to Menger, this was the equivalent not of "wirtschaftend", but of "sparend", which he had expressly introduced in the posthumous edition in order to distinguish the allocation of the insufficient means from another direction of the economy which does not necessarily imply insufficiency.

Menger himself was content to universalize the concept of economic activity by stressing its two directions, and made no attempt to develop a particular set of terms for "backward" economies which he was the first to distinguish

5/ Menger uses several words to designate these "backward" economies: zurückgeblieben, unzivilisiert, unentwickelt.

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Menger was avowedly faced by a semantic difficulty. He tells us that for the phrase "economizing direction" he found no German word corresponding precisely to the adjective "economizing", and so he used the closest available term 'sparend', specifying its meaning unmistakably in brackets as 'okonomisierend'. He then added a special section on the phenomena that emerge from the conjunction of the "techno-economic" and the economizing directions of the human economy.

Because of the brilliant and formidable achievements of price theory opened up by Menger, the new "economizing" or formal meaning of economic became the meaning, and that more traditional but seemingly pedestrian meaning of "materiality", which was not scarcity-bound, lost academic status and was eventually forgotten. Neo-classical economics was founded on the new meaning, while at the same time the old, material or substantive meaning faded from consciousness and lost its identity for economic thought. ^{3/}

Later, Menger wished to supplement his "Principles" of 1871, so as not to appear to ignore the primitive, archaic, and other early societies which were being studied by the new social sciences. Cultural anthropology revealed a variety of non-gainful motivations which induced man to take part in production; sociology refuted the myth of an all-pervading utilitarian bias; ancient history showed cases of high cultures having no market system. ^{4/} Menger was now anxious to limit the strict application of his "Principles" to the modern exchange

^{3/} The formal and the substantive meanings of "economic" as previously developed by the author contrasted 'economizing' with 'material'. This latter meaning is common to all the "subdisciplines" of the social sciences grouped above, as economic. In speaking of the economic process, we are referring therefore to the substantive meaning of "economic". In brief, the institutional approach to the economy implies the substantive meaning of 'economic' which thus becomes a stepping-stone towards the definition of the economy as given here. (See Trade & Market in the Early Empires, Chapter XIII).

^{4/} Menger himself seems to have held that economizing attitudes involve utilitarian value scales in a sense which we should regard to-day as an undue limitation of the logic of the ends-means relationship. This may have been one of the reasons why he hesitated to embark on any theory other than that of "advanced" countries where such value scales could be assumed.

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man's livelihood. This was the first statement of the postulate of scarcity, or maximization. As a succinct formulation of the logic of rational action with reference to the economy, it ranks high among the achievements of the human mind.

Its importance was enhanced by a superb relevance to the actual operation of market institutions which, due to their maximizing effects in day-to-day operations, were by their very nature amenable to such an approach.

As Menger explained, however, in a posthumous edition of his work, published in 1923, the economy has two "basic directions" only one of which was the economizing direction stemming from the insufficiency of means, while the other was the "techno-economic" ^{1/} direction as he called it, deriving from the requirements of production regardless of the sufficiency or insufficiency of the means. For rationally, production is called for if consumable goods are absent, while the factors are available.

In a section of Chapter IV entitled "The Two Basic Directions of the Human Economy", Menger wrote:

I call these two directions that the human economy can take - the technical and the economizing --basic [German: elementar]; though these appear as a rule, indeed, almost always linked with each other, they nevertheless spring from causes that are essentially different and independent from one another, and in some branches of the economy actually make their appearance alone... The technical direction of the human economy is neither necessarily dependent upon the economizing one, nor is it necessarily linked with it. ^{2/}

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1/ Modern readers might mistake Menger's "technical" or "techno-economic" for "technological". The latter as Menger was the first to recognize, was in its purpose altogether different from the economy. The economy is limited to providing for the means of want satisfaction, whether by economizing or by production. Technology as such is a sphere of activity not necessarily aimed at any purpose of this kind, but may include scientific or military purposes or be enjoyed for its own sake, according to Menger.

2/ Italics in the original, translation mine, K.P.

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historians of antiquity the myth of an invisible market pattern has come to overlie the economic life of the Near East, hindering the acceptance of a less commercial and more realistic interpretation of the facts about the economies of the Oriental empires. Even this is not all. Apart from the ~~market~~ market frame of reference, that was here forced upon non-market societies, there was that fragmentation of knowledge about non-market economies, the relevant facts being domiciled in the different social sciences. Hence, "The place of the economy in society" would mean to the anthropologist, its place in the cultural spectrum; to the sociologist, its place as a subsystem in a structured society; to the historian, its place on a time scale. Differences of semantic coloring would in this way tend to produce a puzzle of non-fitting items. Leading scholars in vain strained to reverse the trend towards departmentalization. The historian of antiquity, Eduard Meyer, the economic historians Henry S. Maine, Carl Buecher, Otto Hintze, Max Weber and Marc Bloch, the sociologists Durkheim and Mauss, the anthropologist Richard Thurnwald, advocated an integration of the disjecta membra of what might be tentatively called non-market economies. Eduard Meyer and Max Weber launched out on the task, but found no followers. B. Laum's explicit attempts at a general history, trying to reconstruct the mechanism of primitive and archaic economic institutions, was abortive, not least for lack of a unifying frame of reference.

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This calamitous uncertainty about the concept of the "economy" harks back, we submit, to the founding of the neo-classical school of economics, with its somewhat confusing influence on the study of non-market economies.

The Posthumous Carl Menger

MR
THE POSTHUMOUS CARL MENGER

Neo-classical economics was established on Carl Menger's premiss that its appropriate concern was the allocation of insufficient means to provide for

of "rational" principles of behavior. ^{In effect,} ~~the~~ the absence of market institutions was ^{to him} identical with that tendency towards "irrational^{ity}" which stultified ~~his~~ ~~the economist's~~ endeavors at comprehension.

In terms of empirical research the dispersal of economic information among the social sciences should have suggested a linking up of those enclaves of ^{historical, anthropological, and sociological} knowledge to form a whole. But again the status gained by ^{formal} economic analysis in this general field of study discouraged such attempts. Economics in its full-fledged intellectual armour tended to monopolize initiative in primitive economics, economic history, and economic sociology alike. The prevailing climate of opinion set a premium on common-sense maxims clothed in academic gowns, which were then substituted for empirical research and critical analysis. Faced with the choice between an advantageous and a less advantageous course, most men tend to choose the former; ^{this} was a typical pronouncement of conventional wisdom and was deemed sufficient to posit the axiom of gainfulness as a universal principle of human behavior. Once introduced, such an axiom would serve to justify the reception of the ambiguous terms of supply and demand wherever things were available (supply) that could be employed as means to a purpose (demand). Unwittingly, the human world ^{-- any society, anywhere, at any period in history --} would thus be transformed into a potential market system with ^{commercial} trade and ^{commercial} money as logical corollaries. ^{for empirical} enquiry There was now neither necessity nor was room left ^{for} Eventually, price-making markets would be seen ^{any sort of} though none were present ^{wherever} ^{trade} ^{or} money occurred, and ^{market} economics ~~would~~ take over, leaving the specific sub-disciplines where they were. At times such economic influences flooded not only the economic sub-disciplines ^[of anthropology and pre-industrial history] but the main sciences themselves. ^{Economic} Anthropology itself was affected by the allocational definition with its wake of a utilitarian psychology and a one-sided exchange definition of money; more recently sociology developed a rationalistic tendency culminating in an ingenious scheme of extending economic theory to the totality of society; with economic

All the more, it may have come as a surprise that neither have those "sub-disciplines" which specialize in non-market institutions reached any notable accuracy in describing ~~the~~ ^{the underdeveloped} ~~backward~~ countries, nor did attempts in this field attain to any insights even comparable to our understanding of the market economy, which is indeed remarkable.

Market-organized livelihood forms a conceptual whole through a system of market prices. ~~Single culture-traits of the economy such as manufacturing, trade and money readily interlink.~~ ^{Production} ~~Manufacturing~~ is carried on for gain made on price differentials, on ^{pricing} ~~posting~~ goods such as land, labor, and raw materials which have markets of their own, ^{as well as markets for} ~~similarly~~ to food and other consumer's goods. Trade is a two-way movement of goods through the market, directed by prices, and money a means of facilitating such a movement. Since prices are formed in ~~markets~~ ^{or commercial} trade is market trade and money is essentially exchange ^{money}. Both trade and money can then be regarded as functions of the market, and a self-regulating system of price-making markets may clearly result in a continuous supply of goods. The economist's question is only, how does it all work?

As to non-market economies, the position is completely different. For ancient Babylonia or the West African Negro empires ^{such as traditional Dahomey,} we possess no institutional ^{provides,} frame of reference to hold on to, such as price-making markets. Hence, there is no agreement about what exactly ^{about the place of the economy in the society,} we wish to know, ~~what culture-traits are~~ ^{of investigation,} ~~expected to interlock,~~ nor what lines ^a parallel with market economies should follow. Culture ^{complexes} ~~traits~~ resembling trade or money ~~can~~ occur, but there is no underlying pattern such as that of the market system to explain the movements of the things. Yet ^{in very primitive and archaic society,} there is a continuous supply of material goods, that is, an economy.

This was largely the burden of the complaint of the economist, when blaming his lack of ^{theoretical understanding} ~~theoretical penetration~~ of ~~the~~ ^{an} economy ⁱⁿ backward countries on those alien socio-cultural values ~~and motivations~~ that impede the application

Karl Polanyi

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The economics of ~~under~~ development is giving rise to problems at varying levels of abstraction. Outstanding among these, so it appears to me, is the question of the theoretical handling of early economies that possess no market systems. Such efforts must be condemned to failure as long as investigation, ~~as usually happens,~~ is arbitrarily limited to contemporary peoples. Yet ~~the~~ ^{Today's developing} market societies ~~comprise~~ alongside of ~~the~~ ^{non-market societies comprise} ~~backward~~ peoples of Asia, Africa and the Americas, ^{neither} most of the highly civilized empires of antiquity, which also had ~~no~~ secondary industries, nor a market system. And indeed there is the same lack of understanding of the manner in which the economy operated in all pre-industrial non-market areas, whether big or small, poor or rich, contemporary or long past. ~~Over~~ ^{In our concentration on} the Tribrianders we must not forget Sumer and Ptolemaic Egypt. No serious theory of non-market economies can ignore the record of the wealthy civilizations of ancient history.

Two fields of organized knowledge into man's livelihood are on record, economics proper and those fragments of knowledge that concern pre-modern types of livelihood. These we will designate as the "sub-disciplines" of ~~the~~ ^{economic} ~~respective~~ social sciences, ^{economic} anthropology and ^{economic} history. The corresponding economies can be contrasted as "advanced" and "backward", ^{specifiable} as market economies and pre-industrial non-market economies.

Our interest ^{here} is ~~not~~ ^{solely} in the latter. ~~It fits in well with this, that~~ These backward countries have hitherto proved accessible to theoretical treatment almost exclusively at the fringes where trade and markets of advanced countries reached them. Beyond that range, ^{all the indigenous,} alien, socio-economic structures of the underdeveloped countries seemed to obstruct rational analysis for lack of an institutional frame of reference.

*These notes were written in 1958 and 1960, They are published here by permission of Ilona Polanyi and Kari Polanyi Levitt. Ed.

Soon after the publication of Trade and Markets in the Early Empire

economic
historian

FOOTNOTES

5/ Menger uses several words to designate these "backward" economies: zuruckgeblieben, unzivilisiert, unentwickelt.

FOOTNOTES

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- 2/ Italics in the original, translation mine, K.P.
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the allocative acts. The subject may be a single person or a group of persons; the goods may be available by virtue of the natural or of the social situation; the goods shall be understood to include labor services; whether the person's own or those belonging to others; the allocation itself may be for use in technological production or use in exchange."

appear without the other.... The two directions in which the human economy may point are not mutually dependent upon one another; both are primary and elemental. Their regular joint occurrence in the actual economy results merely from the circumstance that the causative factors that give rise to each of them almost [my italics] without exception happen to coincide."

"The particular directions in which man's economic endeavors, under the invariably determinative influence of actual circumstances, seek a vent, derive from the one or from the other of these elemental directions, if not, as usually [my italics], from their conjunction. Accordingly, the particular endeavors are merely variants or manifestations of those elemental directions or a combination of the two [my italics].

Chapter IV, Section 1, "On the Economy and Economic Goods"

- (2) p. 60. "Thus every actual economy has a subjective and an objective side to it. Under the subjective aspect the economy represents an allocation of the goods that are immediately available to a person, who thus imparts to them a definite direction and a destination aimed at providing for his ultimate requirements. Under its objective aspect, on the other hand, the economy represents an aggregate of the available goods themselves as engaged in the actual movements induced by

ROBBINS: Chapter I, Section 3, "The Scarcity Definition of Economics"

- (1) p. 15. "Scarcity of means to satisfy ends of varied importance is an almost [my italics] ubiquitous condition of human behavior."

Chapter IV, Section 7, "Statics and Dynamics"

- (2) p. 99. "In the light of all that has been said the nature of economic analysis should now be plain. It consists of deductions from a series of postulates, the chief of which are almost [my italics] universal factors of experience present whenever human activity has an economic aspect...."

MENGER: Chapter IV, Section (c), "The two elemental directions of the human economy"

- (1) p. 77. "I shall designate the two directions in which the human economy may point -- the technical and the economizing -- as elemental, for this reason. Although in the actual economy these two directions as presented in the two previous sections* occur as a rule [my italics] together, and indeed almost [my italics] never found separately, they nevertheless spring from essentially different and mutually independent sources [Menger's italics]. In some fields of economic activity the two occur, in fact, separately, and in some not inconceivable types of economies either of them may in fact regularly

* The first of the sections bears the title: "The technico-economic allocation." The second is entitled: "The saving or economizing of the human economy as induced by insufficiency of the available means."

experience present whenever human activity has an economic aspect ..." Menger, who also noted the fact that scarcity "almost" overlapped with the economy, drew from this lack of complete congruity the opposite conclusion, namely, that the scarcity meaning of economic, could not be universalized so as to cover the phenomenon of human livelihood in general. What seemed to Robbins a negligible quantity, appeared in this way to Menger as indisputable evidence for the need of a substantive as against a formal meaning of "economic." Instead of compounding as Robbins did, the scarcity and the subsistence meaning into one universally applicable concept of the economy, Menger, on the contrary, constructed a comprehensive definition of "economic" which while leaving room for both meanings, would permit them to be related to one another according to the empirical conditions which caused them to be present.

The crucial sentence of Robbins' argument admits the presence of a gap, which it nevertheless fails to bridge. Menger noted the gap, and accounted for it by the two meanings of economic which he calls "the two elemental directions of the human economy." Robbins ^{proceeds to} ignore the consequences of the gap, and produced a definition of economic exclusively suited to the needs of [formal] economic analysis. Menger's superior precision eventually created a concept of the human economy, which can be consistently applied in all social sciences that treat of the economy, including economic analysis itself.

APPENDIX

-30- END -

The quotations given below are from Menger's Grundsätze, second edition (posthumous) of 1923, as translated from the German original.

Robbins' Nature and Significance of Economic Science, second edition, revised and extended 1935, reprinted 1946.

paradox, was no more than the incessant confusion of the two meanings of "economic," the one appropriate to the discipline of economic analysis, the other to the other social sciences.

In his second edition Menger extended the range of inquiry so as to comprise the facts of anthropology, sociology and economic history. Theoretically, this required a system of wants and needs, which would permit a distinction between man's physiological requirements, and the cultural definition of those requirements in terms of needs; a distinction between definite consumer's goods and the variety of combinations of different goods of higher order which according to the state of technological skill, might serve to produce them; and above all, a distinction between the economy as the sphere of man's livelihood, and the different forms of integration through which the economy as a unit was institutionalized.

It is easy to see that ^{the} ~~it was an~~ expansion of the Grundsätze ^{(was made) so as} to make room for a theory of wants and needs; for the 'distinctive determination' of modes of production, but more than anything else for ^{the purpose of providing} a definition of the "economy" which would satisfy the requirements of the social sciences dealing with the economy in general without sacrificing the criteria of an economy instituted through a competitive market system.

It is at this point that the achievement of the post-humous edition of 1923 becomes strikingly apparent. Take Lionel Robbins' well-known popularization of the scarcity definition as an example. Robbins wrote: "Scarcity of means to satisfy ends of varying importance is an almost [my italics, K.P.] ubiquitous condition of human behavior" (p. 15). And accordingly he concluded: "In the light of all that has been said the nature of economic analysis should now be plain. It consists of deductions from a series of postulates, the chief of which are almost [my italics, K.P.] universal facts of

Too much, I feel, was here left unsaid. Few men, if any, in the long history of human intellectual effort paralleled, and none surpassed Menger in his dedication to the unremitting search for the truth, at the risk of self-obliteration. He had refused to permit either a reprint or a translation of the text of the first edition, which he deemed in need of completion; he resigned his chair at the University of Vienna in order to devote himself exclusively to that task; after an effort of ~~altogether~~ fifty years during which he seems to have again and again reverted to the task, he left a manuscript behind him, which included four fully completed new chapters. At least one of these is of prime theoretical importance for the problems of definition and method that presently exercise the minds of contemporary scholars in this field.

It was mainly after Menger's death that the influences began to be felt which transcended the economists' treatment of economics and pointed towards the need for broader terms. Cultural anthropology and primitive economics as represented by Boas or Malinowski, sociology on the lines of Durkheim or Pareto, general economic history as first formulated by Max Weber were more hampered than helped by the "scarcity definition" of economics³ -- as it ~~was beginning~~ ^{came} to be called ~~initiated by Menger~~. This was the period when cultural anthropologists excelled in discovering economic institutions of strikingly "anti-economic" character such as the potlatch, the kula trade, or the matrimonial finance of the Manus Islanders. ^{Even} A rationalist and utilitarian like Pareto ~~even~~ indulged in the construction of 'irrational' residues as the roots of history; and Max Weber, who in economics strictly followed Menger and Mises, devoted a decade to tracing the religious origins of business ethics from Confucian China to Benjamin Franklin's America. Yet what then appeared as a

or else he was claiming that Menger got soft in the head, or else that ^{Menger's} ~~the~~ son did not know what he was doing in publishing the second edition). Menger was translated, again as PRINCIPLES OF ECONOMICS, in 1950. Frank H. Knight wrote an introduction.

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There was a footnote explaining the terminology -- that footnote said that Wirtschaftlich would be translated as "economical" ^{although} (but in the German, ^{the word} ~~it~~ also has the meaning of "economic" -- relating to the substantive economy). Knight knew of the posthumous work but he and the translators rejected the second edition ^{in favor of} the first on the ground that it was the first ^{edition} which influenced economics, and ^{that} the second contained much irrelevant material.

When Menger's classic of modern economic theory was at long last published in English the translators decided, ~~then~~ to use for that purpose the text offered by the first edition of 1871. The second revised edition of 1923, with its text expanded to twice the original length, was passed over with the briefest of explanations. It is fervently to be hoped that it will not take another 79 years before the English speaking public is enabled to benefit from that posthumous edition of Menger's 'Grundsätze' with its theoretical anticipations the full significance of which can perhaps be gauged only in our days.

But let me quote the translators themselves ^{on} ~~for~~ their reasons for ignoring the text of the second edition.

"The translation presented here," they write in their Preface, "is a complete rendering of the edition of the Grundsätze which was published in Vienna in 1871. A second German edition was published in Vienna [in 1923], two years after Menger's death. We rejected the possibility of a variorum translation because it was the first edition only that influenced the development of economic doctrine, because of the posthumous character of the second edition, and because the numerous differences between the two editions make a variorum translation impractical."

Menger himself thought that this theory was not, in fact, capable of answering all of the questions which were, more or less carelessly, put to it and explained by it. As a result, he never let his book be reprinted or translated because he wanted to find an even more general theory. Menger intermittently worked on this more general theory for about 50 years. After his death, it was published. In the second edition of the Grundsätze (1923), he retained his original theory -- he retained, in fact, every word of the original book -- but made a more general theory of the economy in order that he could make a place for history, anthropology, and sociology. In this second edition, he ^{stated} ~~said~~ that there are two meanings of "economy."

The reaction of economists was to assume that poor old Menger had not understood his own theory. It was not necessary they felt, to bring in a more general theory in order to understand perfectly all economic activity. The price mechanisms, with the additions to it -- those made by Jevons and the mathematical economists, the restatement of it as the marginal theory of utility -- could explain everything. (It is precisely this position that the anthropologist must attack: he ^{should} ~~does~~ not try to say that economists are wrong, but only that their theory is not the most general theory. He has been left out in the cold, and he is trying to get back into grace; an economist, Menger, pointed the way to this state of grace, and instead of that the economists have settled for a theory, also Menger's, which allows them only a pleasant corner outside the gates.)

A second edition of Menger appeared posthumously, which was prepared by his son, the mathematician. ~~It~~ published not the second, but the first edition of Menger's work. Hayek wrote an introduction in which he said that some papers of Menger had been left, more or less in confusion (either he did not, thus, know of the existence of the second edition,

Aspen Hayek became the [intellectual] leader of the London School of Economics group, L.S.E.

developed along the lines of Menger (Grundsätze, second edition 1923; first 1871). It started from human wants and needs which can be satisfied from scarce resources; it is possible to show through analysis of actions of people dealing with fulfilling these needs, that if a group of people meets and one lot has horses to sell and the other wants to buy horses, that a price will emerge at approximately the point at which the desire to buy and the desire to sell overlap as in the now familiar supply and demand curve analyses .

Conceptualization of the "market process" in this [supply and demand] way ^{one of the greatest feats of the human mind} ~~was a feat~~ - it showed that price results ~~is~~ from human activity, and discarded forever the notion that value ^{is} ~~was~~ intrinsic (in Adam Smith's case, it was put there by ~~the~~ ^[deriving from the] amount of work expended in making the thing). We have a thorough-going operational definition or viewpoint of price and value. Value is what somebody is willing to give for something.

This changed completely our theoretical attitude to what price is and what the economy is. What is new here is that price is a subjective affair. Price is, thus, not an attribute of the item but of the person and of the social relationship. This turns out to be so, even if the price refers to the price of money, land, and labor; and also can be extended to decisions about whether ^{a person} ~~we~~ will save, or invest, or whether ~~we~~ ^{he} will spend. Rent, interest, wages -- all can be seen in terms of this formula. No further theory is need to get a clear understanding of the figures which have emerged in the world economy -- this is one of the grandest simplifying theories ever produced.

What becomes important is that there is a network or system of interrelated ^{markets and} prices: the system of prices and the system of markets is the theory of economics. Everything else was super-added to this theory.

"economic" traits to a combination of things in movement and persons in situations. The movements of the things can be circumscribed operationally, the situations can be determined sociologically, thus avoiding such valuational or motivational terms that may be potentially biased by virtue of the associations of the original context. Such a procedure which reduces any phase of the economy to operational and situational terms rests in the last resort on our approach to the economy as an instituted process.

The gist of this formulation was given by Menger himself in his posthumous work. The actual economy, he wrote, consisted of goods that are moving in the process of production and exchange, as well as of persons responsible for putting them in motion, whether their activity be caused by the insufficiency of the means (economizing direction) or by the requirements of production irrespective of such an insufficiency (techno-economic direction). Goods without persons -- persons without goods, cannot make an economy, he wrote. For persons who are economically active cannot be conceived of in the absence of things to which their activities relate; nor do things by themselves constitute an economy in the absence of persons who are acting in relation to them. The two are inseparable constituents of the economy. Menger takes his "order of goods" -- their distance from consumption -- for granted. He can do so, since his definition of the economy is based on the concept of a provision for material want[^] satisfaction, hence materiality enters both into the process of production and exchange, as well as into the situations responsible for the movements of the things on the other hand.

Appendix

The Translation of Menger's Grundsätze

When Neo-classical economics was born in 1871, it was

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Nevertheless, three patterns of movements are distinctive and significant causing stability and unity, i.e., a certain measure of recurrence and of interdependence of the parts. These patterns have therefore an integrative function. Hence their designation as "patterns of integration."

As a rule, it is impossible to classify economies according to a single basic pattern, since reciprocity, redistribution, and market exchange are not mutually exclusive, and dominance cannot, as a rule, be claimed for any of them (except again, in case of the market system). However, definite branches or levels of the economy, can be often ascribed to one of the patterns, which may then serve as a frame of reference in regard to that sector. In ancient Israel or in Dahomey, reciprocity prevailed on the village level, while on the nation level the redistributive pattern obtained. Similarly, in the domestic sector of trade, redistribution took care of the movements of imported and exported goods, while in the foreign sector of trade as between the rulers, reciprocity prevailed.

Hence for comparative purposes our patterns A, B and C have a particular significance. We must aim at comparing corresponding culture traits as they occur under those patterns. For instance, such familiar institutional traits as money, price, or long-distance trade should be compared with broadly corresponding economic culture traits in non-market economies.

Our definition of the economy offers a clue how to proceed. The economic process is conceived as a locational or appropriational movement of things while the institutional integument consists for us of "persons in situations" causing the movements to happen. This should allow the reduction of

Market economies are as we have seen, readily identifiable by the dominance over the whole of a network, a self-regulating system of price-making markets; non-market economies in contrast show a baffling socio-cultural variety of patterns. However, such economies have been found to be instituted in two basic patterns: reciprocity and redistribution, or a combination of the two. Together with market exchange this raises the number of patterns here distinguished to three.

Under a market system things ["commodities" -- natural resources, labor, goods, and services] are moving at the most favorable rate within a self-regulating system of price-making markets, a widely integrative exchange pattern unique to our times. (A)

Reciprocity implies that things are moving between two or more symmetrically placed persons or groups. (B)

Redistribution postulates centrality, that is, things are directly or indirectly allocated from a center (on a small scale the ubiquitous peasant household belongs here). (C)

A system of price-making markets, institutional symmetry and institutional centrality are structural requirements of the three basic patterns, respectively.

Apart from the market economy, the patterns are not mutually exclusive in a particular economy, rather they tend to co-exist with one more prominent than the others. Long-distance trade for instance, ran between the empires of antiquity regularly as gift-trade, between the rulers, i.e., on reciprocative lines, while the things exported and those imported by the rulers were domestically collected and distributed by them through the redistributive channels of a central administration. Similarly, isolated markets are frequently found interspersed with non-market forms of integration.

situations that determine the movements of which the process consists. The institution together with the process form the economy as a sub-system. Its boundaries are elastic since the economic character of the institutions is a matter of the degree to which they contribute to the forming of those situations and the immediacy with which these affect the process. Other institutions, less indirectly affecting the process, are political, religious or otherwise "non-economic." These exert their influence on the economic process only exceptionally -- either accidentally or peripherally -- for instance by creating untypical situations, as when a church dignitary who happens to be a successful author claims royalties on a best seller. As a rule, non-economic institutions exert an influence only by entering into a situation that is typically created by an economic institution: the dignitary may help boost sales of an authorized work; or by exerting influence on an economic institution as such, e.g., the book market, the dignitary may favor or frown upon censorship of literary publications -- thus influencing the effectiveness of the book market.

Analysis must obviously start with the distinguishing of market economies from non-market economies.

While owing to the absence of market institutions to guide him, the economist was prevented from penetrating the socio-cultural tangle in underdeveloped societies, the social scientists, though experts in cultural settings that discount "rational motives," nevertheless failed to explain the course of the economic process, since no alternative pattern underlying the economy appeared available to serve as a referent.

What, it appears, has not been sufficiently considered was the possibility that under the surface other explanatory patterns might operate, different from [market] exchange, and not yet explored.

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by "economizing." Yet, according to Menger, this was the equivalent not of "wirtschaftend," but of "sparend," which he had expressly introduced in the posthumous edition in order to distinguish the allocation of the insufficient means from another direction of the economy which does not necessarily imply insufficiency.

Menger himself was content to universalize the concept of economic activity by stressing its two directions, and made no attempt to develop a particular set of terms for "backward" economies which he was the first to distinguish categorically from "advanced" ones; nor was this tried later by other social scientists. For the purposes of such a task, involving as it does a comparison of market and pre-industrial non-market economies, a broader approach to the economy may be needed. Such a concept of the economy may indeed be found to lie nearer to the classical than to the neo-classical school of economic thought.

Basic Patterns of Integration

The economy as a sub-system in society may be defined as a process of continuous material supply channeled through definite institutions. The process consists of movements of things, the movements being caused by persons acting in situations created by those institutions.

This picture of the economy as an instituted process contains, I believe, in nuce all the semantic elements needed for our theoretical purposes. The economic process and its institutional integument made up of "persons in situations," forms a complex whole. In actuality, things and persons in situations are inseparably linked, while analytically they are separable.

Institutions are called economic if they typically create

Later, Menger wished to supplement his "Principles" of 1871, so as not to appear to ignore the primitive, archaic, and other early societies which were being studied by the new social sciences. Cultural anthropology revealed a variety of non-gainful motivations which induced man to take part in production; sociology refuted the myth of an all-pervading utilitarian bias; ancient history showed cases of high cultures having no market system.^{4/} Menger was now anxious to limit the strict application of his "Principles" to the modern exchange economy (Verkehrswirtschaft). The posthumous edition abounds in references to the exchange or market economy for which the "Principles" were designed, on the one hand, and the non-market or backward economies, on the other.^{5/}

Only quite recently has attention turned again towards the economy of the under-developed and backward countries. Menger's discussion of economic development has, however, been forgotten. The posthumous edition, where the distinction between the two directions of the economy is made, was never translated into English. No presentation of neo-classical economics -- including Lionel Robbins' (1935) -- deals with the "two directions." The London School of Economics edition of the "Principles" in its rare book series (1933) chose the first edition. Hayek, in a preface to this "replica" edition helped to remove the posthumous Menger from the consciousness of economists by passing over the manuscript [of the second edition] as "fragmentary and disordered." "For the present, at any rate," Professor Hayek concluded, "the results of the work of Menger's later years must be regarded as lost." Some seventeen years later, when the "Principles," with F.H. Knight's preface, were translated into English (1950), the first edition -- half the size of the second -- was once more selected. Moreover, the translation rendered throughout the book the term "wirtschaftend" (literally: engaged in economic activity)

In a section of Chapter IV entitled "The Two Basic Directions of the Human Economy," Menger wrote:

I call these two directions that the human economy can take -- the technical and the economizing -- basic [German: elementar]; though these appear as a rule, indeed, almost always linked with each other, they nevertheless spring from causes that are essentially different and independent from one another, and in some branches of the economy actually make their appearance alone... The technical direction of the human economy is neither necessarily dependent upon the economizing one, nor is it necessarily linked with it.^{2/}

Menger was avowedly faced by a semantic difficulty. He tells us that for the phrase "economizing direction" he found no German word corresponding precisely to the adjective "economizing," and so he used the closest available term 'sparend', specifying its meaning unmistakably in brackets as 'okonomisierend'. He then added a special section on the phenomena that emerge from the conjunction of the "techno-economic" and the economizing directions of the human economy.

Because of the brilliant and formidable achievements of price theory opened up by Menger, the new "economizing" or formal meaning of economic became the meaning, and that more traditional but seemingly pedestrian meaning of "materiality," which was not scarcity-bound, lost academic status and was eventually forgotten. Neo-classical economics was founded on the new meaning, while at the same time the old, material or substantive meaning faded from consciousness and lost its identity for economic thought.^{3/}

advocated an integration of the disiecta membra of what might be tentatively called non-market economics. Eduard Meyer and Max Weber launched out on the task, but found no followers. B. Laum's explicit attempts at a general history, trying to reconstruct the mechanism of primitive and archaic economic institutions, was abortive, not least for lack of a unifying frame of reference.

This calamitous uncertainty about the concept of "economic" and the "economy" harks back, we submit, to the founding of the neo-classical school of economics, with its somewhat confusing influence on the study of non-market economies.

The Posthumous Carl Menger

Neo-classical economics was established on Carl Menger's premise that its appropriate concern was the allocation of insufficient means to provide for man's livelihood. This was the first statement of the postulate of scarcity, or maximization. As a succinct formulation of the logic of rational action with reference to the economy, it ranks high among the achievements of the human mind.

Its importance was enhanced by a superb relevance to the actual operation of market institutions which, due to their maximizing effects in day-to-day operations, were by their very nature amenable to such an approach.

As Menger explained, however, in a posthumous edition of his work, published in 1923, the economy has two "basic directions," only one of which was the economizing direction stemming from the insufficiency of means, while the other was the "techno-economic"^{1/} direction as he called it, deriving from the requirements of production regardless of the sufficiency or insufficiency of the means. For rationally, production is called for if consumable goods are absent, while the factors are available.

logical corollaries. There was now neither necessity nor room left for empirical enquiry. Eventually, price-making markets would be seen -- though none were present -- wherever any sort of trade or money occurred, and market economics would take over, leaving the specific sub-disciplines where they were. At times such economistic influences flooded not only the economic sub-disciplines [of economic anthropology and pre-industrial economic history] but the main sciences themselves. Anthropology itself was affected by the allocational definition with its wake of a utilitarian psychology and a one-sided exchange definition of money; more recently sociology developed a rationalistic tendency culminating in an ingenious scheme of extending economic theory to the totality of society; with economic historians of antiquity the myth of an invisible market pattern has come to overlies the economic life of the Near East, hindering the acceptance of a less commercial and more realistic interpretation of the facts about the economies of the Oriental empires. Even this is not all. Apart from the market frame of reference that was here forced upon non-market societies, there was that fragmentation of knowledge about non-market economies, the relevant facts being domiciled in the different social sciences. Hence, "The place of the economy in society" would mean to the anthropologist, its place in the cultural spectrum; to the sociologist, its place as a subsystem in a structured society; to the historian, its place on a time scale. Differences of semantic coloring would in this way tend to produce a puzzle of non-fitting items. Leading scholars in vain strained to reverse the trend towards departmentalization. The historian of antiquity, Eduard Meyer, the economic historians Henry S. Maine, Carl Buecher, Otto Hintze, Max Weber and Marc Bloch, the sociologists Durkheim and Mauss, the anthropologist Richard Thurnwald,

market system to explain the movements of the things. Yet in every primitive and archaic society, there is continuous supply of material goods, that is, an economy.

This was largely the burden of the complaint of the economist, when blaming his lack of theoretical understanding of economies in backward countries on those alien socio-cultural values that impede the application of "rational" principles of behavior. In effect, the absence of market institutions was to him identical with that tendency towards "irrationality" which stultified his endeavors at comprehension.

In terms of empirical research the dispersal of economic information among the social sciences should have suggested a linking up of those enclaves of historical, anthropological, and sociological knowledge to form a whole. But again the status gained by formal economic analysis in this general field of study discouraged such attempts. Economics in its full-fledged intellectual armour tended to monopolize initiative in primitive economics, economic history, and economic sociology alike. The prevailing climate of opinion set a premium on common-sense maxims clothed in academic gowns, which were then substituted for empirical research and critical analysis. Faced with the choice between an advantageous and a less advantageous course, most men tend to choose the former; this was a typical pronouncement of conventional wisdom and was deemed sufficient to posit the axiom of gainfulness as a universal principle of human behavior. Once introduced, such an axiom would serve to justify the reception of the ambiguous terms of supply and demand wherever things were available (supply) that could be employed as means to a purpose (demand). Unwittingly, the human world -- [any society, anywhere, at any period in history] -- would thus be transformed into a potential market system with commercial trade and commercial money as

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of advanced countries reached them. Beyond that range, the indigenous, alien, socio-economic structures of the underdeveloped countries seemed to obstruct rational analysis for lack of an institutional frame of reference.

All the more, it may have come as a surprise that neither have those "sub-disciplines" which specialize in non-market institutions reached any notable accuracy in describing the underdeveloped countries, nor did attempts in this field attain to any insights even comparable to our understanding of the market economy, which is indeed remarkable.

Market-organized livelihood forms a conceptual whole through a system of market prices. Production is carried on for gain made on price differentials, on pricing goods such as land, labor, and raw materials which have markets of their own, as well as markets for food and other consumer's goods. Trade is a two-way movement of goods through the market, directed by prices, and money a means of facilitating such a movement. Since prices are formed in markets trade is market trade and money is essentially exchange or commercial money. Both trade and money can then be regarded as functions of the market, and a self-regulating system of price-making markets may clearly result in a continuous supply of goods. The economist's question is only, how does it all work?

As to non-market economies, the position is completely different. For ancient Babylonia or the West African Negro empires, such as traditional Dahomey, we possess no institutional frame of reference to hold on to, such as price-making markets provide. Hence, there is no agreement about what exactly we wish to know about the place of the economy in the society, nor what lines of investigation a parallel with market economies should follow. Culture complexes resembling trade or money occur, but there is no underlying patternsuch as that of the

Final Copy
Carl Menger's Two Meanings of 'Economic'*

Karl Polanyi

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The economics of development is giving rise to problems at varying levels of abstraction. Outstanding among these, so it appears to me, is the question of the theoretical handling of early economies that possess no market systems. Such efforts must be condemned to failure as long as investigation is arbitrarily limited to contemporary peoples. Yet alongside of today's developing peoples of Asia, Africa and the Americas, non-market societies comprise most of the highly civilized empires of antiquity, which also had neither secondary industries nor market systems. And indeed there is the same lack of understanding of the manner in which the economy operated in all pre-industrial non-market areas, whether big or small, poor or rich, contemporary or long past. In our concentration on the Trobrianders we must not forget Sumer and Ptolemaic Egypt. No serious theory of non-market economies can ignore the record of the wealthy civilizations of ancient history.

Two fields of organized knowledge into man's livelihood are on record, economics proper and those fragments of knowledge that concern pre-modern types of livelihood. These we will designate as the "sub-disciplines" of economic anthropology and economic history. The corresponding economies can be contrasted as "advanced" and "backward," specifiable as market economies and pre-industrial non-market economies.

Our interest here is solely in the latter. These backward countries have hitherto proved accessible to theoretical treatment almost exclusively at the fringes where trade and markets

* These notes were written in 1958 and 1960, soon after the publication of Trade and Market in the Early Empires (1957). They are published here by permission of Ilona Polanyi and Kari Polanyi Levitt. Ed.

persons; the goods may be available by virtue of the natural or of the social situation; the goods shall be understood to include labor services; whether the person's own or those belonging to others; the allocation itself may be for use in technological production or use in exchange."

NOTES

¹ These drafts were written in 1958 and 1960, soon after the publication of *Trade and Market in the Early Empires* (1957). They are published here by permission of Ilona Polanyi and Kari Polanyi Levitt. Ed.

² Modern readers might mistake Menger's "technical" or "techno-economic" for "technological." The latter, as Menger was the first to recognize, was in its purpose altogether different from the economy. The economy is limited to providing for the means of want satisfaction, whether by economizing or by production. Technology as such is a sphere of activity not necessarily aimed at any purpose of this kind, but may include scientific or military purposes or be enjoyed for its own sake, according to Menger.

³ Italics in the original, translation mine, K. P.

⁴ The formal and the substantive meanings of "economic" as previously developed by the author contrasted "economizing" with "material." This latter meaning is common to all the "subdisciplines" of the social sciences grouped above, as economic. In speaking of the economic process, we are referring therefore to the substantive meaning of "economic." In brief, the institutional approach to the economy implies the substantive meaning of "economic" which thus becomes a stepping-stone towards the definition of the economy as given here. (See *Trade and Market in the Early Empires*, Ch. XIII.)

⁵ Menger himself seems to have held that economizing attitudes involve utilitarian value scales in a sense which we should regard today as an undue limitation of the logic of the ends-means relationship. This may have been one of the reasons why he hesitated to embark on any theory other than that of "advanced" countries where such value scales could be assumed.

⁶ Menger uses several words to designate these "backward" economies: *zuruckgeblieben, unzivilisiert, unentwickelt*.

⁷ The first of the sections bears the title: "*The technico-economic allocation.*" The second is entitled: "*The saving or economizing of the human economy as induced by insufficiency of the available means.*"

Menger as indisputable evidence for the need of a substantive as against a formal meaning of "economic." Instead of compounding as Robbins did, the scarcity and the subsistence meaning into one universally applicable concept of the economy, Menger, on the contrary, constructed a comprehensive definition of "economic" which while leaving room for both meanings, would permit them to be related to one another according to the empirical conditions which caused them to be present.

The crucial sentence of Robbins' argument admits the presence of a gap, which it nevertheless fails to bridge. Menger noted the gap, and accounted for it by the two meanings of economic which he calls "the two elemental directions of the human economy." Robbins proceeds to ignore the consequences of the gap, and produced a definition of economic exclusively suited to the needs of [formal] economic analysis. Menger's superior precision eventually created a concept of the human economy, which can be consistently applied in *all* social sciences that treat of the economy including economic analysis itself.

APPENDIX

The quotations given below are from Menger's *Grundsätze*, second edition (posthumous) of 1923, as translated from the German original.

Robbins' *Nature and Significance of Economic Science*, second edition, revised and extended 1935, reprinted 1946.

Robbins

Ch. I, Sect. 3, "The Scarcity Definition of Economics"

(1) p. 15. "Scarcity of means to satisfy ends of varied importance is an *almost* [my italics] ubiquitous condition of human behavior."

Ch. IV, Sect. 7, "Statics and Dynamics"

(2) p. 99. "In the light of all that has been said the nature of economic analysis should now be plain. It consists of deductions from a series of postulates, the chief of which are *almost* [my italics] universal factors of experience present whenever human activity has an economic aspect . . ."

Menger

Ch. IV, Sect. (c), "The two elemental directions of the human economy"

(1) p. 77. "I shall designate the two directions in which the human economy may point—the technical and the economizing—as elemental, for this reason. Although in the actual economy these two directions as presented in the two previous sections⁷ occur *as a rule* [my italics] together, and indeed *almost* [my italics] never found separately, they nevertheless spring from *essentially different and mutually independent sources* [Menger's italics]. In some fields of economic activity the two occur, in fact, separately, and in some not inconceivable types of economies either of them may in fact regularly appear without the other . . . The two directions in which the human economy may point are not mutually dependent upon one another; both are primary and elemental. Their regular joint occurrence in the actual economy results merely from the circumstance that the causative factors that give rise to each of them *almost* [my italics] without exception happen to coincide."

"The particular directions in which man's economic endeavors, under the *invariably determinative* influence of actual circumstances, seek a vent, derive from the one or from the other of these elemental directions, if not, *as usually* [my italics], from their conjunction. Accordingly, the particular endeavors are merely variations or manifestations of those elemental directions *or a combination of the two* [my italics]."¹¹

Ch. IV, Sect. 1, "On the Economy and Economic Goods"

(2) p. 60. "Thus every actual economy has a subjective and an objective side to it. Under the *subjective* aspect the economy represents an *allocation* of the goods that are immediately available to a person, who thus imparts to them a definite direction and a destination aimed at providing for his ultimate requirements. Under its *objective* aspect, on the other hand, the economy represents an aggregate of the available goods themselves as engaged in the actual movements induced by the allocative acts. The subject may be a single person or a group of

But let me quote the translators themselves on their reasons for ignoring the text of the second edition.

"The translation presented here," they write in their Preface, "is a complete rendering of the edition of the *Grundsätze* which was published in Vienna in 1871. A second German edition was published in Vienna [in 1923], two years after Menger's death. We rejected the possibility of a *variorum* translation because it was the first edition only that influenced the development of economic doctrine, because of the posthumous character of the second edition, and because the numerous differences between the two editions make a *variorum* translation impractical."

Too much, I feel was here left unsaid. Few men, if any in the long history of human intellectual effort paralleled and none surpassed Menger in his dedication to the unremitting search for the truth, at the risk of self-obliteration. He had refused to permit either a reprint or a translation of the text of the first edition, which he deemed in need of completion; he resigned his chair at the University of Vienna in order to devote himself exclusively to that task; after an effort of fifty years during which he seems to have again and again reverted to the task, he left a manuscript behind him, which included four fully completed new chapters. At least one of these is of prime theoretical importance for the problems of definition and method that presently exercise the minds of contemporary scholars in this field.

It was mainly after Menger's death that the influences began to be felt which transcended the economists' treatment of economics and pointed towards the need for broader terms. Cultural anthropology and primitive economics as represented by Boas or Malinowski, sociology on the lines of Durkheim or Pareto, general economic history as first formulated by Max Weber were more hampered than helped by the "scarcity definition of economics"—as it came to be called. This was the period when cultural anthropologists excelled in discovering economic institutions of strikingly "anti-economic" character such as the potlatch, the kula trade, or the matrimonial finance of the Manus Islanders. Even a rationalist and utilitarian like Pareto indulged in the construction of "irrational" residues as the roots of history; and Max Weber, who in economics strictly followed Menger and Mises, devoted a decade to tracing the religious origins of business ethics from Confucian China to Benjamin Franklin's America. Yet what then appeared as a paradox, was no more than the incessant confusion of the two meanings of "economic," the one appropriate to the discipline of economic analysis, the other to the other social sciences.

In his second edition Menger extended the range of inquiry so as to comprise the facts of anthropology, sociology, and economic history. Theoretically, this required a system of wants and needs, which would permit a distinction between man's physiological requirements, and the cultural definition of those requirements in terms of needs; a distinction between definite consumer's goods and the variety of combinations of different goods of higher order which according to the state of technological skill, might serve to produce them; and above all, a distinction between the economy as the sphere of man's livelihood, and the different forms of integration through which the economy as a unit was institutionalized.

It is easy to see that the expansion of the *Grundsätze* (was made) so as to make room for a theory of wants and needs; for the "distinctive determination" of modes of production, but more than anything else for the purpose of providing a definition of the "economy" which would satisfy the requirements of the social sciences dealing with the economy in general without sacrificing the criteria of an economy instituted through a competitive market system.

It is at this point that the achievement of the posthumous edition of 1923 becomes strikingly apparent. Take Lionel Robbins' well-known popularization of the scarcity definition as an example. Robbins wrote: "Scarcity of means to satisfy ends of varying importance is an *almost* [my italics, K. P.] ubiquitous condition of human behavior" (p. 15). And accordingly he concluded: "In the light of all that has been said the nature of economic analysis should now be plain. It consists of deductions from a series of postulates, the chief of which are *almost* [my italics, K. P.] universal facts of experience present whenever human activity has an economic aspect . . ." Menger, who also noted the fact that scarcity "almost" overlapped with the economy, drew from this lack of complete congruity the opposite conclusion, namely, that the scarcity meaning of economic, could not be universalized so as to cover the phenomenon of human livelihood in general. What seemed to Robbins a negligible quantity, appeared in this way to

other wants to buy horses, that a *price* will emerge at approximately the point at which the desire to buy and the desire to sell overlap as in the now familiar supply and demand curve analyses.

Conceptualization of the "market process" in this [supply and demand] way was one of the greatest feats of the human mind—showed that price resulted from human activity, and discarded forever the notion that value is intrinsic (deriving from the amount of work expended in making the thing). We have a thorough-going operational definition or viewpoint of price and value. Value is what somebody is willing to give for something.

This changed completely our theoretical attitude to what price is and what the economy is. What is new here is that price is a subjective affair. Price is, thus, not an attribute of the item but of the person and of the social relationship. This turns out to be so, even if the price refers to the price of money, land, and labor; and also can be extended to decisions about whether a person will save, or invest, or whether he will spend. Rent, interest, wages—all can be seen in terms of this formula. No further theory is needed to get a clear understanding of the figures which have emerged in the world economy—this is one of the grandest simplifying theories ever produced.

What becomes important is that there is a network or system of interrelated markets and prices: the system of prices and the system of markets is the theory of economics. Everything else was super-added to this theory.

Menger himself thought that this theory was not, in fact, capable of answering all of the questions which were, more or less carelessly, put to it and explained by it. As a result, he never let his book be reprinted or translated because he wanted to find an even more general theory. Menger intermittently worked on this more general theory for about fifty years. After his death, it was published. In the second edition of the *Grundsätze* (1923), he retained his original theory—he retained, in fact, every word of the original book—but made a more general theory of the economy in order that he could make a place for history, anthropology, and sociology. In this second edition, he stated that there are two meanings of "economy."

The reaction of economists was to assume that poor old Menger had not understood his own theory. It was not necessary they felt, to bring in a more general theory in order to understand perfectly all economic activity. The price mechanisms, with the additions to it—those made by Jevons and the mathematical economists, the restatement of it as the marginal theory of utility—could explain everything. (It is precisely this position that the anthropologist must attack: he should *not* try to say that economists are wrong, but only that their theory is not the most general theory. He has been left out in the cold, and he is trying to get back into grace; an economist, Menger, pointed the way to this state of grace, and instead of that the economists have settled for a theory, also Menger's, which allows them only a pleasant corner outside the gates.)

A second edition of Menger appeared posthumously, which was prepared by his son, the mathematician. When Hayek became the (intellectual) leader of the London School of Economics, L. S. E. published not the second, but the first edition of Menger's work. Hayek wrote an introduction in which he said that some papers of Menger had been left, more or less in confusion (either he did not, thus, know of the existence of the second edition, or else he was claiming that Menger got soft in the head, or else that the son did not know what he was doing in publishing the second edition). Menger was translated, again as principles of economics, in 1950. Frank H. Knight wrote an introduction. There was a footnote explaining the terminology—that footnote said that *Wirtschaftlich* would be translated as "economical" (although in the German, the word also has the meaning of "economic"—relating to the substantive economy). Knight knew of the posthumous work but he and the translators rejected the second edition in favor of the first on the ground that it was the first edition which influenced economics, and that the second contained much irrelevant material.

When Menger's classic of modern economic theory was at long last published in English the translators decided to use for that purpose the text offered by the first edition of 1871. The second revised edition of 1923, with its text expanded to twice the original length, was passed over with the briefest of explanations. It is fervently to be hoped that it will not take another seventy-nine years before the English speaking public is enabled to benefit from that posthumous edition of Menger's '*Grundsätze*' with its theoretical anticipations the full significance of which can perhaps be gauged only in our days.

Redistribution postulates centrality; that is, things are directly or indirectly allocated from a center (on a small scale the ubiquitous peasant household belongs here). (C)

A system of price-making markets, institutional symmetry and institutional centrality are structural requirements of the three basic patterns, respectively.

Apart from the market economy, the patterns are not mutually exclusive in a particular economy, rather they tend to co-exist with one more prominent than the others. Long-distance trade for instance, ran between the empires of antiquity regularly as gift-trade, between the rulers, i.e., on reciprocative lines, while the things exported and those imported by the rulers were domestically collected and distributed by them through the redistributive channels of a central administration. Similarly, isolated markets are frequently found interspersed with non-market forms of integration.

Nevertheless, three patterns of movements are distinctive and significant causing stability and unity, i.e., a certain measure of recurrence and of interdependence of the parts. These patterns have therefore an integrative function. Hence their designation as "patterns of integration."

As a rule, it is impossible to classify economies according to a single basic pattern, since reciprocity, redistribution, and market exchange are not mutually exclusive, and dominance cannot, as a rule, be claimed for any of them (except again, in case of the market system). However, definite branches or levels of the economy, can be often ascribed to one of the patterns, which may then serve as a frame of reference in regard to that sector. In ancient Israel or in Dahomey, reciprocity prevailed on the village level, while on the nation level the redistributive pattern obtained. Similarly, in the domestic sector of trade, redistribution took care of the movements of imported and exported goods, while in the foreign sector of trade as between the rulers, reciprocity prevailed.

Hence for comparative purposes our patterns A, B, and C have a particular significance. We must aim at comparing corresponding culture traits as they occur under those patterns. For instance, such familiar institutional traits as money, price, or long-distance trade should be compared with broadly corresponding economic culture traits in non-market economies.

Our definition of the economy offers a clue how to proceed. The economic process is conceived as a locational or appropriational movement of things while the institutional integument consists for us of "persons in situations" causing the movements to happen. This should allow the reduction of "economic" traits to a combination of *things* in movement and *persons* in situations. The movements of the things can be circumscribed operationally, the situations can be determined sociologically, thus avoiding such valuational or motivational terms that may be potentially biased by virtue of the associations of the original context. Such a procedure which reduces any phase of the economy to operational and situational terms rests in the last resort on our approach to the economy as an instituted process.

The gist of this formulation was given by Menger himself in his posthumous work. The actual economy, he wrote, consisted of goods that are moving in the process of production and exchange, as well as of persons responsible for putting them in motion, whether their activity be caused by the insufficiency of the means (economizing direction) or by the requirements of production irrespective of such an insufficiency (techno-economic direction). Goods without persons—persons without goods, cannot make an economy, he wrote. For persons who are economically active cannot be conceived of in the absence of things to which their activities relate; nor do things by themselves constitute an economy in the absence of persons who are acting in relation to them. The two are inseparable constituents of the economy. Menger takes his "order of goods"—their distance from consumption—for granted. He can do so, since his definition of the economy is based on the concept of a provision for material want satisfaction, hence materiality enters both into the process of production and exchange, as well as into the situations responsible for the movements of the things on the other hand.

When Neo-classical economics was born in 1871, it was developed along the lines of Menger (*Grundsätze*, 2nd ed. 1923; 1st ed. 1871). It started from human wants and needs which can be satisfied from scarce resources; it is possible to show through analysis of actions of people dealing with fulfilling these needs, that if a group of people meets and one lot has horses to sell and the

"economizing." Yet, according to Menger, this was the equivalent not of "*wirtschaftend*," but of "*sparend*," which he had expressly introduced in the posthumous edition in order to distinguish the allocation of the insufficient means from another direction of the economy which does not necessarily imply insufficiency.

Menger himself was content to universalize the concept of economic activity by stressing its two directions, and made no attempt to develop a particular set of terms for "backward" economies which he was the first to distinguish categorically from "advanced" ones; nor was this tried later by other social scientists. For the purposes of such a task, involving as it does a comparison of market and pre-industrial non-market economies, a broader approach to the economy may be needed. Such a concept of the economy may indeed be found to lie nearer to the classical than to the neo-classical school of economic thought.

BASIC PATTERNS OF INTEGRATION

The economy as a sub-system in society may be defined as a process of continuous material supply channeled through definite institutions. The process consists of movements of things, the movements being caused by persons acting in situations created by those institutions.

This picture of the economy as an instituted process contains, I believe, *in nuce* all the semantic elements needed for our theoretical purposes. The economic process and its institutional integument made up of "persons in situations," forms a complex whole. In actuality, things and persons in situations are inseparably linked, while analytically they are separable.

Institutions are called economic if they typically create situations that determine the movements of which the process consists. The institution together with the process form the economy as a sub-system. Its boundaries are elastic since the economic character of the institutions is a matter of the degree to which they contribute to the forming of those situations and the immediacy with which these affect the process. Other institutions, less directly affecting the process, are political, religious or otherwise "non-economic." These exert their influence on the economic process only exceptionally—either accidentally or peripherally—for instance by creating untypical situations, as when a church dignitary who happens to be a successful author claims royalties on a best seller. As a rule, non-economic institutions exert an influence only by entering into a situation that is typically created by an economic institution: the dignitary may help boost sales of an authorized work; or by exerting influence on an economic institution as such, e.g., the book market, the dignitary may favor or frown upon censorship of literary publications—thus influencing the effectiveness of the book market.

Analysis must obviously start with the distinguishing of market economies from non-market economies.

While owing to the absence of market institutions to guide him, the economist was prevented from penetrating the socio-cultural tangle in underdeveloped societies, the social scientists, though experts in cultural settings that discount "rational motives," nevertheless failed to explain the course of the economic process, since no alternative pattern underlying the economy appeared available to serve as a referent.

What, it appears, has not been sufficiently considered was the possibility that under the surface other explanatory patterns might operate, different from [market] exchange, and not yet explored.

Market economies are as we have seen, readily identifiable by the dominance over the whole of a network, a self-regulating system of price-making markets; non-market economies in contrast show a baffling socio-cultural variety of patterns. However, such economies have been found to be instituted in two basic patterns: reciprocity and redistribution, or a combination of the two. Together with market exchange this raises the number of patterns here distinguished to three.

Under a market system things ["commodities"—natural resources, labor, goods, and services] are moving at the most favorable rate within a self-regulating system of price-making markets, a widely integrative exchange pattern unique to our times. (A)

Reciprocity implies that things are moving between two or more symmetrically placed persons or groups. (B)

statement of the postulate of scarcity, or maximization. As a succinct formulation of the logic of rational action with reference to the economy, it ranks high among the achievements of the human mind.

Its importance was enhanced by a superb relevance to the actual operation of market institutions which, due to their maximizing effects in day-to-day operations, were by their very nature amenable to such an approach.

As Menger explained, however, in a posthumous edition of his work, published in 1923, the economy has *two* "basic directions," only *one* of which was the economizing direction stemming from the insufficiency of means, while the *other* was the "techno-economic"² direction as he called it, deriving from the requirements of production *regardless of the sufficiency or insufficiency of the means*. For rationally, production is called for if consumable goods are absent, while the factors are available.

In a section of Chapter IV entitled "The Two Basic Directions of the Human Economy," Menger wrote:

I call these two directions that the human economy can take—the technical and the economizing—*basic* [German: *elementar*]; though these appear as a rule, indeed, almost always linked with each other, they *nevertheless spring from causes that are essentially different and independent from one another*, and in some branches of the economy actually make their appearance alone . . . The technical direction of the human economy is neither necessarily dependent upon the economizing one, nor is it necessarily linked with it.³

Menger was avowedly faced by a semantic difficulty. He tells us that for the phrase "economizing direction" he found no German word corresponding precisely to the adjective "economizing," and so he used the closest available term '*sparend*', specifying its meaning unmistakably in brackets as '*okonomisierend*'. He then added a special section on the phenomena that emerge from the conjunction of the "techno-economic" and the economizing directions of the human economy.

Because of the brilliant and formidable achievements of price theory opened up by Menger, the new "economizing" or formal meaning of economic became *the* meaning, and that more traditional but seemingly pedestrian meaning of "materiality," which was not scarcity-bound, lost academic status and was eventually forgotten. Neo-classical economics was founded on the new meaning, while at the same time the old, material or substantive meaning faded from consciousness and lost its identity for economic thought.⁴

Later, Menger wished to supplement his "Principles" of 1871, so as not to appear to ignore the primitive, archaic, and other early societies which were being studied by the new social sciences. Cultural anthropology revealed a variety of non-gainful motivations which induced man to take part in production; sociology refuted the myth of an all-pervading utilitarian bias; ancient history showed cases of high cultures having no market system.⁵ Menger was now anxious to limit the strict application of his "Principles" to the modern exchange economy (*Verkehrswirtschaft*). The posthumous edition abounds in references to the exchange or market economy for which the "Principles" were designed, on the one hand, and the non-market or backward economies, on the other.⁶

Only quite recently has attention turned again towards the economy of the underdeveloped and backward countries. Menger's discussion of economic development has, however, been forgotten. The posthumous edition, where the distinction between the two directions of the economy is made, was never translated into English. No presentation of neo-classical economics—including Lionel Robbins' (1935)—deals with the "two directions." The London School of Economics edition of the "Principles" in its rare book series (1933) chose the first edition. Hayek, in a preface to this "replica" edition helped to remove the posthumous Menger from the consciousness of economists by passing over the manuscript [of the second edition] as "fragmentary and disordered." "For the present, at any rate," Professor Hayek concluded, "the results of the work of Menger's later years must be regarded as lost." Some seventeen years later, when the "Principles," with F. H. Knight's preface, were translated into English (1950), the first edition—half the size of the second—was once more selected. Moreover, the translation rendered throughout the book the term "*wirtschaftend*" (literally: engaged in economic activity) by

or money occur, but there is no underlying pattern such as that of the market system to explain the movements of the things. Yet in every primitive and archaic society, there is continuous supply of material goods, that is, an economy.

This was largely the burden of the complaint of the economist, when blaming his lack of theoretical understanding of economies in backward countries on those alien socio-cultural values that impede the application of "rational" principles of behavior. In effect, the absence of market institutions was to him identical with that tendency towards "irrationality" which stultified his endeavors at comprehension.

In terms of empirical research the dispersal of economic information among the social sciences should have suggested a linking up of those enclaves of historical, anthropological, and sociological knowledge to form a whole. But again the status gained by formal economic analysis in this general field of study discouraged such attempts. Economics in its full-fledged intellectual armor tended to monopolize initiative in primitive economics, economic history, and economic sociology alike. The prevailing climate of opinion set a premium on common-sense maxims clothed in academic gowns, which were then substituted for empirical research and critical analysis. Faced with the choice between an advantageous and a less advantageous course, most men tend to choose the former; this was a typical pronouncement of conventional wisdom and was deemed sufficient to posit the axiom of gainfulness as a universal principle of human behavior. Once introduced, such an axiom would serve to justify the reception of the ambiguous terms of supply and demand wherever things were available (supply) that could be employed as means to a purpose (demand). Unwittingly, the human world would thus be transformed into a potential market system with commercial trade and commercial money as logical corollaries. There was now neither necessity nor room left for empirical enquiry. Eventually, price-making markets would be seen—though none were present—wherever any sort of trade or money occurred, and market economics would take over, leaving the specific sub-disciplines where they were. At times such economic influences flooded not only the economic sub-disciplines [of economic anthropology and pre-industrial economic history] but the main sciences themselves. Anthropology itself was affected by the allocational definition with its wake of a utilitarian psychology and a one-sided exchange definition of money; more recently sociology developed a rationalistic tendency culminating in an ingenious scheme of extending economic theory to the totality of society; with economic historians of antiquity the myth of an invisible market pattern has come to overlie the economic life of the Near East, hindering the acceptance of a less commercial and more realistic interpretation of the facts about the economies of the Oriental empires. Even this is not all. Apart from the market frame of reference that was here forced upon non-market societies, there was that fragmentation of knowledge about non-market economies, the relevant facts being domiciled in the different social sciences. Hence, "The place of the economy in society" would mean to the anthropologist, its place in the cultural spectrum; to the sociologist, its place as a subsystem in a structured society; to the historian, its place on a time scale. Differences of semantic coloring would in this way tend to produce a puzzle of non-fitting items. Leading scholars in vain strained to reverse the trend towards departmentalization. The historian of antiquity, Eduard Meyer, the economic historians Henry S. Maine, Carl Buecher, Otto Hintze, Max Weber and Marc Bloch, the sociologists Durkheim and Mauss, the anthropologist Richard Thurnwald, advocated an integration of the *disjecta membra* of what might be tentatively called non-market economics. Eduard Meyer and Max Weber launched out on the task, but found no followers. B. Laum's explicit attempts at a general history, trying to reconstruct the mechanism of primitive and archaic economic institutions, was abortive, not least for lack of a unifying frame of reference.

This calamitous uncertainty about the concept of "economic" and the "economy" harks back, we submit, to the founding of the neo-classical school of economics, with its somewhat confusing influence on the study of non-market economies.

THE POSTHUMOUS CARL MENGER

Neo-classical economics was established on Carl Menger's premise that its appropriate concern was the allocation of insufficient means to provide for man's livelihood. This was the first

PART I

CONCEPTUAL ISSUES

1

Carl Menger's Two Meanings of "Economic"¹

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THE ECONOMICS of underdevelopment is giving rise to problems at varying levels of abstraction. Outstanding among these, so it appears to me, is the question of the theoretical handling of early economies that possess no market systems. Such efforts must be condemned to failure as long as investigation is arbitrarily limited to contemporary peoples. Yet alongside today's developing peoples of Asia, Africa, and the Americas, non-market societies comprise most of the highly civilized empires of antiquity, which also had neither secondary industries nor market systems. And indeed there is the same lack of understanding of the manner in which the economy operated in all pre-industrial non-market areas, whether big or small, poor or rich, contemporary or long past. In our concentration on the Trobrianders we must not forget Sumer and Ptolemaic Egypt. No serious theory of non-market economies can ignore the record of the wealthy civilizations of ancient history.

Two fields of organized knowledge into man's livelihood are on record, economics proper and those fragments of knowledge that concern pre-modern types of livelihood. These we will designate as the "sub-disciplines" of economic anthropology and economic history. The corresponding economies can be contrasted as "advanced" and "backward," specifiable as market economies and pre-industrial non-market economies.

Our interest here is solely in the latter. These backward countries have hitherto proved accessible to theoretical treatment almost exclusively at the fringes where trade and markets of advanced countries reached them. Beyond that range, the indigenous, alien, socio-economic structures of the underdeveloped countries seemed to obstruct rational analysis for lack of an institutional frame of reference.

All the more, it may have come as a surprise that neither have those "sub-disciplines" which specialize in non-market institutions reached any notable accuracy in describing the underdeveloped countries, nor did attempts in this field attain to any insights even comparable to our understanding of the market economy, which is indeed remarkable.

Market-organized livelihood forms a conceptual whole through a system of market prices. Production is carried on for gain made on price differentials, on pricing goods such as land, labor, and raw materials which have markets of their own, as well as markets for food and other consumer's goods. Trade is a two-way movement of goods through the market, directed by prices, and money a means of facilitating such a movement. Since prices are formed in markets trade is market trade and money is essentially exchange or commercial money. Both trade and money can then be regarded as functions of the market, and a self-regulating system of price-making markets may clearly result in a continuous supply of goods. The economist's question is only, how does it all work?

As to non-market economies, the position is completely different. For ancient Babylonia or the West African Negro empires, such as traditional Dahomey, we possess no institutional frame of reference to hold on to, such as price-making markets provide. Hence, there is no agreement about what exactly we wish to know about the place of the economy in the society, nor what lines of investigation a parallel with market economies should follow. Culture complexes resembling trade

Trade
Money

persons; the goods may be available by virtue of the natural or of the social situation; the goods shall be understood to include labor services; whether the person's own or those belonging to others; the allocation itself may be for use in technological production or use in exchange."

NOTES

¹ These drafts were written in 1958 and 1960, soon after the publication of *Trade and Market in the Early Empires* (1957). They are published here by permission of Ilona Polanyi and Kari Polanyi Levitt. Ed.

² Modern readers might mistake Menger's "technical" or "techno-economic" for "technological." The latter, as Menger was the first to recognize, was in its purpose altogether different from the economy. The economy is limited to providing for the means of want satisfaction, whether by economizing or by production. Technology as such is a sphere of activity not necessarily aimed at any purpose of this kind, but may include scientific or military purposes or be enjoyed for its own sake, according to Menger.

³ Italics in the original, translation mine, K. P.

⁴ The formal and the substantive meanings of "economic" as previously developed by the author contrasted "economizing" with "material." This latter meaning is common to all the "subdisciplines" of the social sciences grouped above, as economic. In speaking of the economic process, we are referring therefore to the substantive meaning of "economic." In brief, the institutional approach to the economy implies the substantive meaning of "economic" which thus becomes a stepping-stone towards the definition of the economy as given here. (See *Trade and Market in the Early Empires*, Ch. XIII.)

⁵ Menger himself seems to have held that economizing attitudes involve utilitarian value scales in a sense which we should regard today as an undue limitation of the logic of the ends-means relationship. This may have been one of the reasons why he hesitated to embark on any theory other than that of "advanced" countries where such value scales could be assumed.

⁶ Menger uses several words to designate these "backward" economies: *zuruckgeblieben*, *unzivilisiert*, *unentwickelt*.

⁷ The first of the sections bears the title: "*The technico-economic allocation.*" The second is entitled: "The saving or economizing of the human economy as induced by insufficiency of the available means."

Menger as indisputable evidence for the need of a substantive as against a formal meaning of "economic." Instead of compounding as Robbins did, the scarcity and the subsistence meaning into one universally applicable concept of the economy, Menger, on the contrary, constructed a comprehensive definition of "economic" which while leaving room for both meanings, would permit them to be related to one another according to the empirical conditions which caused them to be present.

The crucial sentence of Robbins' argument admits the presence of a gap, which it nevertheless fails to bridge. Menger noted the gap, and accounted for it by the two meanings of economic which he calls "the two elemental directions of the human economy." Robbins proceeds to ignore the consequences of the gap, and produced a definition of economic exclusively suited to the needs of [formal] economic analysis. Menger's superior precision eventually created a concept of the human economy, which can be consistently applied in *all* social sciences that treat of the economy including economic analysis itself.

APPENDIX

The quotations given below are from Menger's *Grundsätze*, second edition (posthumous) of 1923, as translated from the German original.

Robbins' *Nature and Significance of Economic Science*, second edition, revised and extended 1935, reprinted 1946.

Robbins

Ch. I, Sect. 3, "The Scarcity Definition of Economics"

(1) p. 15. "Scarcity of means to satisfy ends of varied importance is an *almost* [my italics] ubiquitous condition of human behavior."

Ch. IV, Sect. 7, "Statics and Dynamics"

(2) p. 99. "In the light of all that has been said the nature of economic analysis should now be plain. It consists of deductions from a series of postulates, the chief of which are *almost* [my italics] universal factors of experience present whenever human activity has an economic aspect . . ."

Menger

Ch. IV, Sect. (c), "The two elemental directions of the human economy"

(1) p. 77. "I shall designate the two directions in which the human economy may point—the technical and the economizing—as elemental, for this reason. Although in the actual economy these two directions as presented in the two previous sections⁷ occur *as a rule* [my italics] together, and indeed *almost* [my italics] never found separately, they nevertheless spring from *essentially different and mutually independent sources* [Menger's italics]. In some fields of economic activity the two occur, in fact, separately, and in some not inconceivable types of economies either of them may in fact regularly appear without the other . . . The two directions in which the human economy may point are not mutually dependent upon one another; both are primary and elemental. Their regular joint occurrence in the actual economy results merely from the circumstance that the causative factors that give rise to each of them *almost* [my italics] without exception happen to coincide."

"The particular directions in which man's economic endeavors, under the *invariably determinative* influence of actual circumstances, seek a vent, derive from the one or from the other of these elemental directions, if not, *as usually* [my italics], from their conjunction. Accordingly, the particular endeavors are merely variations or manifestations of those elemental directions *or a combination of the two* [my italics]."¹¹

Ch. IV, Sect. 1, "On the Economy and Economic Goods"

(2) p. 60. "Thus every actual economy has a subjective and an objective side to it. Under the *subjective* aspect the economy represents an *allocation* of the goods that are immediately available to a person, who thus imparts to them a definite direction and a destination aimed at providing for his ultimate requirements. Under its *objective* aspect, on the other hand, the economy represents an aggregate of the available goods themselves as engaged in the actual movements induced by the allocative acts. The subject may be a single person or a group of

But let me quote the translators themselves on their reasons for ignoring the text of the second edition.

"The translation presented here," they write in their Preface, "is a complete rendering of the edition of the *Grundsätze* which was published in Vienna in 1871. A second German edition was published in Vienna [in 1923], two years after Menger's death. We rejected the possibility of a *variorum* translation because it was the first edition only that influenced the development of economic doctrine, because of the posthumous character of the second edition, and because the numerous differences between the two editions make a *variorum* translation impractical."

Too much, I feel was here left unsaid. Few men, if any in the long history of human intellectual effort paralleled and none surpassed Menger in his dedication to the unremitting search for the truth, at the risk of self-obliteration. He had refused to permit either a reprint or a translation of the text of the first edition, which he deemed in need of completion; he resigned his chair at the University of Vienna in order to devote himself exclusively to that task; after an effort of fifty years during which he seems to have again and again reverted to the task, he left a manuscript behind him, which included four fully completed new chapters. At least one of these is of prime theoretical importance for the problems of definition and method that presently exercise the minds of contemporary scholars in this field.

It was mainly after Menger's death that the influences began to be felt which transcended the economists' treatment of economics and pointed towards the need for broader terms. Cultural anthropology and primitive economics as represented by Boas or Malinowski, sociology on the lines of Durkheim or Pareto, general economic history as first formulated by Max Weber were more hampered than helped by the "scarcity definition of economics"—as it came to be called. This was the period when cultural anthropologists excelled in discovering economic institutions of strikingly "anti-economic" character such as the potlatch, the kula trade, or the matrimonial finance of the Manus Islanders. Even a rationalist and utilitarian like Pareto indulged in the construction of "irrational" residues as the roots of history; and Max Weber, who in economics strictly followed Menger and Mises, devoted a decade to tracing the religious origins of business ethics from Confucian China to Benjamin Franklin's America. Yet what then appeared as a paradox, was no more than the incessant confusion of the two meanings of "economic," the one appropriate to the discipline of economic analysis, the other to the other social sciences.

In his second edition Menger extended the range of inquiry so as to comprise the facts of anthropology, sociology, and economic history. Theoretically, this required a system of wants and needs, which would permit a distinction between man's physiological requirements, and the cultural definition of those requirements in terms of needs; a distinction between definite consumer's goods and the variety of combinations of different goods of higher order which according to the state of technological skill, might serve to produce them; and above all, a distinction between the economy as the sphere of man's livelihood, and the different forms of integration through which the economy as a unit was institutionalized.

It is easy to see that the expansion of the *Grundsätze* (was made) so as to make room for a theory of wants and needs; for the "distinctive determination" of modes of production, but more than anything else for the purpose of providing a definition of the "economy" which would satisfy the requirements of the social sciences dealing with the economy in general without sacrificing the criteria of an economy instituted through a competitive market system.

It is at this point that the achievement of the posthumous edition of 1923 becomes strikingly apparent. Take Lionel Robbins' well-known popularization of the scarcity definition as an example. Robbins wrote: "Scarcity of means to satisfy ends of varying importance is an *almost* [my italics, K. P.] ubiquitous condition of human behavior" (p. 15). And accordingly he concluded: "In the light of all that has been said the nature of economic analysis should now be plain. It consists of deductions from a series of postulates, the chief of which are *almost* [my italics, K. P.] universal facts of experience present whenever human activity has an economic aspect . . ." Menger, who also noted the fact that scarcity "almost" overlapped with the economy, drew from this lack of complete congruity the opposite conclusion, namely, that the scarcity meaning of economic, could *not* be universalized so as to cover the phenomenon of human livelihood in general. What seemed to Robbins a negligible quantity, appeared in this way to

other wants to buy horses, that a *price* will emerge at approximately the point at which the desire to buy and the desire to sell overlap as in the now familiar supply and demand curve analyses.

Conceptualization of the "market process" in this [supply and demand] way was one of the greatest feats of the human mind—showed that price resulted from human activity, and discarded forever the notion that value is intrinsic (deriving from the amount of work expended in making the thing). We have a thorough-going operational definition or viewpoint of price and value. Value is what somebody is willing to give for something.

This changed completely our theoretical attitude to what price is and what the economy is. What is new here is that price is a subjective affair. Price is, thus, not an attribute of the item but of the person and of the social relationship. This turns out to be so, even if the price refers to the price of money, land, and labor; and also can be extended to decisions about whether a person will save, or invest, or whether he will spend. Rent, interest, wages—all can be seen in terms of this formula. No further theory is needed to get a clear understanding of the figures which have emerged in the world economy—this is one of the grandest simplifying theories ever produced.

What becomes important is that there is a network or system of interrelated markets and prices: the system of prices and the system of markets is the theory of economics. Everything else was super-added to this theory.

Menger himself thought that this theory was not, in fact, capable of answering all of the questions which were, more or less carelessly, put to it and explained by it. As a result, he never let his book be reprinted or translated because he wanted to find an even more general theory. Menger intermittently worked on this more general theory for about fifty years. After his death, it was published. In the second edition of the *Grundsätze* (1923), he retained his original theory—he retained, in fact, every word of the original book—but made a more general theory of the economy in order that he could make a place for history, anthropology, and sociology. In this second edition, he stated that there are two meanings of "economy."

The reaction of economists was to assume that poor old Menger had not understood his own theory. It was not necessary they felt, to bring in a more general theory in order to understand perfectly all economic activity. The price mechanisms, with the additions to it—those made by Jevons and the mathematical economists, the restatement of it as the marginal theory of utility—could explain everything. (It is precisely this position that the anthropologist must attack: he should *not* try to say that economists are wrong, but only that their theory is not the most general theory. He has been left out in the cold, and he is trying to get back into grace; an economist, Menger, pointed the way to this state of grace, and instead of that the economists have settled for a theory, also Menger's, which allows them only a pleasant corner outside the gates.)

A second edition of Menger appeared posthumously, which was prepared by his son, the mathematician. When Hayek became the (intellectual) leader of the London School of Economics, L. S. E. published not the second, but the *first* edition of Menger's work. Hayek wrote an introduction in which he said that some papers of Menger had been left, more or less in confusion (either he did not, thus, know of the existence of the second edition, or else he was claiming that Menger got soft in the head, or else that the son did not know what he was doing in publishing the second edition). Menger was translated, again as principles of economics, in 1950. Frank H. Knight wrote an introduction. There was a footnote explaining the terminology—that footnote said that *Wirtschaftlich* would be translated as "economical" (although in the German, the word also has the meaning of "economic"—relating to the substantive economy). Knight knew of the posthumous work but he and the translators rejected the second edition in favor of the first on the ground that it was the first edition which influenced economics, and that the second contained much irrelevant material.

When Menger's classic of modern economic theory was at long last published in English the translators decided to use for that purpose the text offered by the first edition of 1871. The second revised edition of 1923, with its text expanded to twice the original length, was passed over with the briefest of explanations. It is fervently to be hoped that it will not take another seventy-nine years before the English speaking public is enabled to benefit from that posthumous edition of Menger's '*Grundsätze*' with its theoretical anticipations the full significance of which can perhaps be gauged only in our days.

Redistribution postulates centrality; that is, things are directly or indirectly allocated from a center (on a small scale the ubiquitous peasant household belongs here). (C)

A system of price-making markets, institutional symmetry and institutional centrality are structural requirements of the three basic patterns, respectively.

Apart from the market economy, the patterns are not mutually exclusive in a particular economy, rather they tend to co-exist with one more prominent than the others. Long-distance trade for instance, ran between the empires of antiquity regularly as gift-trade, between the rulers, i.e., on reciprocative lines, while the things exported and those imported by the rulers were domestically collected and distributed by them through the redistributive channels of a central administration. Similarly, isolated markets are frequently found interspersed with non-market forms of integration.

Nevertheless, three patterns of movements are distinctive and significant causing stability and unity, i.e., a certain measure of recurrence and of interdependence of the parts. These patterns have therefore an integrative function. Hence their designation as "patterns of integration."

As a rule, it is impossible to classify economies according to a single basic pattern, since reciprocity, redistribution, and market exchange are not mutually exclusive, and dominance cannot, as a rule, be claimed for any of them (except again, in case of the market system). However, definite branches or levels of the economy, can be often ascribed to one of the patterns, which may then serve as a frame of reference in regard to that sector. In ancient Israel or in Dahomey, reciprocity prevailed on the village level, while on the nation level the redistributive pattern obtained. Similarly, in the domestic sector of trade, redistribution took care of the movements of imported and exported goods, while in the foreign sector of trade as between the rulers, reciprocity prevailed.

Hence for comparative purposes our patterns A, B, and C have a particular significance. We must aim at comparing corresponding culture traits as they occur under those patterns. For instance, such familiar institutional traits as money, price, or long-distance trade should be compared with broadly corresponding economic culture traits in non-market economies.

Our definition of the economy offers a clue how to proceed. The economic process is conceived as a locational or appropriational movement of things while the institutional integument consists for us of "persons in situations" causing the movements to happen. This should allow the reduction of "economic" traits to a combination of *things* in movement and *persons* in situations. The movements of the things can be circumscribed operationally, the situations can be determined sociologically, thus avoiding such valuational or motivational terms that may be potentially biased by virtue of the associations of the original context. Such a procedure which reduces any phase of the economy to operational and situational terms rests in the last resort on our approach to the economy as an instituted process.

The gist of this formulation was given by Menger himself in his posthumous work. The actual economy, he wrote, consisted of *goods* that are moving in the process of production and exchange, as well as of *persons* responsible for putting them in motion, whether their activity be caused by the insufficiency of the means (economizing direction) or by the requirements of production irrespective of such an insufficiency (techno-economic direction). Goods without persons—persons without goods, cannot make an economy, he wrote. For persons who are economically active cannot be conceived of in the absence of things to which their activities relate; nor do things by themselves constitute an economy in the absence of persons who are acting in relation to them. The two are inseparable constituents of the economy. Menger takes his "order of goods"—their distance from consumption—for granted. He can do so, since his definition of the economy is based on the concept of a provision for material want satisfaction, hence materiality enters both into the process of production and exchange, as well as into the situations responsible for the movements of the things on the other hand.

When Neo-classical economics was born in 1871, it was developed along the lines of Menger (*Grundsätze*, 2nd ed. 1923; 1st ed. 1871). It started from human wants and needs which can be satisfied from scarce resources; it is possible to show through analysis of actions of people dealing with fulfilling these needs, that if a group of people meets and one lot has horses to sell and the

"economizing." Yet, according to Menger, this was the equivalent not of "*wirtschaftend*," but of "*sparend*," which he had expressly introduced in the posthumous edition in order to distinguish the allocation of the insufficient means from another direction of the economy which does not necessarily imply insufficiency.

Menger himself was content to universalize the concept of economic activity by stressing its two directions, and made no attempt to develop a particular set of terms for "backward" economies which he was the first to distinguish categorically from "advanced" ones; nor was this tried later by other social scientists. For the purposes of such a task, involving as it does a comparison of market and pre-industrial non-market economies, a broader approach to the economy may be needed. Such a concept of the economy may indeed be found to lie nearer to the classical than to the neo-classical school of economic thought.

BASIC PATTERNS OF INTEGRATION

The economy as a sub-system in society may be defined as a process of continuous material supply channeled through definite institutions. The process consists of movements of things, the movements being caused by persons acting in situations created by those institutions.

This picture of the economy as an instituted process contains, I believe, *in nuce* all the semantic elements needed for our theoretical purposes. The economic process and its institutional integument made up of "persons in situations," forms a complex whole. In actuality, things and persons in situations are inseparably linked, while analytically they are separable.

Institutions are called economic if they typically create situations that determine the movements of which the process consists. The institution together with the process form the economy as a sub-system. Its boundaries are elastic since the economic character of the institutions is a matter of the degree to which they contribute to the forming of those situations and the immediacy with which these affect the process. Other institutions, less directly affecting the process, are political, religious or otherwise "non-economic." These exert their influence on the economic process only exceptionally—either accidentally or peripherally—for instance by creating untypical situations, as when a church dignitary who happens to be a successful author claims royalties on a best seller. As a rule, non-economic institutions exert an influence only by entering into a situation that is typically created by an economic institution: the dignitary may help boost sales of an authorized work; or by exerting influence on an economic institution as such, e.g., the book market, the dignitary may favor or frown upon censorship of literary publications—thus influencing the effectiveness of the book market.

Analysis must obviously start with the distinguishing of market economies from non-market economies.

While owing to the absence of market institutions to guide him, the economist was prevented from penetrating the socio-cultural tangle in underdeveloped societies, the social scientists, though experts in cultural settings that discount "rational motives," nevertheless failed to explain the course of the economic process, *since no alternative pattern underlying the economy appeared available to serve as a referent.*

What, it appears, has not been sufficiently considered was the possibility that under the surface other explanatory patterns might operate, different from [market] exchange, and not yet explored.

Market economies are as we have seen, readily identifiable by the dominance over the whole of a network, a self-regulating system of price-making markets; non-market economies in contrast show a baffling socio-cultural variety of patterns. However, such economies have been found to be instituted in two basic patterns: reciprocity and redistribution, or a combination of the two. Together with market exchange this raises the number of patterns here distinguished to three.

Under a market system things ["commodities"—natural resources, labor, goods, and services] are moving at the most favorable rate within a self-regulating system of price-making markets, a widely integrative exchange pattern unique to our times. (A)

Reciprocity implies that things are moving between two or more symmetrically placed persons or groups. (B)

statement of the postulate of scarcity, or maximization. As a succinct formulation of the logic of rational action with reference to the economy, it ranks high among the achievements of the human mind.

Its importance was enhanced by a superb relevance to the actual operation of market institutions which, due to their maximizing effects in day-to-day operations, were by their very nature amenable to such an approach.

As Menger explained, however, in a posthumous edition of his work, published in 1923, the economy has *two* "basic directions," only *one* of which was the economizing direction stemming from the insufficiency of means, while the *other* was the "techno-economic"² direction as he called it, deriving from the requirements of production *regardless of the sufficiency or insufficiency of the means*. For rationally, production is called for if consumable goods are absent, while the factors are available.

In a section of Chapter IV entitled "The Two Basic Directions of the Human Economy," Menger wrote:

I call these two directions that the human economy can take—the technical and the economizing—*basic* [German: *elementar*]; though these appear as a rule, indeed, almost always linked with each other, they *nevertheless spring from causes that are essentially different and independent from one another*, and in some branches of the economy actually make their appearance alone . . . The technical direction of the human economy is neither necessarily dependent upon the economizing one, nor is it necessarily linked with it.³

Menger was avowedly faced by a semantic difficulty. He tells us that for the phrase "economizing direction" he found no German word corresponding precisely to the adjective "economizing," and so he used the closest available term '*sparend*', specifying its meaning unmistakably in brackets as '*okonomisierend*'. He then added a special section on the phenomena that emerge from the conjunction of the "techno-economic" and the economizing directions of the human economy.

Because of the brilliant and formidable achievements of price theory opened up by Menger, the new "economizing" or formal meaning of economic became *the* meaning, and that more traditional but seemingly pedestrian meaning of "materiality," which was not scarcity-bound, lost academic status and was eventually forgotten. Neo-classical economics was founded on the new meaning, while at the same time the old, material or substantive meaning faded from consciousness and lost its identity for economic thought.⁴

Later, Menger wished to supplement his "Principles" of 1871, so as not to appear to ignore the primitive, archaic, and other early societies which were being studied by the new social sciences. Cultural anthropology revealed a variety of non-gainful motivations which induced man to take part in production; sociology refuted the myth of an all-pervading utilitarian bias; ancient history showed cases of high cultures having no market system.⁵ Menger was now anxious to limit the strict application of his "Principles" to the modern exchange economy (*Verkehrswirtschaft*). The posthumous edition abounds in references to the exchange or market economy for which the "Principles" were designed, on the one hand, and the non-market or backward economies, on the other.⁶

Only quite recently has attention turned again towards the economy of the underdeveloped and backward countries. Menger's discussion of economic development has, however, been forgotten. The posthumous edition, where the distinction between the two directions of the economy is made, was never translated into English. No presentation of neo-classical economics—including Lionel Robbins' (1935)—deals with the "two directions." The London School of Economics edition of the "Principles" in its rare book series (1933) chose the first edition. Hayek, in a preface to this "replica" edition helped to remove the posthumous Menger from the consciousness of economists by passing over the manuscript [of the second edition] as "fragmentary and disordered." "For the present, at any rate," Professor Hayek concluded, "the results of the work of Menger's later years must be regarded as lost." Some seventeen years later, when the "Principles," with F. H. Knight's preface, were translated into English (1950), the first edition—half the size of the second—was once more selected. Moreover, the translation rendered throughout the book the term "*wirtschaftend*" (literally: engaged in economic activity) by

or money occur, but there is no underlying pattern such as that of the market system to explain the movements of the things. Yet in every primitive and archaic society, there is continuous supply of material goods, that is, an economy.

This was largely the burden of the complaint of the economist, when blaming his lack of theoretical understanding of economies in backward countries on those alien socio-cultural values that impede the application of "rational" principles of behavior. In effect, the absence of market institutions was to him identical with that tendency towards "irrationality" which stultified his endeavors at comprehension.

In terms of empirical research the dispersal of economic information among the social sciences should have suggested a linking up of those enclaves of historical, anthropological, and sociological knowledge to form a whole. But again the status gained by formal economic analysis in this general field of study discouraged such attempts. Economics in its full-fledged intellectual armor tended to monopolize initiative in primitive economics, economic history, and economic sociology alike. The prevailing climate of opinion set a premium on common-sense maxims clothed in academic gowns, which were then substituted for empirical research and critical analysis. Faced with the choice between an advantageous and a less advantageous course, most men tend to choose the former; this was a typical pronouncement of conventional wisdom and was deemed sufficient to posit the axiom of gainfulness as a universal principle of human behavior. Once introduced, such an axiom would serve to justify the reception of the ambiguous terms of supply and demand wherever things were available (supply) that could be employed as means to a purpose (demand). Unwittingly, the human world would thus be transformed into a potential market system with commercial trade and commercial money as logical corollaries. There was now neither necessity nor room left for empirical enquiry. Eventually, price-making markets would be seen—though none were present—wherever any sort of trade or money occurred, and market economics would take over, leaving the specific sub-disciplines where they were. At times such economic influences flooded not only the economic sub-disciplines [of economic anthropology and pre-industrial economic history] but the main sciences themselves. Anthropology itself was affected by the allocational definition with its wake of a utilitarian psychology and a one-sided exchange definition of money; more recently sociology developed a rationalistic tendency culminating in an ingenious scheme of extending economic theory to the totality of society; with economic historians of antiquity the myth of an invisible market pattern has come to overlie the economic life of the Near East, hindering the acceptance of a less commercial and more realistic interpretation of the facts about the economies of the Oriental empires. Even this is not all. Apart from the market frame of reference that was here forced upon non-market societies, there was that fragmentation of knowledge about non-market economies, the relevant facts being domiciled in the different social sciences. Hence, "The place of the economy in society" would mean to the anthropologist, its place in the cultural spectrum; to the sociologist, its place as a subsystem in a structured society; to the historian, its place on a time scale. Differences of semantic coloring would in this way tend to produce a puzzle of non-fitting items. Leading scholars in vain strained to reverse the trend towards departmentalization. The historian of antiquity, Eduard Meyer, the economic historians Henry S. Maine, Carl Buecher, Otto Hintze, Max Weber and Marc Bloch, the sociologists Durkheim and Mauss, the anthropologist Richard Thurnwald, advocated an integration of the *disjecta membra* of what might be tentatively called non-market economics. Eduard Meyer and Max Weber launched out on the task, but found no followers. B. Laum's explicit attempts at a general history, trying to reconstruct the mechanism of primitive and archaic economic institutions, was abortive, not least for lack of a unifying frame of reference.

This calamitous uncertainty about the concept of "economic" and the "economy" harks back, we submit, to the founding of the neo-classical school of economics, with its somewhat confusing influence on the study of non-market economies.

THE POSTHUMOUS CARL MENGER

Neo-classical economics was established on Carl Menger's premise that its appropriate concern was the allocation of insufficient means to provide for man's livelihood. This was the first

PART I

CONCEPTUAL ISSUES

1

Carl Menger's Two Meanings of "Economic"¹

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THE ECONOMICS of underdevelopment is giving rise to problems at varying levels of abstraction. Outstanding among these, so it appears to me, is the question of the theoretical handling of early economies that possess no market systems. Such efforts must be condemned to failure as long as investigation is arbitrarily limited to contemporary peoples. Yet alongside today's developing peoples of Asia, Africa, and the Americas, non-market societies comprise most of the highly civilized empires of antiquity, which also had neither secondary industries nor market systems. And indeed there is the same lack of understanding of the manner in which the economy operated in all pre-industrial non-market areas, whether big or small, poor or rich, contemporary or long past. In our concentration on the Trobrianders we must not forget Sumer and Ptolemaic Egypt. No serious theory of non-market economies can ignore the record of the wealthy civilizations of ancient history.

Two fields of organized knowledge into man's livelihood are on record, economics proper and those fragments of knowledge that concern pre-modern types of livelihood. These we will designate as the "sub-disciplines" of economic anthropology and economic history. The corresponding economies can be contrasted as "advanced" and "backward," specifiable as market economies and pre-industrial non-market economies.

Our interest here is solely in the latter. These backward countries have hitherto proved accessible to theoretical treatment almost exclusively at the fringes where trade and markets of advanced countries reached them. Beyond that range, the indigenous, alien, socio-economic structures of the underdeveloped countries seemed to obstruct rational analysis for lack of an institutional frame of reference.

All the more, it may have come as a surprise that neither have those "sub-disciplines" which specialize in non-market institutions reached any notable accuracy in describing the underdeveloped countries, nor did attempts in this field attain to any insights even comparable to our understanding of the market economy, which is indeed remarkable.

Market-organized livelihood forms a conceptual whole through a system of market prices. Production is carried on for gain made on price differentials, on pricing goods such as land, labor, and raw materials which have markets of their own, as well as markets for food and other consumer's goods. Trade is a two-way movement of goods through the market, directed by prices, and money a means of facilitating such a movement. Since prices are formed in markets trade is market trade and money is essentially exchange or commercial money. Both trade and money can then be regarded as functions of the market, and a self-regulating system of price-making markets may clearly result in a continuous supply of goods. The economist's question is only, how does it all work?

As to non-market economies, the position is completely different. For ancient Babylonia or the West African Negro empires, such as traditional Dahomey, we possess no institutional frame of reference to hold on to, such as price-making markets provide. Hence, there is no agreement about what exactly we wish to know about the place of the economy in the society, nor what lines of investigation a parallel with market economies should follow. Culture complexes resembling trade