THE LIVELIHOOD OF MAN

by

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I N T R O D U C T I O N

This work is designed as an economic historian's contribution to world affairs in a period of perilous transformation. The aim is simple. So as to enlarge our freedom of creative adjustment and thereby to improve our chances of survival, the problem of man's material livelihood shall be subjected to a total reconsideration.

No more than a first beginning can be made in this book. An attempt will be made, however, to remove some deeply rooted misconceptions that underly the social philosophy of our time concerning the place occupied by the economy in society. This effort will center on the study of trade, money and market institutions so familiar to our age and yet, maybe for that very reason, sources of a grievously incomplete understanding of the nature of the human economy.

If occasionally a personal note has intruded into the analysis of the cold facts, it is because the historian can no longer remain aloof from the needs of the age. True, by responding to their call unwonted tensions may be introduced into the traditional fabric of an academic discipline. Still, the perspective of the undertaking does not spring from an individually held view. The nature of the dangers cited can be gauged objectively and the briefest survey of the present reveals some of the permanent factors in the oncoming period of history. Nevertheless, the approach to the task may well be deemed personal. Perforce there are subjective sources to the belief that even so academic and peripheral a figure as the student of economic history should be able to discover a definite use for himself in this secular process. That, for instance, he may help to disencumber our minds of obsolete notions and, to the extent to which he rightly discerns the ills of the age, he might even venture to offer a view of how to judge of long-run policy problems.

The bare facts of the situation in which we find ourselves are, indeed, seen alike by many. About a generation ago the demise of the system of world economy became apparent. After World War I, the international gold standard, world markets for commodities and raw materials, and the universal distribution of credits and investments were engulfed by changes, some sudden, some more gradual. At the same time the political organization of the peoples of the planet started to disintegrate. Following on World War II the balance of power that had for a century prevented major wars ceased to work. New dictatorial forms of government arose and passed again. New organizations of the economy were tried with varying success. The continents of Asia and North Africa have become fluid at the borders. For a time a third World War seemed imminent. Despite the odds, however, the chances of life are appearing to win over the chances of death. But whatever the outcome one conclusion can be drawn already with certainty, that further readjustments in the institutional setting of national and international life are inevitable. This may sound trite, for history never stands still. Actually, it is meant in this context to forecast changes affecting vital aspects of collective existence even if, as now seems possible, no spectacular events break in upon us such

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as did during the decade from which we have just emerged. For the crucial circumstance that needs to be emphasized since it is easily overlooked in precisely the obvious one that the contending political and ideological forces that have already entered the international scene will of necessity either destructively clash or be constructively harmonized or, perhaps, both; yet such is their institutional nature that even for nothing dramatic to happen important step-by-step adaptation will have to occur. Of this we may be sure, therefore, that whatever else be in store, at least some degree of creative adjustment to the new permanent features of the human environment is inevitable. Mere coexistence, if it is to operate at all, logically requires as much.

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But beyond the institutional devices that mere coexistence must involve, another kind of unspectacular change in the human world is possible which, in its undramatic way, is more comprehensive than imagination had hitherto encompassed. Nuclear energy, once released, will never cease to haunt us. The dominant concerns themselves in which we have our being may alter their direction changing from their present economic axis to what may best be called the moral and political. Not economic progress and welfare anymore but peace and freedom then become men's supreme aims. Fear, that architect of power, is already quietly producing totalitarian tendencies of an order of magnitude hitherto unknown. For better or worse, the very framework of change is changing.

As for the hope that the economic historian may secretly nourish of contributing his mite, it must be, as it were, esoteric.

Indeed, to select the timeless concern of man's livelihood, and to urge its reconsideration in the light of practical necessities must appear as a strange objective. The place occupied by the various economies in different societies is a forbidding subject at the best. Although an economy of some kind or other is essential to all and every society, it may be linked with the rest of society in very different ways. Under one and the same technology, far-reaching changes in the economic organization may be encountered such as transitions from capitalism to socialism. Again, one and the same organization of the economy seems compatible with sharp changes in the political system, e.g., when a market organized society changes from a liberal democracy to fascism or back. All the more if change has been induced by an external force, such as conquest, a common occurrence in world history. Under pressure from outside or in the wake of acculturation any major sphere of life, whether politcal, religious or cultural, so it seems, may gain the ascendancy over the other spheres and retain it over a stretch too long to be classed as merely temporary. Yet even though the economy may take only second or third place it can never fail in unforeseeable ways to complicate the issues.

If, nevertheless, the unwieldy subject of the livelihood of man was elected here for inquiry, it was done in the conviction that it is not beyond the scope of intellectual effort to eliminate at least some of the most intractable biases under which the problem of the economy presents itself to the men of our century.

This belief, amounting almost to a personal engagement stems with the author from a compelling insight of many years' standing. In my conviction the largely unconscious weakness under which Western civilization labors, springs precisely from the peculiar conditions under which it is shaping its economic fate. In all its singularity, it can be set out as follows:

Our social thinking, focused as it is, on the economic sphere, is for that very reason ill equipped to deal with the economic requirements of this age of adjustment. A market-centered society such as ours must find it hard if not impossible justly to gauge the limitations of the significance of the economic. For once man's everyday activities have been organized through markets of various kinds based on profit motives, determined by competitive attitudes and governed by a utilitarian value scale, his society becomes an organism that is in all essential regards subservient to gainful purposes. Having thus absolutized the motive of economic gain in practice he loses the capacity of mentally relativizing it again. His imagination is bounded by stultifying limits. The very word 'economy' evokes in him not the picture of man's livelihood and the technology that helps to secure it, but recalls instead a set of particular motives, peculiar attitudes, and highly specific purposes, all of which he is used to calling 'economic', even though they are mere accessories to the actual economy, owing to an ephemeral interplay of cultural traits. Not the permanent and abiding features of all human economies but the merely transitory and contingent ones appear to him as the essentials. He is bound to create for himself difficulties where otherwise there are none and to stumble over easily avoided obstacles the very existence of which are unknown to him. In his ignorance, the true preconditions of survival remain out of his reach, as do the less obvious ways of attaining the possible. This obsolete market mentality is, as I see it, the chief impediment to a realistic approach to the economic problems of the oncoming era.

On the face of it such a proposition must appear almost self-contradictory. It may seem to imply that very overestimation of the importance of the economy against which it ostensibly wishes to forewarn. However, this is by no means the case. To assert that market-centered habits tend to be accompanied by a certain kind of economic rationale is entirely compatible with an outright rejection of the fallacious view of a timeless predominance of the economic factor in human affairs. The nineteenth century which universalized the market would naturally experience economic determination in its daily life and be inclined to assume that determinism to be timeless and general. Its materialistic dogmatism in regard to men and society simply mirrored the institutions that happened to shape the environment. And to assert that such obsessive economy-centered notions, reflecting timebound conditions, must prove a hindrance to the solution of wider problems, including those of the adjustment of the economy to new social surroundings, is merely to point out the obvious.

It is, then, precisely on account of the disproportionate influence exerted by the market system on the society of our own personal experience that we must find it difficult to understand the limited and subordinate character of the economy as it presents itself outside such a system. But hence also the reasonable expectation that once our deep-seated bias has been recognized for what it is, it would not be beyond our capacity to rid ourselves of its deleterious effects.

A wider knowledge of fact is the corrective to restrictive prejudice. To reduce to their true proportions the emergent questions of economic adjustment we must learn to see with the eyes of the historian.

But sloganized versions of history would prove as fatal to our generation as would a false map to a general on the eve of battle. First of all, world history is emphatically not economic history. The physical existence of a group, its safety of life and limb, the totality of its way of life transcend anything that can be reasonably presented as an economic interest. But to stress the opposite also has its danger. He who can offer economic solutions will always be at an advantage in the pure power game over him who can not. Again, mere business practices, however fondly adhered to, can not present themselves as the only embodiments of such transcendent values as personality and freedom. This would be to substitute credit for creed, and fatefully to underestimate the impetus of a secular religion that happens not to put its faith in bank accounts. Nor should technological progress be made into an idol, to which morality and human happiness are blindly sacrificed. Yet again to elevate primitivism to a morality and to seek shelter from the alternatives of the Machine Age in the Neolithic cave is a counsel of despair that ignores the irreversibility of progress.

Discordant generalizations such as these need not leave us in an agnostic mood. The varied vivid experiences concerning man's livelihood will naturally carry false emphasis as their epitaph. Rather let us beware of abstract generalizations in things economic, which tend to obscure and oversimplify the intricacies of the actual situations. These actualities alone are our concern. Our task is to divest them of generalities and to grasp them in their concrete aspect. No lengthy regression in time is needed to read the historical origin of our present entanglements.

The nineteenth century gave birth to two sets of events of a very different order of magnitude: the Machine Age, a development of millennial range; the market system, as an initial adjustment to that development.

In the Machine Age we have seen the beginning of one of those rare mutations that mark the lifetime of the human race. In these terms the history of man since the Old Stone Age counts no more than three periods. First, the Neolithic; second, the period of plough agriculture in which almost all history happened; third, the brand new Machine Age. All along technology provided the criterion. Neolithic man never passed much beyond the stage of food gathering and hoe agriculture. The growing of grain required a plough with a large beast to pull it; this started civilization some 7000 to 8000 years ago. The use of machines, powered by other strength than that of man or beast is of quite recent occurrence. It launched us on a new road. On all counts this new civilization that has already doubled the population of the globe should be expected to continue over a very long period. It has come to stay. It is our fate. We must learn to live with it, if we are to live at all.

The fundamental fact is, then, that the machine created a new civilization. If plough agriculture is credited with having given rise to the first civilization, the machine was now giving rise to the second, the industrial. Its spread over the planet is the perspective of the ages to come. Now, such an event transcends by far the economic field; only time will unfold its powers and perils and spell out its implications for the existence of man. Machine civilization has invested the frail frame of man with the effectiveness of lightning and earthquake; it has moved the center of his being from the internal to the external; it has added hitherto unknown dimensions to the scope, structure and frequency of communication; it has changed the feel of our contacts with nature; and, more important than all, it has created novel interpersonal relations reflecting forces, physical and mental, that still may, as some fear, cause the self-destruction of the human race in a not too distant future.

The beginnings were unspectacular. At the turn of the eighteenth century (a few rare spirits apart) no one suspected as yet that a new civilization was about to break. Not many machines had yet been invented and even of those invented some, like the power loom, were still not in use. Nevertheless, by privilege of first sight the few recognized the signs and anticipated changes of unimaginable depth, subtlety and pervasiveness. Some of their notions caused much merriment. Yet, as we have since learned to see, not the tough realists but the childlike prophets were closer to the truth. Indeed, the grim questions of our day as well as the hopes of centuries to come are mere derivatives of that inconspicuous mechanical start.

Robert Owen was the first to perceive that a new world was engulfing the old. The machine would demand alterations in the details of everyday life, as in communal existence. He sensed the boon inherent in an explosive growth of the capacity to produce, but also that it would turn into an invidious gift, unless the shock of a machine-made life was absorbed by new patterns of settlement and habitation, sites of work, relations of the sexes, forms of relaxation and even of attire--to all of which he devoted his attention. He advocated a root and branch reform of Christianity. Almost as an afterthought he referred to the economy, advocating a reformed currency and co-operative forms of economic life (no concept of capitalism existed as yet). In France, Fourier's grotesque imagination engendered blueprints of _phalanstères_ where industrial division of labor would be geared by virtue of psychological gadgets to the spontaneity of men, women and children. Saint-Simon proclaimed that his New Christianity would bring salvation to an 'industrial society'. Thus did the 'utopian socialists' anticipate the menace of a cultural development which a century later became familiar to all the world as the fragmentation of man, the standardization of effort, the supremacy of mechanism over organism and of organization over spontaneity. Even the threat to personality and freedom was there from the start. By the close of the century Henry Adams foretold the very date of the atom bomb.

However, for a long time those early fears of what would follow in the wake of the machine remained latent. They were eclipsed by the manifest changes in economic organization proper that were urgently required to allow play for the technological miracles of the day. Adam Smith had discovered the answer in the market. The factory system which, at first, seemed to involve little more than some additional overseas trading stations of the usual kind soon induced a process of institutional change of a very different magnitude. The outcome was that approximation to a self-regulating system of markets which revolutionized Western society in the early decades of the nineteenth century.

Yet as we now know this was only a first vigorous attempt at adjustment. Tremendously successful as the initiative proved in spite of the bitter sufferings that it had brought to a whole generation, the adaptation to the machine was neither complete nor final. The more comprehensive the market system became, the more it revealed its incapacity to satisfy the requirements of a stable society. Recurrent unemployment by the million and permanent uncertainty of tenure for the employed--scourges unknown to former societies--together with the other harrassing accompaniments of continued dislocations, made the process of industrialization into a burden almost too great to be borne. Socialist movements at home, and a world-wide growth of tariffs on imports were manifestations of a tendency toward the self-protection of society set in motion by the ravages of uncontrolled market forces.

Thus in our own days another phase of economic change set in.

It followed logically from that earlier one, yet it pointed in a quite different direction. The breakdown of the most ambitious of all market institutions, the international Gold Standard only about half a century after its establishment ushered in the end of the market utopia. Roughly analogous economic reforms were now introduced under politically very different regimes in all advanced countries of the West. Regular employment for all, regulated trading abroad, planned development of national resources at home were the postulates. Even in countries where the market system largely continued in the traditional way, there was a significant turn in the everyday motives of economic life. Social security and a more just taxation caused the undiluted incentives of profit for the owner, and fear of destitution for the worker, to be replaced by the mixed motives of status, income, team-work, and a creative role in industry.

The strains and stresses that accompany this second adaptation of the economy to the machine are strangely different from those of the technology that imperilled civilized life in the wake of the Industrial Revolution. If a century ago the inexorable working of interlinked markets for labor, land and capital had to be countered, so that the human shape of life could continue, the dangers now come from an unexpected quarter. They are, however, by no means less formidable. And the new threat forms as much a part of an industrial civilization as did, in its birthplace, England, the unhealthy factory, the mushroom town, or the scientific cruelty of the poorhouse. Only the underlying concern is not for quality, justice, charity, and a humane life for the laborer, but rather for the freedom and survival of all. An industrial technology is showing itself wholly capable of generating suicidal tendencies that strike at the roots of liberty and life itself. Outside of Europe there is fear of foreign domination, and a determined insistence on independence and autarchy as a means of controlling a process of industrialization that universally is both desired and dreaded. The apparent contradiction should not be surprising. Industrialism was an uneasy compromise between man and machine, in which man lost out and the machine had its way. At the turn of the 19th century the market system may well have been the only means of employing expensive elaborate machinery for the purposes of production. When machines were invented, neither the readiness nor the capacity for risk bearing, neither the knowledge of products nor of the consumers was available except in that merchant class which for generations had been 'putting-out' raw materials for finishing by home industry. The self-protection of society by means of factory laws, but mainly through the trade union movement, for a long time lagged far behind the impact of the machine. In the present spread of industrialization the order is reversed. Asian, Latin-American and African have learnt the lesson. The new economic organization puts the safety of the social above the requirement of maximum technological efficiency. The emphasis has shifted from machine to man.

So great a shift in the place of the economy in society must divest the economy of its traditional associations. Gain, competition and utilitarian advantage are no more the points of reference. The more familiar we are with the picture of the world as it presented itself in the 19th century, the less well will we be prepared for the realities of the 20th. For an orientation in the emerging new conditions a different map is required.

For an up to date frame of reference a strategic point is required. The earlier and the later maps contrast perhaps most sharply in the position assigned on them to the institutions of trade, money and market. Under the dominance of the market, trade is no more than a function of the market, and money merely a means of facilitating trade. So trade and money appear as adjuncts of the market. Yet actually some forms of trade and various money uses gain great importance in economic life independently of, and precedent to, markets. And even where market elements are present, these do not necessarily involve the existence of a supply-demand-price mechanism. Prices are originally set by tradition or authority and their alteration, when it occurs, is again brought about by institutional, not by market methods. Contrary to all current assumptions, the origin of fluctuating prices, not of fixed prices, is the problem for the historian of antiquity.

The notion that individual acts of exchange were at the root of trade, money, and even of market institutions, is hardly tenable. Foreign trade, as a rule, preceded domestic trade, the exchange use of money originated in the foreign trade sphere, and organized markets were developed first in external trade, and in all three cases action was more of the collective than of the individual kind. In the light of these recognitions it stands to question how, in the absence of price-making markets were trade, money and market elements integrated in the economy?

Such problems were left outside the scope of inquiry by the traditional assumption of the inseparable unity of trade, money and markets. Where trade was seen, markets were assumed, and where money was in evidence trade was assumed and, therefore, markets. In point of fact, over the greater part of economic history trade, the various money uses and market elements should be regarded as occurring separately. But how does an economy function, unless trade becomes market trade and money becomes exchange-money? How, for instance, can money objects be in use for payment, other money objects be in use as a 'standard', while no exchange or any appreciable amount is carried on? Even more searching questions arise in regard to the large-scale functioning of trade and money in so-called primitive marketless economies, questions which could, of course, not even have been formulated as long as the existence of such conditions was ignored, or their significance denied in the name of a dogmatic notion of progress.

We were thus apt to misjudge the general character of economic development both in regard to the sequence of facts and to the facts themselves.

It is mere prejudice to assume that in every development the smaller sized specimen was necessarily anterior to the larger sized one. To postulate such a sequence in history is no more than an uncritical extension of the law of organic evolution. Trade over the longest distances generally preceded that over a shorter distance, just as the farthest colonies were usually founded first and vast empires arose earlier in history than smaller kingdoms. A similar mistake is to regard phenomena such as credit and finance as 'late' developments, only because in the short perspective of the last few centuries they happened to have come again into prominence following upon the emergence of the modern market system. This particular fallacy was epitomized in one of the more popular 'stages' theories, which insisted upon the sequence: 'natural economy, money economy, credit economy' as a supposed law of development. As a matter of fact, debts and obligations are primitive phenomena, which antedate the existence of markets, and the storage economies of antiquity practised large scale financial planning and accountancy long before the use of money as a means of exchange gained importance.

The predilection for continuity, from which 19th century historiography suffered, made us often misread not only the sequence of the facts, but also the facts themselves. The continuity which was taken to be implied in organic processes is only one mode of happening, alongside of which run the inherent discontinuities of development (the total process being a combination of the two). Besides continuous growth from small beginnings, there is also a very different pattern, that of discontinuous development from previously unconnected elements. The 'field' in which such sudden change as the emergence of a new complex whole occurs, is the social group under definite conditions. These discontinuities broadly determine what ideas and concepts may gain currency with the members of a group and at what rate. But once disseminated, those ideas and concepts make possible change at an enormously accelerated rate, since the patterns of individual behavior can now simply fall into line with the new general pattern preformed by those ideas and concepts. Formerly unconnected elements of behavior thus link up directly in a new complex whole, without any transition. The so-called idealistic and materialistic approaches to history appear in this light not so much as opposites, but rather as pertaining to two different phases in the total process. The idealist expresses, although in a mystificatory form, the fact that human thoughts and ideas play a decisive part in the emergence of institutions and the turns of history. The materialist stresses that objective factors condition the spread of those thoughts and ideas, which are not, therefore, as the Hegelian idealists assumed, born from an abstract dialectic.

The history of man's society and of the place of the economy in it, is not an account of unconscious growth and organic continuity, as the evolutionists will have it. Such an approach must needs obscure some aspects of economic development that are vital to men in this present phase of transition. For the dogma of organic continuity must, in the last resort, weaken man's powers of shaping his own history. The discounting of the role of deliberate change in human institutions must enfeeble his reliance on the forces of the mind and spirit, just as a mystic belief in the wisdom of unconscious growth must sap his confidence in his powers to re-embody the ideals of justice, law and freedom in his changing institutions.

The scholar's endeavor must be, firstly, to give clarity and precision to our concepts so that we be enabled to formulate the problems of livelihood in terms fitted as closely as possible to the actual features of the situation in which we operate; secondly, to widen the range of principles and policies at our disposal through a study of the shifting place of the economy in human society and the methods by which civilizations of the past successfully engineered their great transitions.

Accordingly, the theoretical task consists in establishing the study of man's livelihood on broad institutional and historical foundations. The method to be used is given by the interdependence of thought and experience. Terms and definitions constructed without reference to factual data are hollow; while a mere collecting of facts without a readjustment of our perspective is barren. To break this vicious circle, conceptual and empirical research must be carried forward *pari passu*. Our efforts shall be sustained by the awareness that there are no short cuts on this trail of inquiry.

To contribute to such an approach to the questions of the human economy is the aim of this book.

(In Harry's Preface the 'story' of The Livelihood of Man will surely be told, the reader should be made aware of [illegible] K.P.'s Introduction — & approximate date of the writing).

PART I

ECONOMY AND SOCIETY

Chapter 1

The Economistic Fallacy

Endeavors to attain a more realistic view of the general problem posed by man's livelihood to our generation meet from the outset with a formidable obstacle. It consists in an ingrained habit of thought peculiar to conditions of life under that type of economy which the 19th century created throughout the industrialized societies. This mentality is personified in the marketing mind.

Our task in this chapter and the next is to point out in a preliminary way the fallacies to which the marketing mind has given currency, and incidentally to expound some of the reasons why their influence on public thinking proved so pervasive.

We will first define the nature of this conceptual anachronism; describe the institutional development from which it sprang; and enlarge on its influence on our whole moral and philosophic outlook. Then it will be our job to trace the reflections of this attitude of mind in the organized fields of knowledge which are comprised by the various social sciences, such as economic theory, economic history, anthropology, sociology, psychology and epistemology.

Such a survey should leave no doubt about the power of the impact of economistic thinking on almost every aspect of the questions that confront us, notably the nature of economic institutions, policies and principles, as they are revealed to us in the forms of organization of livelihood in the past.

To sum up the central illusion of an age in terms of a logical error is rarely to the point. Yet, conceptually the economistic fallacy, in the nature of things, cannot be described otherwise. The logical error was of a frequent and harmless kind: a broad generic phenomenon is somehow taken to be identical with a species with which we happen to be familiar. In such terms the error was an equating of the human economy in general with its market form (a mistake which may have been facilitated by the basic ambiguity of the term 'economic' to which we will return later on). The fallacy itself is patent. The physical aspect of man's needs is part of the human condition; no society can exist which does not possess some kind of substantive economy. The supply-demand-price mechanism, on the other hand, which we popularly call the market, is a comparatively modern institution of specific structure, which it is neither easy to establish nor to keep going. To narrow down the sphere of the genus economic specifically to market phenomena means to eliminate the greatest part of man's history from the scene. On the other hand, to stretch the concept of the market until it embraces all economic phenomena, means artificially to invest all things economic with the peculiar characteristics which accompany the phenomenon of the market. Inevitably, clarity of thought is impaired.

In vain did realistic thinkers spell out the distinction between the economy in general and its market forms: time and again this distinction was obliterated by the economistic Zeitgeist. These writers emphasized the substantive meaning of economic. They identified the economy with industry as against business; with technology as against ceremonialism; with means of production as against titles to property; with productive capital as against finance; with capital goods as against capital--in short, with the economic substance as against its marketing form and terminology. But circumstances were stronger than logic and overwhelming forces of history were at work to weld the disparate concepts into one.

The birth of the concept of the economy with the French Physiocrats had been simultaneous with the emergence of the institution of the market as a supply-demand-price mechanism. The new phenomenon, never witnessed before, was an interdependence of fluctuating prices which directly affected multitudes of men. This nascent world of prices was the result of a comparatively recent spread of trade--an institution much older than, and independent of, markets--into the articulations of everyday life.

Prices, of course, existed before, but in no way did they constitute a system of their own. Their sphere was, in the nature of things, restricted to trade and finance since only merchants and bankers used money regularly, the much greater part of the economy being rural and practically tradeless--a thin trickle of goods in a vast inert mass of neighborhood life of manor and household. True, urban markets knew money and prices, but the rationale of controlling the prices was to keep them stable. Not their occasional fluctuation but their predominant stability made them into an increasingly important factor in the determination of profits from trade, since these derived from relatively stable price differentials between distant points, not from anomalous price fluctuations in a local market.

But the mere infiltration of trade into everyday life need not in itself have created an economy in the new and distinctive sense of the term, but for a number of further institutional developments. First among these stood the penetration of foreign trade into markets, gradually transforming them from strictly controlled local markets into price-making markets with more or less freely fluctuating prices. This was in course of time followed by the revolutionary innovation of markets with fluctuating prices for the factors of production, labor and land. This change was the most radical of all in its nature and consequence. Yet not before it had proceeded for some time did the different prices, which now included wages, food prices and rent, show any noticeable interdependence, thus producing the conditions which made men accept the presence of a hitherto unrecognized substantive reality. This emergent field of existence, however, was the economy. Its discovery came to the Physiocrats as an illumination and constituted them a philosophical sect. This was one of the emotional and intellectual experiences which formed our modern world. Adam Smith learned from them of the 'hidden hand'. But he did not follow Quesnay on the path to mysticism. While his French master had merely noticed the interdependence of some revenues and their general dependence on corn prices, the less feudal and more monetarized economy of England allowed the greater pupil to include wages and rent in the group of 'prices' and thus, for the first time, to penetrate to the threshold of the vision of the wealth of nations as an integration of the varied manifestations of an underlying system of markets. Adam Smith became the founder of political economy because he recognized, even though dimly, the tendency towards interdependence of these different kinds of prices in so far as they resulted from competitive markets.

This spelling out of the economy in terms of the market was originally nothing else than the common-sense way of relating the new concepts to the new facts. Yet it may be difficult for us to understand why it took generations before it was realized that what Quesnay and Smith had really discovered was a field of phenomena essentially independent of the market institution in which it manifested itself at the time. But neither Quesnay nor Smith aimed at the establishment of the economy as a sphere of social existance which transcends market, money or price--and in so far as they did, they failed in their aim. They reached not so much to the universality of the economy, but rather to the specificity of the market. Indeed, the traditional unity of all human affairs which still informed their thinking made them averse to the notion of a separate economic sphere in society. But this did not prevent them from investing the economy with the characteristics of the market. Adam Smith introduced business methods into the haunts of primeval man, projecting his famous propensity to truck, barter and exchange, even to the back yard of Paradise. Quesnay's approach to the economy was no less catallactic. His was an economics of the produit net, a most realistic quantity in terms of the landlord's accountancy, but a mere phantom in the process between man and nature of which the economy is an aspect. The alleged 'surplus', the creation of which he attributed to the soil and the forces of nature, was no more than a transference to the Order of Nature of the disparity which selling price is expected to show against cost. Agriculture happened to occupy the center of the scene because the revenues of the feudal ruling class were at issue. Forever after the notion of surplus haunted the writings of classical economists. The 'produit net' was the parent of Marx's surplus value and its derivatives. Thus was the economy impregnated with a notion foreign to the total process of which it forms part. That process knows not cost or profit; it is not a series of surplus producing actions; physiological and psychological forces are not directed by the urge to secure a surplus over themselves. Neither the lilies of the field, nor the birds in the air nor men in the pastures, fields or factories--tending cattle, raising crops or releasing planes from a conveyer belt--produce a surplus over their own existence. Labor, like leisure and repose, is a phase in the self-sufficient course of man through life. The construct of a surplus was merely the projection of the market pattern on a broad aspect of that existence--the economy.

If from the outset the logically fallacious identification of 'economic phenomena' and 'market phenomena' was understandable, later it became almost a practical requirement with the new society and its way of life, which emerged from the throes of the Industrial Revolution. The supply-demand-price mechanism, the first appearance of which had produced the prophetic concept of 'economic law', grew swiftly into one of the most powerful forces ever to have entered the human scene. Within a generation--say, 1815 to 1845, Harriet Martineau's 'Thirty Years Peace'--the price-making market which before that existed only in samples in various ports of trade and stock exchanges showed its staggering capacity of organizing human beings as if they were mere chunks of raw material and of combining them, together with the surface of mother earth which now could be freely marketed, into industrial units under the command of private persons mainly engaged in buying and selling for profit. The commodity fiction, as applied to labor and land, transformed the very substance of human society within the briefest period. Here was the identification of economy and market, <u>in practice</u>. Man's ultimate dependence for the means of his survival on nature and his fellows was put under the control of that new-fangled institutional creation of superlative power into which over night the market had developed from lowly beginnings. This institutional gadget, which had become the dominant force in the economy, now justly described as a <u>market economy</u>, was giving rise to yet another, even more extreme, development, namely that of a whole society embedded in the mechanism of its own economy: <u>a market society</u>.

From this vantage point it is not difficult to discern that what we have here called the economistic fallacy was an error mainly from the theoretical angle. To all practical purposes the economy did now consist of markets, and the market did envelop society.

In this line of argument it should also be clear that the significance of the economistic outlook lay precisely in its capacity of giving birth to a unity of motivations and valuations which would bring about in practice what it preconized as an ideal, namely the identity of market and society. For only if a way of life is organized in all relevant aspects, including the picture of inner man and of the nature of society--a philosophy of everyday life comprising criteria of common-sense behavior of reasonable risks and a workable morality--are we offered that compendium of theoretical and practical doctrines which alone can produce a society or, what amounts to the same thing, transform a given society within the lifetime of a generation or two. Yet that is what was achieved, for better or for worse, by the pioneers of economism. This is no less than to say that the marketing mind contained the seeds of a whole culture--with all its possibilities and limitations.

The picture of inner man and society induced by life in a market economy followed with necessity from the essential structure of a human community organized through the market.

This structure represented a violent break with the conditions that preceded it. What before was merely a thin spread of isolated markets was now transmuted into a self-regulating system of markets.

The crucial step was that labor and land were made into commodities; that is, they were treated as if they had been produced for sale. Of course, they were not actually commodities, since they were either not produced at all (as land), or if so, not for sale (as labor).

Yet no more thoroughly effective fiction was ever devised. By buying and selling labor and land freely, the mechanism of the market was made to apply to them. There was now supply of labor, and demand for it; there was supply of land, and demand for it. Accordingly, there was a market price for the use of labor power, called wages, and a market price for the use of land, called rent. Labor and land were provided with markets of their own, similar to the commodities proper that were produced with their help.

The true scope of such a step can be gauged if we remember that labor is only another name for man, and land for nature. The commodity fiction handed over the fate of man and nature to the play of an automaton running in its own grooves and governed by its own laws. This instrument of material welfare was under the sole control of the incentives of hunger and gain--or, more precisely, fear of going without the necessities of life, and expectation of profit. As long as no propertyless person could satisfy his craving for food without first selling his labor in the market, and as long as no propertied person was prevented from buying in the cheapest market and selling in the dearest, the blind mill would turn out ever-increasing amounts of commodities for the benefit of the human race. Fear of starvation with the worker, lure of profit with the employer, would keep the vast establishment running.

Such an enforced utilitarian practice fatefully warped Western man's understanding of himself and his society.

As regards man, we were made to accept the view that his motives can be described as either 'material' or 'ideal', and that the incentives on which everyday life is organized necessarily spring from the 'material' motives.

It is easy to see that under such conditions the human world must indeed appear as determined by 'material' motives. For, single out whatever motive you please, and organize production in such a manner as to make that motive the individual's incentive to produce, and you will have induced a picture of man as altogether absorbed by that particular motive. Let that motive be religious, political, or aesthetic; let it be pride, prejudice, love, or envy; and man will appear as essentially religious, political, aesthetic, proud, prejudiced, engrossed in love or envy. Other motives, in contrast, will appear distant and shadowy--'ideal'--since they cannot be relied upon to operate in the vital business of production. The particular motive selected will represent 'real' man.

In actual fact, human beings will labor for a large variety of reasons as long as the human being forms part of a definite social group. Monks traded for religious reasons, and monasteries became the largest trading establishments in Europe. The kula trade of the Trobriand Islanders, one of the most intricate barter arrangements known to man, is mainly an aesthetic pursuit. Feudal economy was run on customary lines. With the Kwakiutl, the chief

I cannot easily follow the parallels

aim of industry seems to be to satisfy a point of honor. Under mercantile despotism, industry was often planned so as to serve power and glory. Accordingly, we tend to think of monks or villains, Western Melanesians, the Kwakiutl, or 17th century statesmen as ruled by religion, aesthetics, custom, honor, or power-politics, respectively. Nineteenth-century society was organized in such a fashion as to make hunger and gain alone into effective motives for the individual to participate in economic life. The resulting picture of man as ruled by materialistic incentives alone was entirely arbitrary.

As regards <u>society</u>, the kindred doctrine was propounded that its institutions were 'determined' by the economic system. The market mechanism thereby created the delusion of economic determinism as a general law for all human society.

Under a market economy, of course, this law holds good. Indeed, the working of the economic system here not only 'influences' the rest of society, but determines it--as in a triangle the sides not merely influence, but determine, the angles.

Take the stratification of classes. Supply and demand in the labor market were <u>identical</u> with the classes of workers and employers, respectively. The social classes of capitalists, landowner, tenants, brokers, merchants, professionals, and so on, were delimited by the respective markets for land, money, and capital and their uses, or for various services. The income of these social classes was fixed by the market, their rank and position by their income.

While social classes were directly determined, other institutions were indirectly affected by the market mechanism. State and government, marriage and the rearing of children, the organization of science and education, or religion and the arts, the choice of profession, the forms of habitation, the shape of settlements, the very aesthetics of private life---everything had to comply with the utilitarian pattern, or at least not interfere with the working of the market mechanism. But since very few human activities can be carried on in the void, even a saint needing his pillar, the indirect effects of the market system came very near to determining the whole of society. It was almost impossible to avoid the erroneous conclusion that, as 'economic' man was 'real' man, so the economic system was 'really' society.

On the face of it the economistic Weltanschauung may have seemed to contain in its twin postulates of rationalism and atomism all that was needed to lay the foundations of a market society. The operative term was rationalism. For what else would such a society be than an agglomeration of human atoms behaving according to the rules of a definite kind of rationality? Rational action as such is the relating of ends to means; economic rationality, specifically, assumes means to be scarce. But human society involves more than that. What should the ends of man be, and how should he choose his means? Economic rationalism, in the strict sense, has no answer. Here motivations and valuations of a moral and practical order are needed, which go beyond the logically irresistible but otherwise empty exhortation to be 'economical'. And so hollowness was camouflaged by ambiguous philosophical colloquialism. To maintain the unity of the facade two further meanings of rational were brought in. As to the ends, a utilitarian value scale was postulated as 'rational'; as to the means, the testing scale for efficacy applied by science was postulated as 'rational'. The first made rationality the antithesis of the aesthetic, the ethical or the philosophical--the second of magic, superstition or plain ignorance. In the one sense it is 'rational' to prefer bread and butter to heroic ideals. In the other sense it appears 'rational' for a sick man to consult his doctor in preference to a crystal ball gazer. Neither meaning of rational is relevant to the principle of rationalism, though *per se* one may be more valid than the other. While stark utilitarianism with its pseudo-philosophic balance of pain and pleasure, has lost its sway over the minds of the educated, the scientific value scale remains supreme within its limits. Thus utilitarianism, still the opiate of the commercialized masses, has been dethroned as an ethics, while scientific method justly holds its own. Nevertheless, as long as 'rational' is used not as a fashionable term of praise but in the strict sense of pertaining to reason, the validation of the scientific test of means as 'rational' is no less arbitrary than is the attempted justification as 'rational' of utilitarian ends. To sum up: the 'economic' variant of rationalism introduces the scarcity element into all means-ends relations; moreover it posits as 'rational' in regard to the ends and the means themselves two different value scales which happen to be peculiarly adapted to market situations, but otherwise have no universal claim to be called 'rational'. In this way the choice of ends and the choice of means is claimed to be put under the supreme authority of rationality. Economic rationalism seems to achieve both the systematic limitation of reason to scarcity situations and its systematic extension to all human ends and means, thus validating an economistic culture with all the appearances of an irresistible logic.

The social philosophy evolved on such foundations was as radical as it was fantastic. To atomize society and to make every individual atom behave according to the principles of economic rationalism, would, in a sense, suffice to organize the whole of human existence in all its depth and wealth in the frame of reference of the market. But this, of course, would not really do. Individuals have a personality, and society has a history. Personality thrives on experience and education; action implies passion and risk; life demands from us faith and beliefs; history is struggle and defeat, victory and redemption. To bridge the gap, economic rationalism introduced harmony and conflict as the _modi_ of the individual's relations. The conflicts and alliances of such self-interested atoms, which formed nations and classes, now accounted for social and universal history.

No single author ever propounded the complete doctrine. Bentham still believed in government and was unsure of economics; Spencer anathemized state and government, but knew only little of economics; and Mises, an economist, lacked the encyclopedic knowledge of the other two. Yet between them they created a myth which was the daydream of the educated multitude during the Hundred Years' Peace, from 1815 to World War I, and even after, up to Hitler's war.

Intellectually, it represented the triumph of economic rationalism and, inevitably, an eclipse of political thought.

The economic rationalism of the 19th century was the direct descendant of the political rationalism of the 18th. It was as unrealistic as its predecessor, if not more so. As to the facts of history and the nature of political institutions, they were equally foreign in both brands of rationalism. The political utopians had ignored the economy, while the utopians of the market took no note of politics. On balance, if the thinkers of the Enlightenment were notoriously unheedful of some of the economic facts, their 19th-century successors were totally blind to the sphere of state, nation, and power, to the point of doubting their existence.

Such economic solipsism, as it may well be called, was indeed an outstanding feature of market mentality. Economic action it was deemed, was 'natural' to men and was therefore self-explanatory. Men would barter unless they were prohibited to do so, and markets would thus come into being, unless something was done to prevent it. Trade would begin to flow, as if induced by the forces of gravitation, and would create pools of goods, organized in markets, unless governments conspired to stop the flow and drain the pool. Money would make its appearance as barter quickened, and all things would be drawn into the whirl of exchanges, unless some archaic moralists raised an outcry against lucre, or unenlightened tyrants depreciated the currency.

This eclipse of political thinking was the intellectual deficiency of the age. It originated in the economic sphere, yet eventually it destroyed any objective approach to the economy itself, in so far as the economy possessed an institutional background other than a supply-demand-price mechanism. Economists felt so safe within the confines of such a purely theoretical market system, that they only grudgingly conceded to states and nations more than a nuisance value. An English political writer of the 1910s was deemed to have clinched the case against the necessity of wars, by proving that as a business proposition war didn't pay; and Geneva, the home of the League of Nations, to its last hour remained blind to the political facts which made the Gold Standard an anachronism. The discounting of politics had spread from Cobden's and Bright's free trading illusions to Herbert Spencer's fashional sociology of 'industrial vs. military systems'. By the 1930s almost nothing was left among the educated of the political culture of a David Hume or Adam Smith.

The eclipse of politics had the most confusing effect on the moral aspect of the philosophy of history. Economics stepped into the vacuum. A hyper-critical attitude towards the moral vindication of political actions set in. This resulted in the most radical discounting of all but economic forces in the field of historiography. The marketing psychology which regards only 'material' motives as real, while relegating 'ideal' motives to the limbo of ineffectuality, was extended not only to non-market societies but to all past history as well. Most of early history now appeared as a jumble of slogans about justice and law bandied about by pharaohs and god-kings for the sole purpose of misleading their helpless subjects who were crawling under the knout. The whole attitude was self-contradictory. Why cajole a population of bond-slaves? And if cajoling there must be, could it be done through promises which meant nothing to the cajoled? But if the promises meant something, justice and law must have been more than mere words. That a population of actual bond-slaves need not be cajoled and that justice and freedom must have been recognized as valid ideals by all before they could be employed as a bait by the few, escaped the critical apparatus of a hyper-critical public. Under the sway of modern mass-democracy slogans had become a political organizing force which they could never have been in ancient Egypt or Babylon. On the other hand, justice and law which were embodied in the institutional structure of former societies had worn thin under the market organization of society. A man's property; his revenue and income; the price of his wares were now 'just' only if they were formed in the market; and as to law, no other law really mattered than that which referred to property and contract. The varied property institutions of the past and the substantive laws which made up the constitution of the ideal polis had now no substance to work upon.

Economic solipsism generated that unsubstantial concept of justice, law and freedom in the name of which modern historiography refused all credence to the numberless texts in which the establishment of righteousness, insistence on the law, the maintenance of a central economy without bureaucratic oppression was declared to be the aim of the Ancient State.

The true condition of affairs is so different from that which is congenial to market mentality that it is not quite easy to convey it in simple words. Actually, justice, law and freedom as institutionalized values first make their appearance in the economic sphere as a result of state action. Under tribal conditions solidarity is safeguarded by custom and tradition; economic life is embedded in the social and political organization of society; no economic transactions take place, and random acts of barter are discouraged as a peril to tribal solidarity. When territorial rule emerges, the god-king supplies that center of communal life of which the loosening of the clan threatens to deprive the group. At the same time an enormous economic advance becomes possible and is actually made with the help of the state: Economic transactions, formerly banned as gainful and anti-social are made gainless and hence just and lawful through the action of the god-king who is the fount of justice. This justice is institutionalized in equivalencies proclaimed in statutes and practiced in tens of thousands of cases by the organs of palace and temple in handling the taxational and the redistributive apparatus of the territorial state. The rule of law is institutionalized in economic life through administrative provisions which regulate the behavior of guild members in their trade dealings. Freedom comes to them through law; there is no master whom they must obey and as long as they keep their oath to the godhead and their loyalty to the guild they are free to act according to their business interests, responsible to no superior. And each of these steps towards man's introduction into a realm of justice, law and freedom originally resulted from the organizing action of the state in the economic field. -- But such recognitions of the early role of the state were barred by economic solipsism. Thus did the mentality of the market hold sway. The absorption of the economy by marketing concepts was so complete that none of the social disciplines could escape the effects. Unwittingly, they were turned into strongholds of economistic modes of thought.

In some places too much
is left to the reader —
text too disjointed, "too brilliant" —

Chapter 2

The Economy Embedded in Society

It was characteristic of the economic system of the nineteenth century that it was institutionally separate and distinct from the rest of society. In a market-economy the production and distribution of material goods is carried on through a self-regulating system of markets, governed by laws of its own, the so-called laws of supply and demand, motivated in the last resort by two simple incentives, fear of hunger and hope of gain. This institutional arrangement is thus separate from the non-economic institutions of society: its kinship organization, its political and its religious system. Not the blood tie, legal compulsion, religious obligation, fealty or magic created the sociologically defined situations which insured the participation of individuals in the system, but rather institutions like private property in the means of production and the wage system operating on purely economic incentives.

With this state of affairs we are, of course, fairly conversant--livelihood is secured primarily by economic institutions activated through economic motives and governed by economic laws.

institutions, motives and laws are specifically economic. The whole system can be imagined as working without the conscious intervention of human authority, state or government. No other motives than those of preservation from hunger and of legitimate gain need be invoked; no other legal requirement than protection of property and enforcement of contract is necessary; yet, given the distribution of resources and purchasing power, as well as the individual scales of preferences, the result is assumed to be an optimum of want satisfaction. This is the case of 'separateness' established in the nineteenth century. Now let us proceed to the less familiar alternative of 'embeddedness'. Here we meet with a number of questions that need clarification.

We will give a brief history of the problem first, in terms of status and contractus, then in the more recent terms of cultural anthropology.

Status and contractus

We should start with the discovery made by Sir Henry Sumner Maine in his Ancient Law (1861) that many institutions of modern society were built on contract, whereas ancient society rested on status. Status which is set by birth--by position in the family--determines the rights and duties of the person. These derive from kinship (or adoption), totem and other sources. This status system persists under feudalism and, with some qualifications, right up to the age of equal citizenship as established in the nineteenth century. It was gradually replaced by contractus, i.e. by rights and duties fixed through consensual transactions, or contracts. The facts themselves were first noted by Maine in his investigation of Roman law, and developed in his work on village communities in East India, to whose non-market economies Marx also pointed. (ed's fn.)

Maine's influence on the continent was sustained by Ferdinand Toennies, a German sociologist, whose conception was epitomized in the title of his work, <u>Community and Society</u> (<u>Gemeinschaft und Gesellschaft</u>), 1888. The terminology may appear at first confusing, but basically it is not. Community corresponded to 'status society', society to 'contract-society'.

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Maine, Toennies and Marx exerted a deep influence on Continental sociology by way of Max Weber, who consistently used the terms <u>Gemeinschaft</u> and <u>Gesellschaft</u> in the Toenniesian sense, <u>Gesellschaft</u> for contract-type society, <u>Gemeinschaft</u> for status-type society.

The emotional connotation of status or community, on the one hand, and contractus or society on the other, were very different between Maine and Toennies. Maine thought of the pre-contractus condition of mankind as the dark ages of tribalism; the introduction of the contract, he felt, emancipated the individual from bondage to the tribe. Toennies' sympathies, on the contrary, were rather with the warmth of the community as against the impersonal business ties of society. 'Community' was idealized by him as a condition where human beings are linked together by the tissue of common experience, while 'society' was never far removed from the impersonality of the market and of the 'cash nexus', as Thomas Carlyle dubbed the relationship of persons connected only by market ties.

Toennies' ideal was the restoration of community, not however by returning to the pre-industrial stage of society, but by advancing to a higher form of community, which would follow upon our present civilization. He thought of it as a kind of co-operative phase of civilization, which would retain the advantages of technological progress and individual freedom, while restoring the wholeness of life. His position resembled to some extent that of Robert Owen, or among modern thinkers that of Lewis Mumford. In Walt Whitman's 'Democratic Vistas' (1871) one may discover prophetic analogies to this outlook.

Maine's and Toennies' insights into the evolution of human civilization have been broadly accepted by many scholars as a key to the history of modern society. However, for a long time no advance was made on the trails they blazed. Maine had dealt with the subject as one of the history of law, including its communal forms as surviving in the ancient villages of India. Toennies reconstructed the outlines of ancient and medieval civilization with the help of the 'community-society' dichotomy. Neither of them attempted to apply the distinction to the actual history of economic institutions such as trade, money and markets.

<u>The contribution of Anthropology</u>

The first important signs of theoretical development along these lines are found in the discoveries made in the contiguous field of anthropology by Franz Boas, Bronislaw Malinowski and Richard Thurnwald. Their insights implied a critique of the so-called 'economic man' of classical ancestry and led to the establishment of the discipline of Primitive Economics as a branch of cultural anthropology.

By a freak of history, during World War I, a trained anthropologist was marooned in his own 'field'. Bronislaw Malinowski was an Austrian subject and thus technically an enemy alien among the savages off the southwestern tip of New Guinea. For two years the British authorities did not give him permission to leave and Malinowski returned from the Trobriand Islands with the material for: 'The primitive economics of the Trobriand Islanders' (1921), The Argonauts of the Western Pacific (1922), Crime and Custom in Savage Society (1926), The Sexual Life of Savages (1929) and Coral Gardens and their Magic (1935). He died in the United States in 1942. But already his works are affecting the study not of anthropology alone, but also the viewpoints and methods of economic history. Richard Thurnwald, of Berlin, very nearly 80 years of age, whose field was New Guinea, had published his account of the Banaro in 1916 in the American Anthropologist. His influence was felt in the Anglo-Saxon world chiefly through its impact upon Malinowski. (Thurnwald himself, though praised as an anthropologist had been a pupil of Max Weber's.) when?

Malinowski's account left the reader with the conviction that members of pre-literate communities behaved on the whole understandably to us. The explanation of their seemingly exotic behavior hinged on institutions which stimulated motives different from those we usually act upon while in other ways not foreign to us. In regard to subsistence, there was a wide-spread practice of reciprocity, i.e., members of a group as such behaved toward members of another group as the members of that or a third group were expected to behave in turn toward them. Males of a village sub-clan, for instance, provided their sister's husband and their children with garden produce though the sister would be usually dwelling in or near her husband's village, at quite a distance from her brother's habitation--an arrangement which resulted in a great deal of uneconomical hiking on the part of the diligent brother. Of course, if the brother happened to be married, a similar service would be rendered to his family by his wife's brothers. Apart from this substantial contribution to the matrilineal relatives' household, a system of reciprocal gifts and countergifts was generated. Economic self-interest was only indirectly appealed to, the controlling motive being non-economic, such as pride in public recognition of civic virtues as a brother or gardener. The mechanism of reciprocity was effective in regard to the comparatively simple matter of food supplies, accounted also for the highly complex institution of the 'Kula', an aesthetic variant of international trade. Kula transactions between inhabitants of the archipelago covered a number of years, dozens of miles of unsafe seas, and thousands of individual objects exchanged as gifts between individual partners living on distant islands. The whole institution was such as to minimize rivalry and conflict, and maximize the joy of giving and receiving gifts.

None of these facts recorded by Malinowski was essentially new. Similar ones had been observed time and again, in other spots. Although contrasting in tone and coloring with the potlatch of the Kwakiutl Indians, the Kula was not more peculiar than that hyper-snobbistic display of wilful destruction, discovered and exhaustively described by the great American anthropologist, Franz Boas in The Social Organization of the Secret Societies of the Kwakiutl "Potlatch" (1895).

Yet, Malinowski's brilliant attack on the concept of the 'economic man' unconsciously underlying the traditional approach of ethnographers and anthropologists, created, in primitive economics, a new branch of social anthropology of the greatest interest to the economic historian.

The mystical 'individualistic savage' was now dead and buried, as was his antipode, the 'communistic savage'. It appeared that not so much the mind as the institution of the savage differed from our own. Even the widespread communal ownership turned out under the anthropologist's microscope to be different from that it was supposed to be. True, land belonged to the tribe or sib, but there was also found to exist a network of individual rights which deprived the term 'communal property' of most of its content. Margaret Mead has described this as the man 'belonging' to the piece of land, rather than the land to the man. Behavior is not so much ruled by rights of disposal vested in individuals, as by commitments of individuals to cultivate a definite plot of land. To speak either of individual or communal property in land, where the very notion of property is inapplicable, appears therefore hardly as meaningful. With the Trobrianders themselves, distributions happened largely through gifts and countergifts.

[illegible]

As a general conclusion it can be stated that the production and distribution of material goods was embedded in social relations of a non-economic kind. No institutionally separate economic system--no network of economic institutions--could be said to exist. Neither labor, nor the disposal of objects, nor their distribution was carried on for economic motives, i.e., for the sake of gain or payment, or for fear of otherwise going hungry as an individual. If by economic system we should mean the aggregate of behavior traits inspired by the individual motives of hunger and gain, there was no economic system in existence at all. If, however, as we should, we mean by that term the behavior traits relating to the production and distribution of material goods--the only meaning relevant to economic history--then we find that, while there was, of course, an economic system in being, it was not institutionally distinct and separate. In effect, it was simply a by-product of the working of other non-economic institutions.

Such a state of affairs might be more easily understood if we concentrate on the role of basic social organization in channeling individual motives. In studying the kinship system of the Banaro of New Guinea, Richard Thurnwald found a complicated system of exchange marriage. No less than four different couples had to be united in marriage at one and the same occasion--each partner standing in a definite relationship to some other person of the reciprocating group. In order for such a system to work, grouping had to be already in existence splitting the sib artificially into sub-sibs. To this purpose, the goblin-hall (or men's house) was habitually divided; those squatting on the right (Bon), and those squatting on the left (Tan) formed sub-sections for the purpose of the exchange marriage system. Thurnwald wrote:

> The symmetry in the arrangement of the ghost-hall is the expression of the principle of reciprocity--the principle of giving 'like for like'--retaliation or requittal. This seems to be the result of what is psychologically known as 'adequate reaction,' which is deeply rooted in man. In fact, this principle pervades the thinking of primitive peoples and often finds its expression in social organization. (1915: p.)

This remark was taken up by Malinowski in Crime and Custom in Savage Society. He suggested that symmetrical subdivisions in society, such as Thurnwald had found in Goblin-Hall, would be discovered to exist everywhere as the basis of reciprocity among savage peoples. Reciprocity, as a form of integration, and symmetrical organization went together. This may be the true explanation of the famous duality in social organization. Indeed, we may ask in regard to pre-literate society--ignorant of bookkeeping--how could reciprocity be practiced here over long stretches of time by large numbers of peoples in the most varied positions unless social organization met the need half-way by providing ready-made, symmetrical groups, members of which could behave towards one another similarly? The suggestion carried important implications for the study of social organization. It explains, among other things, the role of the intricate kinship relations often found in savage societies, which are here the bearers of social organization.

Since there is no separate economic organization in being, but instead the economic system is embedded in social relations, there has to be an elaborate social organization in existence in order to take care of such aspects of economic life as the division of labor, disposal of land, organization of work, inheritance, and so on. Kinship relations tend to be complicated since they have to provide the ground-work of a social organization which substitutes for a separate economic organization. (Incidentally, Thurnwald remarked that kinship relations tend to become simple as soon as separate political-economic organizations develop: since 'there is', as he said, 'no need for complicated kinship relations any more.') (fn.)

We have an institutionally separate economic system in our society, and an important integrating concept in that economy is that of an aggregate of interchangeable economic units. Hence the quantitative aspect of economic life. If we possess ten dollars we do not, as a rule, think of them as ten individual dollars with a separate name attached to each, but rather as units which can be substituted one for another. Without such a quantitative concept the notion of an economy is hardly meaningful.

It is important to recognize that such quantitative concepts are generally not applicable to primitive society. The Trobriand economy, for example, is organized on a continuous give-and-take basis; yet there is no possibility of setting up a balance, or using the concept of a fund. The multifarious 'transactions' cannot be grouped from the economic point of view, i.e., the manner in which they affect material want satisfaction. Although the economic significance of the 'transactions' may be great, there is no way of assessing their importance quantitatively.

To have shown this conclusively is another of the theoretical achievements of Malinowski. First, he listed the economically significant different kinds of give and take, from free gifts (as we would describe them) at the one extreme, to plain commercial barter (again, as we would describe it) at the other. Secondly, he grouped the sociologically defined relationships in which all of the different give-and-take relationships occur. He then related all of the different types of gifts, payments, and transactions to those relationships.

The category of 'free gifts' Malinowski found to be altogether exceptional or, rather, anomalous. Charity is neither necessary nor is it encouraged, and the notion of gift is invariably associated with that of countergift. Consequently, even obviously 'free' gifts are usually construed as being countergifts for some service rendered by the recipient. Most important, he found that "the natives would undoubtedly not think of free gifts as forming one class, as being all of the same nature." (1922: 178) Clearly, such an attitude would make it impossible for an individual to form the notion of such gifts comprising an economic sphere of activity in the sense of maintaining or increasing a fund.

In the group of transactions where the gift must be returned in equivalent form, Malinowski was met with a surprising fact. Obviously, this is the group which according to our notions comes nearest to the exchange of equivalents, and should be practically indistinguishable from trade. Far from it! Quite often the same object is exchanged back and forth between the partners, thus depriving the transactions of any conceivable economic sense or meaning. But this simple device, equivalence, far from representing a step in the direction of economic rationality, becomes a safeguard against the intrusion of utilitarian elements into the transaction. Actually the purpose of the exchange is to draw relationships closer and to strengthen the ties between the persons. This purpose would obviously not be served by anything even approximating higgling and haggling over food between blood-relatives.

Actual barter and trade among the Trobrianders is distinct from any other type of gift giving. Whereas in the ceremonial exchange of fish and yams a mutual sense of equivalence prevails between the two sides, in barter of fish for yams there is higgling and haggling. Such barter of useful articles is characterized by the absence of ceremonial forms and special exchange partners. In regard to manufactured goods barter is restricted to new objects, thus excluding second-hand ones, which may have a personal value.

In general, in all the forms of exchange excepting barter, the amounts and kinds of things given and taken in return are specifically related to the type of sociological relationship involved; whether that of family, clan, sub-clan, village community, district, or tribe. Each is distinct and separate both in terminology and native thought. Under such conditions, the aggregative concepts of fund or balance, of loss and gain, were obviously inapplicable.

The result of all these characteristics of primitive societies is the impossibility of organizing the economy, even in thought, as distinct from the social relations in which its elements are embedded. However, there is no need for it either, since the social relationships, as integrated in the non-economic institutions of society, automatically take care of the economic system.

Very clear + suggestive
and easy to follow

Chapter 3

The two meanings of economic

The simple recognition from which all attempts at clarification of the place of the economy in society must start is the fact that the term 'economic' as commonly used to describe a type of human activity is a compound of two meanings. These have separate and distinct roots, independent of one another. There is no difficulty in identifying them, even though a number of broadly synonymous words are available for each. The one meaning, the formal, springs from the logical character of the means-ends relationship as in 'economizing' or 'economical'; this meaning is the fount of the scarcity definition of economic. The other, the substantive meaning, points to the elemental fact that human beings, similarly in this regard to all living things, can not exist for any length of time without a physical environment to sustain them; this is the origin of the substantive definition of economic. The two meanings, the formal and the substantive, have nothing in common.

The current concept of economic is, then, a compound of two meanings. While hardly anyone would seriously deny this fact, its implications for the social sciences (always apart from economics) are rarely touched upon. Whenever sociology, anthropology, or history deals with matters pertaining to human livelihood, the term 'economic' is taken for granted. It is employed loosely, relying for a frame of reference now on its scarcity connotation, now on its substantive connotation, thus oscillating between two unrelated poles of meaning, the one formal, the other substantive.

The substantive meaning derives, in brief, from man's patent dependence for his livelihood upon nature and his fellows. In a very real sense he survives by virtue of an instituted process of interaction between himself and his natural surroundings. That process is the economy; as its result he finds himself supplied with the means of material want satisfaction. This phrase should not be taken to signify that the wants to be satisfied are exclusively bodily needs, such as food and shelter, however essential these be for his survival. That would be absurdly to restrict the realm of the economy. The means, not the wants, are material. Whether the useful objects are required to avert starvation or rather are needed for educational, military or religious purposes, is irrelevant from this angle; as long as the wants depend for their fulfillment on material objects, the reference is economic. 'Economic' here denotes nothing else than 'bearing reference to the process of material want satisfaction'. To study human livelihood is to study the economy in this substantive sense of the term. That is the meaning in which 'economic' is used throughout in this book.

The formal meaning has an entirely different origin. Deriving from the means-ends relationship, it is a universal, the referents of which are not restricted to any one field of human interest. Logical or mathematical terms of this sort are called 'formal' in contrast to the specific areas to which they are applied. Such a meaning underlies the verb 'maximizing', more popularly 'economizing' or--less technically, yet perhaps most precisely of all--'making the best of one's means.' optimizing

A merger of two meanings into a unified concept is, of course, unexceptionable, as long as one remains conscious of the limitations of the concept thus constituted. To link material want satisfaction with scarcity plus economizing and weld them into one concept may be both justified and reasonable under a market system, when and where it prevails. However, to accept the compound concept of 'scarce material means and economizing' as a generally valid one must greatly increase the difficulty of dislodging the economistic fallacy from the strategic position which it still holds in our thinking.

The reasons for this are obvious. The economistic fallacy, as we called it, consists in a tendency to equate the human economy with its market form. Accordingly, to eliminate this bias, a radical clarification of the meaning of the word 'economic' is required. This again, cannot be achieved unless all ambiguity is removed and the formal and the substantive meanings are separately established. Their telescoping into a term of common usage, as in the compound concept, must buttress the double meaning and render that fallacy almost impregnable. does the term occur in Ch. 2?

How solidly the two meanings were joined together can be inferred from the ironical fate of that most controversial of modern mythological figures--Economic Man. The postulates underlying this creation of scientific lore were contested on all conceivable grounds--psychological, moral and methodological, yet the meaning of the attribute 'economic' was never seriously doubted. Arguments clashed on the concept man, not on the term economic. No question was raised as to which of the two series of attributes the epithet was meant to convey--that of an entity of Nature, dependent for its existence on the favor of environmental conditions, as are plant and beast; or that of an entity of the mind, subject to the norm of maximum results at minimum expense, as are angels or devils, infants or philosophers, in so far as they are credited with reason. Rather, it was taken for granted that Economic Man, that authentic representative of nineteenth century rationalism had his domicile in a world of discourse where brute existence and the principle of maximalization were mystically compounded. Our hero was both attacked and defended as a symbol of an ideal-material unity which, <u>on those grounds</u>, would be upheld or discarded, as the case might be. At no time was the secular debate deflected to an even passing consideration of which of the two meanings of economic, the formal or the substantive, Economic Man was supposed to represent.

Recognition of the twofold roots of the term economic is, of course, by no means new. Neo-classical economic theory may be said to have been formed, about 1870, out of the distinction between the scarcity definition and the substantive definition of economic. Yet so involved are the ways of the inquiring mind that we find the economist today discounting the very notion of two meanings. Although neo-classical theory itself loosely employs the compound concept, it admits only the scarcity definition of economic as strictly valid. The material means definition is cold-shouldered as trivial, good enough maybe for everyday uses but otherwise to be ignored as below the dignity of science to register. The stress on theoretical analysis thus brought in its wake complete disregard of the requirements of other economic disciplines such as the sociology of economic institutions, primitive economics or economic history, that also were engaged in the study of human livelihood. No sooner had the irreducible distinction between the two meanings been discovered than the substantive meaning was discarded in favor of the formal one.

Hence the economic analyst's insistence, at least by implication, that all disciplines dealing with the economy have for their true subject not some aspect of material want satisfaction, but choice between the uses of scarce means. The compound concept was admitted on sufferance, on the assumption namely, that its substantive ingredients could safely be forgotten, thus reducing the concept to its formal elements of choice and scarcity, which were alone supposed to matter.

The difficulty of our task now becomes apparent. A clarification of the compound concept as harboring two independent meanings is not enough. For as soon as we are in striking distance of that aim, showing up the ambiguity of the compound concept, so readily employed by layman and scholar alike, it turns out to serve merely as a screen for the scarcity definition, while the substantive aspect of the economy, onto which we had wished to focus is disdainfully relegated to oblivion.

Let us survey then the prima facie grounds on which a semantic monopoly of the term 'economic' is so confidently claimed for the scarcity definition. An attempt to develop the substantive definition will follow after.

We will start from a formulation of the scarcity definition which is as wide as possible yet sufficiently articulated in its applicability to be capable of operational testing.

To make the best of one's means, which logically is the norm implied in the formal meaning of economic, refers to situations where choice is induced by an insufficiency of means, a condition of affairs which is justly described as a scarcity situation. The terms 'choice', 'insufficiency', and 'scarcity' as they occur in this context should be carefully viewed in their mutual relationship, for economic analysts' claims take on varied forms. We are told sometimes that economics has for its subject acts of choice; sometimes, that choice involves insufficiency of means; at other times, that insufficiency of means involves choice; at still other times that insufficient means are scarce means, and even that scarce means are economic ones.

Such assertions would seem to establish the range of the formal meaning as comprising the economy in all its manifestations. For the economy, however instituted, would then consist of scarce means under conditions that induce acts of choice as between the different uses of the insufficient means and, consequently, be capable of being described in the formal terms of the scarcity definition. It could then rightly be claimed that the substantive definition of economic was superfluous or at least of negligible importance, since all conceivable economies would fall under the scarcity definition. However, strictly speaking, none of those claims is valid.

To start with the broadest term, choice: It may occur whether means are sufficient or not. Moral choice is indicated by the intent of the agent of doing that which is right; such a crossroads of good and evil is the subject of ethics. A purely operational crossroads on the other hand would be this: A man is travelling on a road. At the foot of a mountain two paths branch off, both of them leading by different ways to the place of his destination. Assuming there is nothing to choose between them--same length, same amenities, etc.--he is still called upon to decide for either the one or the other path on pain of relinquishing his aim altogether. Neither at the moral nor at the operational crossroads, it appears, is an insufficiency of means postulated. Indeed, ample means may make it rather more difficult to choose, though no less necessary. If it is often awkward, sometimes even painful, to have to make a choice, this may be as much due to an abundance of means as to their insufficiency.

Choice, then, does not necessarily imply insufficiency of means. But neither does insufficiency of means imply either choice or scarcity. To begin with the latter. For a scarcity situation to arise, there must be given not only an insufficiency of means but also choice must be induced by that insufficiency. Now, insufficiency examples would help

of means does not induce choice unless at least two further conditions are given: More than one use to the means, otherwise there would be nothing to choose from; and more than one end, with an indication which of them is to be preferred, otherwise there would be nothing to choose by. For a scarcity situation to arise, then, a number of conditions must be given over and above the insufficiency of the means.

Yet--the point is vital--even if these conditions were satisfied there would be still no more than an accidental connection between scarcity situation and the economy. The rules of choice, as we saw, apply to all fields of means-ends relationships, factual and conventional, actual or imaginary. For means are anything that is serviceable, whether by virtue of natural qualities as coal for heating, or by virtue of the conventional rules of the game as a dollar bill to pay one's debt. It is also indifferent whether the grades of preference in regard to ends are based on technological, moral, scientific, superstitious or purely arbitrary scales.

Thus the task of attaining the greatest satisfaction through the rational use of insufficient means is in no way restricted to the human economy. It is set whether a general is disposing of his troops for battle; a chess player is scheming to sacrifice a pawn; a lawyer is marshalling evidence in defense of a client; an artist is husbanding his effects; a believer is earmarking prayers and good works to the attaining of the best grade of salvation in his reach;, or, to come closer to the point, a thrifty housewife is planning the week's purchases. Whether troops, pawns, evidence, artistic highlights, means of salvation or week's pay, the insufficient means can be employed in different ways, but once used in one way they are not employable in another; also the choosers have more than one single end in view, and are required to employ the means so as to attain the preferred ends.

Examples could be multiplied indefinitely. But the more instances are adduced the more apparent it is that scarcity situations exist in any number of fields, and that the formal meaning of economic bears in fact only an accidental reference to the substantive meaning. The 'material' character of the want satisfaction is given whether there is maximizing or not; and maximizing is given whether the means and ends referred to are material or not.

As to the rules of behavior they are of equally universal validity: There are altogether two. The one, 'Relate means to ends', covers the whole range of the logic of rational action. The second rule sums up formal economics, i.e., that part of the logic of rational action which is concerned with scarcity situations. It runs: 'Allocate the scarce means in such a way that no end with a lower order of rank on the preference scale is provided for while an end with higher rank remains unprovided for.' In plain English, 'Do not act like a fool.' Still, formal economics has for its content no more than just that.

Thus the two root meanings of economic are worlds apart; the formal meaning can in no way substitute for the substantive meaning. 'Economical' or 'economizing' refers to choice between the alternative uses of insufficient means. The substantive meaning, on the other hand, implies neither choice nor insufficiency. Man's livelihood may or may not involve the need for choice. Custom and tradition, as a rule, eliminate choice, and if choice there be, it need not be induced by the limiting effects of any 'scarcity' of means. Some of the most important natural and social conditions of life, such as the availability of air and water or a loving mother's devotion to her infant are not, as a rule, so limiting. The cogency that is at play in the one case, and in the other differs as the power of syllogism differs from the force of gravitation. The laws of the one are those of Nature, the laws of the other are those of the Mind.

But how then does formal economics apply to empirical situations at all? If means are not inherently insufficient, how can their insufficiency be tested? And, since 'scarcity' was shown to be distinct from insufficiency of means, how, in turn, can the presence of scarcity be ascertained?

Means are insufficient if the following test is negative. Lay out the ends in a sequence, and have each of the ends in that sequence covered by a unit of the means; if the means are exhausted before the last end is reached, the means are insufficient. Should the performance of the test be inconvenient or physically impossible, 'earmarking' will do. It consists in performing this same operation in thought. Each unit of the means is then 'allocated' to an end, and if you run out of means before the last end is reached, the means are insufficient.

To speak in this instance of scarce means, instead of merely insufficient ones--a general practice today--lacks precision and only creates confusion. Means that have been found insufficient can be allocated only in the same way in which they would have been allocated if found sufficient, namely, to the given end. To call them scarce would seem to imply that a choice had been induced by the insufficiency of the means, which is not so. To ignore this operational criterion would be to lose the point of the definition of scarcity altogether: it would create the illusion that there existed some distinctive way of allocating insufficient means, so to speak, 'a more economical one'. But insufficiency of means does not in itself create a scarcity situation. If you have not got enough, you must go without. In order for a choice to be set, the means, besides being insufficient, must also allow of an alternative use; and there must be more than one end, as well as a scale of preference attached to the ends.

Each of these conditions--insufficiency of means, alternativity of means, multiplicity of ends, scales of preference--is capable of being empirically tested. Whether in a given instance the term 'scarce' applies to the means or not, is therefore a question of fact. It sets the limit to the applicability of the formal or scarcity definition of 'economic' in any field--including the economy.

The current compound concept of economics in fusing material want satisfaction with scarcity postulates no less than the insufficiency of all things material. The first pronouncement was that of Hobbes in the Leviathan. He deduced the need for absolute power in the State, in order to prevent humans from tearing one another to pieces like a famished pack of wolves. Actually, his aim was to prevent religious wars through the strong arm of a secular government. Yet that metaphor may have reflected the picture of a world in which the medieval commonwealth was giving way to the forces released by the Commercial Revolution and predatory competition among the engrossing wealthy was devouring chunks of the communal village lands. A century later the market began to organize the economy in a framework which actually operated through scarcity situations and Hume echoed the Hobbesian adage. An omnipresent necessity for choice arose out of the insufficiency of the universally employed means, namely, money. Whether things <u>per se</u> were insufficient was not here being tested. Undeniably, given the individual's culturally determined needs and the scope of money, these means were insufficient to satisfy all of the needs. Actually, of course, this situation was no more than an organizational feature of our economy.

Now, the universal belief, that of no thing is there enough to go round, was sometimes urged as a commonsense proposition about the limited nature of supply, sometimes as the philosophically reckless postulate of the unlimited nature of individual wants and needs. Yet, in either case, while the statement claimed to be empirical it was no more than a dogmatic assertion covering up an arbitrary definition and a specific historical circumstance. Once a human being was circumscribed as an 'individual in the market', the proposition as we hinted, was easy to substantiate. Of his wants and needs only those mattered which money could satisfy through the purchase of things that were offered in markets; the wants and needs themselves were restricted to those of individuals in their isolated existence. Therefore, by definition, no other wants and needs than those supplied in the market were to be recognized, and no other person than the individual in isolation was to be accepted as a human being. It is easy to see that what was being tested here was not the nature of human wants and needs, but only the description of a market situation as a scarcity situation. Or, in other words, since market situations do not in principle know other wants and needs than those expressed by individuals, and wants and needs are here restricted to things that can be supplied in a market, any discussion of the nature of human wants and needs in general was without substance. In terms of wants and needs, utilitarian value scales of isolated individuals operating in markets were alone considered.

Once before we have encountered a famed discussion which at closer view revealed itself as a mere verbalization of undefined issues: Was Economic Man real man? But the meaning of 'economic' was taken for granted, which excluded the possibility of any relevant answer.

Yet at the very dawn of formulated thought on the subject the scarcity definition was rejected by Aristotle. Some of his argument seems misplaced or distorted by the context, such as his views on the source of trading profits; at other points, as on slavery, his thinking is quite out of tune with present convictions. All the more astounding is his penetration of a problem which up to our days has baffled the mind.

Aristotle starts in The Politics with denying that man's livelihood as such raises a problem of scarcity. Solon's verse proclaimed falsely of the urge for riches, "there is no limit set among men." On the contrary, wrote Aristotle, the true riches of a household, or state, are the necessities of life that can be stored and will keep. And they are nothing else than means to an end, and, like all means, they are intrinsically limited and determined by their ends. In the household they are means to life; in the polis, they are means to the good life. Human wants and needs are therefore not boundless, as Solon's saying implied. That fallacy is Aristotle's main target. Do not animals, from their birth, find their natural sustenance waiting for them in their environment? And do not men, too, find sustenance in their mother's milk, and, eventually, in their environment, whether they be hunters, herdsmen, or tillers of the soil? Even trade fits into this natural pattern, as long as it was practiced as exchange in kind. No need is considered natural save that for sustenance. In so far as scarcity seems to spring 'from the demand side' Aristotle puts this down to a misconceived notion of the good life, twisted into a desire for more and more physical goods and enjoyments. The elixir of the good life--the thrill and elevation of day-long theater, mass jury service, holding of office, electioneering and great festivals, but also battles and naval combats--can be neither hoarded, nor physically possessed. True, the good life requires 'this is generally admitted,' that the citizen have leisure, in order to devote himself to the service of the polis. As we saw, slavery is part of the answer; another part lies in the payment of citizens for the performance of their public duties (or otherwise in not admitting artisans to citizenship at all). But for yet another reason the problem of scarcity does not arise for Aristotle. The economy--in the first place a matter of the domestic household--concerns the relationship of the <u>persons</u> who make up the institution of the household, or other 'natural' units such as the <u>polis</u>. His concept of the economy then, denotes an institutionalized process through which sustenance is ensured. He could therefore put down the misconception of unlimited human wants and needs to two circumstances: the one, the acquisition of foodstuffs by commercial traders, thus linking the unlimited activity of money-making to the otherwise limited requirements of the family and the <u>polis</u>; the other, the misinterpretation of the good life in the novel notion of a utilitarian accumulation of physical pleasure. Given the right institutions such as <u>oikos</u> and <u>polis</u> and the traditional understanding of the good life, Aristotle saw no room for the scarcity factor in the human economy. He did not himself fail to connect this fact with the institutions of slavery, infanticide, and his own violent aversion against the comforts of life. But for this realistic fact, his negation of scarcity might have been as dogmatic and as unfavorable to empirical research as economic formalism is in our time. As it is, the first of realist thinkers was also the first to recognize that an inquiry into the role of scarcity in the human economy presupposes an adherence to the substantive meaning of economic.

The claim of the scarcity definition to be the sole legitimate representative of the meaning of economic, does not stand scrutiny. It leaves the sociologist, the anthropologist, the economic historian helpless in the face of the task of penetrating the economy of any time or place. For the accomplishment of that task the social sciences must turn to the substantive meaning of economic.

The economy as an instituted process of interaction serving material want satisfaction forms a vital part of every human community. In the absence of an economy in this sense no society could exist for any length of time.

The substantive economy must be understood as being constituted on two levels: The one is a process of interaction between man and his surroundings; the other is the institutionalization of that process. In actuality, the two are inseparable; we will, however, treat of them separately.

The process of interaction accounts for the material result in terms of survival. It can be broken down into two kinds of changes, locational and appropriational, which may go together or not. The first consists in a change of place; the second in a change of 'hands'.

In a locational movement, as the term implies, things move spatially; in an appropriational movement either the person (or persons) at whose disposal things are, or the extent to which they have rights of disposal over them, changes. The locational movement is most clearly illustrated by transportation and production; the appropriational movement, by transactions and dispositions.

Human beings play a prime part: they expend effort in labor;

they themselves move about, and dispose of their possessions and activities in a process which eventually serves the end of their survival. Production represents what is perhaps the most spectacular economic feat, namely, the ordered advance of all material means towards the consumption stage of livelihood.

Together the two kinds of movement exhaust the economy as a process.

Locational movements comprise hunts, expeditions and raids, the hewing of wood and the drawing of water, the international system of shipping, railroad and air transportation. Carrying may in early times loom larger than production and, even later, it plays a preponderant part in production itself. It has been asserted before that production can be reduced to locational movements of objects, large and small, from the biggest to minutest particles of matter. The growth of grain from the seed is a movement of matter through space, as is the upsurge of skyscrapers in a boom. However, as we will see, the economic character of production derives from the fact that the locational movement involves labor which is combined with other goods in a specific way. Of this later on.

Appropriation was turned into a broad factual term by Max Weber. (fn.) Its original meaning of legal acquisition of property was extended so as to include de facto disposal over anything worth possessing, wholly or partly, whether physical object, right, prestige, or the mere chance of exploiting advantageous situations. Appropriational change may take place as between 'hands', where 'hand' denotes any person or group of persons capable of possessing. This brings out forcibly the shifts in the property sphere that accompany the interactional process. Things and persons, partly or totally, pass from one appropriational sphere to another. Management and administration, circulation of goods, distribution of income, tribute and taxation, equally are fields of appropriation. That which changes 'hands' need not be an object as a whole, it may be no more than its partial use.

Appropriational movements differ not only in regard to what is moved but also in the character of the movement. Transactional movements are two-sided and occur as between 'hands'; dispositional movements are one-sided actions of the 'hand' to which custom or law attaches definite legal effects. In the past, the distinction mostly could be related to the type of 'hand' in question: private persons or firms were deemed to be making appropriational changes by way of transactions, while the public 'hand' was credited with making dispositions. This distinction tends to be ignored in our days by business corporations and governments alike. The State buys and sells, while private corporations largely administer and dispose.

Combination of goods seems an odd term to employ for that part of the interaction which is commonly called production. Yet it is a basic fact of the substantive economy that things are useful either because they serve a need directly or because they do so indirectly, that is, through their combinations. This distinction between goods of a 'lower' and a 'higher' order, introduced by Carl Menger, (fn.) is at the root of production. Even in a state of general scarcity no production ensues in the absence of goods of a 'higher' order, foremostly labor. On the other hand, if 'labor' is given, production will take place whether labor is in abundance or not as long as no goods of a 'lower' order are available that can satisfy the needs. It is therefore misleading, as was made manifest in Menger's posthumous work, (fn.) to attribute the phenomenon of production to some general scarcity of goods; rather, it stems from the difference between the goods of a 'lower' and a 'higher' order--a technological fact of the substantive economy. In this line of thought the pre-eminence of labor as a factor of production is due to the circumstance that labor is the most general agent among all goods of the 'higher order'.

The economy on an interactional level comprises, then, man as a collector, grower, carrier and maker of useful things as well as nature as the silent obstructor and furtherer; also their interpenetration in a sequence of physical, chemical, physiological, psychological and social events occurring on the smallest as well as the largest scale. The process is empirical, its parts capable of operational definition and direct observation.

Yet such a process has no separate existence. The thread of interaction may branch off, interlock, form a web, but whether the mesh of cause and effect is simple or complex, it can no more be physically detached from the ecological, technological and societal tissue which forms its background, than can the life process from the animal organism.

In order to achieve the manifold coherence of the actual economy, the bare process of interaction must acquire a further set of properties. Short of these the economy could hardly be said to exist. If the material survival of man were the result of a mere fleeting chain of causation possessing neither definite location in time or space, that is, unity and stability; nor permanent points of reference, that is, structure; nor definite modes of action in regard to the whole, that is, function; nor ways of being influenced by societal goals, that is, policy relevance--it could never have attained to the dignity and importance of the human economy. The properties of unity and stability, structure and function, history and policy accrue to the economy through its institutional vestment.

This lays down the foundation of the concept of the human economy as an instituted process of interaction which has a material means providing function in society.

Chapter 4

Forms of Integration and Supporting Structures

Of the various ways in which empirical economies can be classified, that one should be given preference which avoids prejudging the significant questions arising from the problem of the place occupied by the economy in society as a whole. The issues which stand out, of course, are those involving the relations of the economic process to the social, political and cultural spheres of the society at large. To avoid prejudging these issues, it is suggested here that economies be grouped according to purely formal criteria such as the form of integration which is dominant in each of them. Integration is present in the economic process to the extent that those movements of goods and persons which overcome the effect of space, time and occupational differentials are institutionalized so as to create interdependence between the movements. Thus, for example, regional differences within a territory, the time span between sowing and harvesting, or the specialization of labor is overcome by such movements of the respective crops, manufactures and labor as make their distribution more effective. Forms of integration thus designate the institutionalized movements through which the elements of the economic process--from material resources and labor to the transportation, storage and distribution of goods--are connected.

The main forms of integration in the human economy are, as we find them, reciprocity, redistribution, and exchange. We are employing these terms descriptively; that is, as far as possible, without suggesting any motivational or valuational association. This does not mean, of course, that forms of integration do not differ precisely in the manner in which the economy is, under each of them, related to the social political and cultural areas of the society. What matters here is that our forms of integration are relatively independent of the aims and character of the governments as well as of the ideals and ways of the culture in question. A neutral attitude in regard to the moral and philosophical implications of governmental policies and cultural values is, indeed, a requisite of any objective inquiry into the shifting relations of the economic process to the social, political and cultural spheres of the society as a whole. Unless our classification of empirical economies is reasonably free of motivational and valuational associations, conclusions might be vitiated by unwittingly assuming what is supposedly deduced from the evidence.

One might think of the forms of integration as diagrams representing the patterns of goods and person movements in the economy, whether the movements consist of changes in their location, or in their appropriation, or both. As a form of integration, reciprocity describes a movement of goods and services, or the disposal over them, as between corresponding points of a symmetrical arrangement;

redistribution stands for a movement towards a center and out of it again, whether the objects are physically moved or only the disposition over them is shifted; and exchange represents a movement in a similar sense, but this time as between any two dispersed or random points of the system. In a diagrammatical presentation, arrows which connect points that are symmetrically arranged in regard to one or more axes might stand for reciprocity; redistribution would require a star-shaped diagram, some arrows pointing towards the center, others away from it; and exchange could be pictured as lines connecting random points, each arrow directed both ways.

Clearly, such diagrams can serve no more than a formal purpose. They do not explain how the movement that they represent can happen in society, nor how that movement, once it occurs, brings about its integrative effect. The fact is that the movement, to have such effect, and indeed to come about at all, requires the presence of definite structures in society.

It is important at this point to distinguish between forms of integration, supporting structures, and personal attitudes. The difficulty lies in the common use of the terms reciprocity, redistribution and exchange, which are often employed to denote different types of personal attitudes as well as the forms of integration suggested here--and these are two very different matters. The effective functioning of forms of integration depends upon the presence of definite institutional structures, and it has long been tempting for some to assume that such structures are the result of certain kinds of personal attitudes. Adam Smith's "propensity to truck, barter and exchange" is perhaps the most famous example. It is not true, however, that individual acts and attitudes simply add up to create the institutional structures which support the forms of integration.

The supporting structures, their basic organization, and their validation spring from the societal sphere. In the case of redistribution, as will be readily seen, the movement cannot, in the nature of things, proceed without an established center from which the redistribution takes place. Redistribution is not an individual pattern of behavior at all, and even if started on a small scale it would depend on the prior existence of a recognized center. With reciprocity and exchange the position is essentially the same. They certainly also denote definite kinds of personal attitudes and actions; those of mutuality and barter. But diffuse individual acts of mutuality or barter lack the essentials of effectiveness and continuity on the societal plane. Neither reciprocity nor exchange is possible on that plane without the prior existence of a structure pattern which is not, nor can it be, the result of individual actions of mutuality or barter. As to reciprocity, it involves the presence of two or more symmetrically placed groups, members of which can behave similarly towards one another in economic matters. Since such symmetry is not restricted to duality, the reciprocating groups as such need in no way result from attitudes of mutuality. As to exchange, random actions of barter between individuals, if they occur at all, are incapable of producing the integrating element of price. Here, as with reciprocity, the validating and organizing factor spring not from the individual but from the collective actions of persons in structured situations. Exchange as a form of integration is dependent on the presence of a market system, an institutional pattern which contrary to common assumptions does not originate in random actions of exchange.

In the writings of some authors whose interest lay in the direction of the sociology of economic institutions--notably Durkheim, Weber, and Pareto--attention was fixed, in general terms, on the societal preconditions for different types of individual action. Yet the first writer to our knowledge to note an empirical connection between personal attitudes of reciprocity and the independently given presence of symmetrical institutions was Richard Thurnwald in 1915, in a study of the marriage system of the Banaro of New Guinea. (fn.) Bronislaw Malinowski recognized the importance of Thurnwald's remark and predicted that, on close inspection, reciprocative situations in human society would always be found to rest on symmetrical forms of basic organization. His own description of the Trobriand family system and of the Kula trade made the point clear. From here it was only a step to generalize reciprocity into one of several forms of integration and, similarly, to generalize symmetry into one of several supporting structures. This was done here by adding redistribution and exchange to the former, centricity and the market to the latter category. All this helps to make it clear how and why individual personal attitudes so often fail to have societal effects outside of given societal conditions. Only in a symmetrically organized environment will reciprocative attitudes result in economic institutions of any importance; only where centers have been established beforehand can the cooperative attitude of individuals produce a redistributive economy; and only in the presence of markets instituted to that purpose will the bartering attitude of individuals result in prices that integrate the economic activities of the community.

Reciprocity and symmetry

To return to reciprocity, a group which decided to organize its relationships of that footing would, to effect its purpose, have to split up into symmetrical sub-groups, the corresponding members of which could identify one another as such. Members of group A would then be able to establish relationships of mutuality with their counterparts in group B, and vice-versa, or three, four or more groups may be symmetrical in regard to two or more axes, and the members of these groups need not reciprocate with one another but with the corresponding members of third groups towards which they stand in analogous relations. A number of families living in huts which form a circle might then be assisting their right-hand neighbor and be assisted by their own left-hand neighbor in an endless chain of reciprocity without any mutuality between them.

The best authenticated reciprocity system was described by Malinowski in regard to the Trobriand Islanders. A Trobriand man's responsibility is towards his sister's family, but he himself is not on that account assisted by his sister's husband. Rather, if he is married, his assistance comes from his own wife's brother--a member of a third, analogously placed family. Not only is subsistence farming based on reciprocal relations in the Trobriands, but the 'fish and chips' arrangement between coastal and inland villages also is carried out on a reciprocity basis. The fish comes at one time, the yams at another, and the exchange partner is in this case not a group of relatives but a

almost word for word repetition from p. ---

whole village. But the Kula is by far the greatest institution of this type in the Trobriands. Here again partnership in exchange exists, but the acts of exchange are disjointed. Gift and counter-gift occur at different occasions which are ceremonialized in such a way as to ban all notion of equivalency. Also the trading of useful objects is not only separated from the Kula, but sharply contrasted to the Kula transactions.

Whatever be the origin of man's feeling of satisfaction in experiencing an adequate reaction, the connotations of adequacy are very different according to the situation to which it is referable. While our sense of justice seeks adequacy in terms of punishment and reward, reciprocal movements of goods require adequacy in terms of gift and counter-gift. Adequacy in this case means primarily that the right person at the right occasion should return the right kind of object. The right person is, of course, the symmetrically posited person. Indeed, but for such symmetry the complex give-and-take involved in a system of reciprocity could not work. The adequate behavior is often that of equity and consideration, or at least a show of it, and not the stricti juris attitude of ancient law, or as in the example of Shylock's insistence on his pound of flesh. Hardly anywhere do we find the habit of reciprocal gifts accompanied by hard bargaining practices. Whatever be the reason for the elasticity which gives prefernnce to equity as against stringency, it clearly tends to discourage the manifestations of economic self-interest in the give-and-take relations of reciprocity.

Redistribution and centricity

Redistribution obtains within a group to the extent that the allocation of goods (including land and natural resources) is collected in one hand and takes place by virtue of custom, law or ad hoc central decision. In this way, the reuniting of divided labor is achieved. Sometimes it simply amounts to storage-cum-redistribution, at other times the 'collecting' is merely dispositioned, i.e. there is a change in the rights of appropriation without any change in the actual location of the goods. Redistribution occurs for many reasons and on several levels, from the primitive hunting tribe to the vast storage systems of ancient Egypt, Sumeria, Babylon, or Peru. With a hunt, any other method of distribution would lead to disintegration of the horde or band, since only 'division of labor' of the hunters can here ensure results, and the game or catch must then be distributed. In large territories differences of soil and climate may make the reuniting of labor necessary; in other cases it is caused by discrepancy in point of time, as between harvest and consumption.

Methods of collection in a redistributive system may differ widely. From a simple pooling of catch or game to elaborate methods of taxation in kind, various devices are met with. The Trobiander chief had the privilege of polygyny. He might have forty wives, taken from the forty sub-clans of the island, and they ensured the purveyance of a large amount of produce to the chief's yam store from all the villages by the wives' brothers. Thus the chief exercised the political function of chiefdom on a basis which was derived from the marriage customs of the tribe, the link being supplied by the privilege of polygyny.

With some primitive peoples, public life is much more highly developed than with our latter-day societies of the West. Festivals, ceremonial food distribution, religious solemnities, mortuary feasts, visits of state, harvest and other celebrations offer endless occasions for large-scale distribution of food and sometimes even of manufactured articles. An important function of the chief is the collecting and the giving away of this wealth on such ceremonial occasions. This amounts to the redistribution of the produce collected and stored by him. It makes no difference whether the title of collection was kinship, feudal ties, political bonds, or forthright taxation, the result is always the same--storage-cum-redistribution. What, as in some African native kingdoms, may often appear to the Western eye as a despotic taxation or ruthless exploitation of subjects, is more often merely a phase in this redistributive process.

Redistribution--whether physical or merely dispositive--cannot take place unless there are channels in which the movement towards the center, and the subsequent movement away from the center can happen. Some degree of centricity is therefore imperative. Central organization is not only politically, but also economically vital. With the Trobrianders, the incipient state is more of a redistributing facility than an organ of defence or class rule.

The taxation system in modern states is but another form of redistribution. Such a redistribution of purchasing power may be valued for its own sake, i.e. for purposes demanded by social ideals. But the principle of integration is the same--collecting and redistributing from a center.

Redistribution may also apply to a group smaller than society, such as the household or manor. The best known instances of 'householding' are the Central African kraal, the North West African Kasbas, the Hebrew Patriarchal household, the Greek estate of Aristotle's time, the Roman familia, the medieval manor, or the typical peasant household the world over before the general marketing of its produce.

In ancient Greek as well as in Germanic, 'householding' is the term used to denote catering for one's own group. Oikonomia (householding) in Greek is the etymon of the word economy. Haushaltung, in German, corresponds strictly to this. The principle of 'provisioning one's self' remains the same whether the 'self' thus catered for is a family, a city, a manor. Traditionally it was thought to be the original form of economic life. Even Karl Bücher, who was the first to draw attention to the entirely different character of savage society, fell into the mistake of propounding the rule of 'individual hunt for food' as the pre-economic stage of human history. L4

Householding, however, is by no means an early form of economic life. The notion that man began by looking after himself and his family must be discarded as erroneous. The farther back in the history of human society we go, the less do we find man in economic matters acting for his own personal benefit, looking after his own personal interest. Only under a comparatively advanced form of agricultural society does householding become practicable and, then, it is true, fairly general. Before that the widely spread institution of the 'small family' is not economically institutionalized, except for some cooking of food.

Exchange and markets

Exchange is a two-way movement of goods between persons whose attitude is oriented toward the gain ensuing for them from the resulting terms. In simpler terms, barter is the behavior of persons who exchange goods on the assumption that each partner makes the most of it. Higgling and haggling is of the essence here, since there is no other way of each person making sure that he is gaining as much as possible from the bargain. Higgling and haggling in this case is not the result of some human frailty but a behavior pattern logically required by the mechanism of the market.

It is usually not realized that random acts of barter would not by themselves produce prices unless a market pattern was in existence which made the bartering intent of the persons effective. The position is very much the same as in regard to reciprocity and redistribution, where the principle of behavior in order to become effective, requires the presence of some institution which is not the direct result of such an attitude. The market pattern is never traceable to the mere desire of individuals to "truck, barter and exchange". Its origins point in other directions, as we shall see.

Forms of integration and stages of development

Forms of integration do not represent necessary 'stages' of development. Several subordinate forms may be present alongside of the dominant one, which may itself re-occur after a temporary eclipse. Tribal societies practice reciprocity and redistribution, while archaic societies are predominantly redistributive, though to some extent they also allow room for exchange. Reciprocity which plays a dominant part in most tribal communities survives as an important, although subordinate, trait in the redistributive archaic empires where foreign trade is still largely organized on the principle of reciprocity. Indeed, during an emergency it was introduced again on a large scale in the twentieth century under the name of lend-lease between societies in which marketing and exchange were otherwise dominant. Redistribution, the method in tribal and archaic society beside which exchange plays only a minor part, grew to great importance in the later Roman Empire and is actually gaining ground today in modern industrial states. Conversely, it would be a mistake rigidly to identify the dominance of exchange with the nineteenth century economy of the West. More than once in the course of human history markets have played a significant part in integrating the economy, although never on a territorial scale, nor with a comprehensiveness even faintly comparable to that of the nineteenth century West. However, here again a change is noticeable in the present century during which a decline of competition and a recession of markets from their nineteenth century peak has set in.

Nevertheless, a classification of economies according to the dominant forms of integration is illuminating. What historians are more or less traditionally wont to call 'economic systems', i.e. empirical economies of a definite type, such as feudalism or capitalism, fall into this pattern. We need only fix our attention on the role of land and labor in society, the two elements on which the dominance of the forms of integration essentially depends. A tribal community is characterized by the integration of land and labor into the economy by way of the ties of kinship. In feudal society the ties of fealty determine the fate of land and of the labor that goes with it. In the floodwater empires land was largely distributed and sometimes redistributed by temple or palace, and so was labor, at least in its dependent form. The modern rise of the market to a ruling force in the economy can be traced by noting the extent to which land and food were mobilized through exchange, and labor was turned into a commodity to be purchased in the market. This may help to explain the relevancy of the otherwise hardly tenable grouping of economic systems into slavery, serfdom and wage labor traditional with Marxism--distinctions which flow from the conviction that the character of the economy is above all set by the status of labor. Clearly, however, the integration of land into the economy should be regarded as hardly less vital.

Harry Pearson ed.
Karl Polanyi. Livelihood of Man. (1977.)

Editor's Introduction

> "I should see the garden far better," said Alice to herself, "If I could get to the top of that hill: and here's a path that leads straight to it—at least, no, it doesn't do *that*—" (after going a few yards along the path, and turning several sharp corners), "but I suppose it will at last. But how curiously it twists! It's more like a corkscrew than a path! Well, *this* turn goes to the hill, I suppose—no, it doesn't. *This* goes straight back to the house!
>
> "It's no use talking about it," Alice said, looking up at the house and pretending it was arguing with her. "I'm *not* going in again yet. I know I should have to get through the looking glass again—back into the old room—and there'd be an end of all my adventures!" (Lewis Carroll, *Through the Looking Glass*.)

The problem of locating the economy and analyzing its institutional structure in different societies seems to me not unlike that of Alice's persistent attempts to reach the top of the hill, the better to see the "Garden of Live Flowers." The hill is visible, but all the pathways belong to the Red Queen, the strongest piece on the board, and they all lead back to the familiar house and the other side of the looking glass whence she came.

The Red Queen is the economic theory of classical liberalism, of course, and the familiar house is the market economy of the modern West out of which that theory has developed. By and large, economists in this tradition are not interested in the question, "What is, or where is, the economy in different societies?" Most would probably be ready to extend to the economy the pragmatic view attributed to Jacob Viner regarding economics. If "economics is what economists do,"[1] then the economy is simply whatever economists study. An operational definition of this sort has its advantages. It allows the economist to get on with the problems of efficiency, stability of prices, and growth in the system he is most familiar with without having to keep defining and redefining his universe.

But today a growing legion of social scientists in all of the disciplines are questioning anew the reliability of the orthodox economist's theory in the analysis of economies past and present. Questions about the nature of the economic universe inevitably arise. The argument about the empirical relevance of economic theory goes back a long way, of course, and orthodoxy has had its ups and downs. By the 1950s, however—after the post-Keynesian "synthesis" and the rapid postwar economic recovery—liberal economic theory seemed clearly to have won the day. Its apparent success in policy at home, its hope of developing the "underdeveloped" abroad, plus the weight of a brilliant tradition and the beauty of its formal logic had regained for economic theory its regal position among the social sciences. Anyone who wanted to study the economy anywhere, past, present, or future, looked first to that discipline for his cues.

There were, of course, still the orthodoxies and heterodoxies of the left. But the socialist world was looking inward, and the general "cold war" atmosphere was not one for thinking much about fundamental problems anywhere. It was a time for building and reasserting the power and the truth of systems, and repressing the opposition.

In the late 1970s, we face a radically different situation. Questions and doubts are everywhere. The ever-increasing problems that contemporary economic theory has encountered since the high point of its confidence in the 1950s lead us back to the most fundamental questions about the economy and its functional relation to society. One need not any longer catalogue all the critical problems that policies based on conventional economic theory have failed to resolve

[1] See Kenneth Boulding, *Economic Analysis* (New York: Harper and Brothers, 1941), p. 3; and cf. Melville Herskovits, *The Economic Life of Primitive Peoples* (New York: Alfred Knopf, 1940), p. 29.

or even to confront. But it is important to emphasize that these problems are not only the traditional ones of employment, price levels, and growth in the economy, recalcitrant and enigmatic as these are in the 1970s. They are also the much more fundamental problems of the market economy's capacity to meet the generic needs of the society it is supposed to serve. Basic questions of the allocation of resources, and of the total effect of the economic system on the quality of our lives and habitat, are involved. It is the contemporary importance of this functional relation between economy and society, both in theory and policy, in Western and non-Western societies, in industrial as well as nonindustrial economies, that demands we return to a fundamental examination of what we mean and what we want when we speak of the economy and its role in society.

There is no better place to begin such an examination than with the work of Karl Polanyi. Most of Polanyi's writing appearing in this volume was actually done in the 1950s, against the prevailing mood. He was Adjunct Professor of General Economic History at Columbia University (1947–1953), and his writing was done in relation to his courses, the research projects he conceived, and the exhilarating interdisciplinary seminars he conducted. These last continued through the 1950s and brought students and established scholars from many places together for some of the most stimulating and memorable interchanges that any of us are likely ever to have enjoyed.

Polanyi was above all a teacher, and his radically different ideas expounded with boundless enthusiasm struck a responsive cord in the large number of his vaguely troubled and uncertain students at Columbia. Most of us were back from the war, heads still in the depression era, disenchanted with the empty dogmatism of the Marxist line, yet deeply skeptical of the happy facade which the new joining of Mammon and science seemed to offer in the "new economics" and the "end of ideology." It was the radically different quality and the depth of Polanyi's insights that pointed the way for so many students to a new understanding of the social reality behind the facade.

It is in the ferment of the 1970s, however, that his views on economy and society have found their time, stimulating worldwide interest and debate among social scientists seeking a fresh understanding of the transformation taking place during the last two decades between economy and polity, economy and society. Thus the reason for this posthumous volume, which attempts to give his principal concepts and views room to develop between two covers.

The question of "the changing place of the economy in society" was at the center of Polanyi's concern, and he pursued the question with a keen eye over the whole range of man's history. His method was that of the wide-ranging historical scholar, and although he painted with a very broad brush, he has caused a good many authorities in their field to rethink some important questions about the nature and organization of the economy in primitive, ancient, and modern societies and given us all some questions to ponder.

Polanyi's first theoretical concern was with the very meaning of the term, *economy*, and with the confusion resulting from compounding the economist's "formal" definition (derived from the logic of economically rational action) with the older and more common sense notion of the economy as the "substantive" material means-producing sphere in society.

This was not merely a semantic concern. It went to the heart of the problem met by all scholars who wish to study the economy anywhere, at any time in history. If one took his cues from the economic theory of Western liberalism, the question of just what and where economic institutions were—the economy's "place" in society—presented the investigator with an enigma. Here the economy was everywhere and nowhere. Essentially, pure economic theory deals with economizing, an aspect of human action. It thus identifies and logically formalizes a kind of purposive behavior, but that economic aspect of human action has no particular institutional home. As Frank Knight noted in 1958, when asked to write on the most important economic problem facing the United States, ". . . the question has no definite answer. Most problems involve some use of means, hence demand 'economizing,' avoiding waste and futility. Accordingly, economic problems form no distinct class, and any list would be largely arbitrary."[2]

The enigma is resolved for the economist by the rough coincidence between economizing behavior and the real institutional home of the economy in the modern West. The empirical reality, that

[2] Frank H. Knight, "On the Most Important Economic Problem," *Problems of United States Economic Development* (New York: Committee for Economic Development, 1958), Volume 1, p. 273.

economists in the Western liberal tradition study, is the system of markets, money, and prices which tends to make economizers of us all. But there are obvious dangers lurking here for all social scientists interested in the economy. If the social reality that economists in the liberal tradition actually study is taken to identify the economy in all societies, then all real economic activity everywhere will tend to be seen in the market image, and back we go through the looking glass.

Polanyi was, therefore, at pains to point out that the market-ordered institutional complex does not similarly identify the economy in all societies. Whether we look to the evidence from anthropology or history, it is clear that the competitive market–money–price complex, operating in its legal context of private property and free contract and its "economizing" cultural context, has either been absent or has played a subordinate role through most of man's history.

Polanyi's basic solution was to return to the notion of the economy as the material means-providing sphere and to examine the different institutional frameworks in which that sphere operated in different societies. Here, certainly, there is no enigma. Every society must somehow find the material means for its survival, and that activity is everywhere clear and evident, providing "substantive" evidence. The whole process will be organized differently in different societies, run on different motives, and use varying materials and technologies, but it will always be there, observable and capable of analysis as a set of identifiable activities with some shape, some unity, some stability, if not necessarily as a differentiated economic *system*.

Much has been written on both sides in the formalist–substantivist debate since the publication especially of Polanyi's chapter on "The Economy as Instituted Process" in *Trade and Market in the Early Empires*, in 1957. (That essay is reprinted here, considerably enlarged, as Chapters 2 and 3.) George Dalton largely kept the substantive point of view alive by republishing some of Polanyi's most salient pieces, and by many important contributions of his own. There seems little point in reviewing the whole debate here, but some issues still remain unclear, and it does seem important to attempt to clarify them. Certainly, no hope is held out of resolving the debate once and for all—only time will do that.

First, behind the debate there is the old question of the relevance and universality of formal economic theory. The debate goes back to the "empty boxes" claim of the German historical school, and has involved the American Institutionalists as well as many sociologists, anthropologists, and historians whose interest was in economic institutions and the social and cultural framework of substantive economic activity. Too often in the long history of the dispute over the empirical relevance of economic analysis, however, the question of the formal or logical validity of economics and its universality as a theory of economic rationality has been confused with the question of its relevance to the range of substantive problems which different social scientists confront in the analysis of economic institutions, their history and their functional interaction with society. The central issue in this debate is not the logical consistency of economic analysis, nor of the universality of economic rationality as an *aspect* of human behavior in all kinds of situations, from making love to fighting wars. The issue is whether, and to what extent, the discipline of formal economics and the whole panoply of its analytical arsenal provides a model of economic activity that unambiguously identifies the range of variables that interest social scientists when they direct their attention to the economy in different societies. In this debate it is not enough to prove that choosing and economizing are universal aspects of life, or that man shows foresight and acts rationally in the conduct of his affairs. It is necessary, if formal economics is to provide us with a general concept of the economy in society, that the operational definition of economizing (the maximal adaptation of scarce means to the achievement of graded ends) provide the universal *organizing* principles of the relations between men in the production and distribution of those material things that everyone recognizes as the substantial role of the economy in all societies. The gist of Polanyi's argument is simply that these conditions are not universally present in that generic sphere of activity in every society. And if it is that material sphere of human endeavor which interests us in any society, then the theory of the organization and development of the economy in this sense must be conceived independently of formal economics.

For Polanyi, then, it is not because of the scarcity of means that social order, sequence, rules of use, and of acquisition and disposition are inevitable exigencies of the economic process. It is rather because persons working on valued things, moving them and passing them from hand to hand must, regardless of the relative scarcity or abundance of the things, know the rules of authority, and the rights and obligations in regard to the productive use of persons and things, and the rules of distribution of things; the cadences of work; the measures of time, weight, and space without which chaos would result. These are problems of the social, cultural, and physical dimensions of the substantive economy, and cannot be understood simply in terms of the abstraction, economizing in the use of scarce means, or "avoiding waste and futility."

Polanyi demonstrates clearly in this book that in primitive and early historical societies the predominant technologies, the social arrangements, and the communication systems that order and integrate economic life do not yield situations wherein the human and natural elements of the economic process can be regarded by the participants in that process as generalized means or facilities adaptable to a variety of ends. The give and take relations between persons in regard to material things in these societies are typically embedded in a broad network of social and political commitments that do not allow the individual to maximize his "economic" advantage in these relationships. Even where markets, money, and prices do appear in these societies, Polanyi makes it clear that the social, cultural, and political integument does not create the kind of situation where inputs are measured against outputs, so that an economically optimum position for the individual, let alone the whole economy, might be determined, even in principle.

In his attack on the prevailing market system bias, Polanyi focused his attention primarily on trade, money, and markets, the institutions which he felt had been most seriously misunderstood in their history because of the myopic, modern Western view that they were naturally and inseparably linked in a chain of profit-making activities. In his attack, he drew most heavily on the work of Bücher, Toennies, Maine, Thurnwald, Malinowski, Weber, and Durkheim. His original achievement was to provide clear operational definitions of trade, money uses, and markets, the purposes they served, and the different kinds of social situations in which they functioned in the long history of man predating the advent of the market system in the West. Throughout, he analyzed the ways in which literal "exchanges" between persons could take place with and without markets, but, in any case, without the supposedly inevitable rule of the supply–demand–price mechanism.

He introduced the new concepts of operational devices and equivalencies, illustrating the way in which primitive and ancient economies could accomplish the complex tasks of measurement and establishing rates of exchange, without elaborate conceptual systems of weights and measures, and without the mysterious magic of prices created autonomously by the forces of supply and demand. He penetrated to the political and economic developmental significance of those ubiquitous cultural institutions of early society: treasure and prestige; and he traced the gradual "peeling off" of economic transactions from their societal context of status and power.

In thinking about Polanyi's work, however, one must always return to the fact that his broad historical investigation of trade, money, and markets was fitted into a larger conception and purpose. That larger conception was of a general theory of the economy in society, free of the overwhelming biases of the "market mentality" of our age. Thus, first of all, he was at pains to define the meaning, scope, and content of the material means-producing sphere generic to every society. He distinguished "locational" movements, those spatial "physical" movements essential to the man–nature aspects of the productive process, from "appropriational" movements which define the all-important boundary sphere between economy and society. These latter order the relations between men as they acquire and dispose of the regular inputs and outputs of the economic process. The material means, human agents, and technical knowledge that contribute to production must be moved or induced to move from their place in society, and the products of this activity returned to the members of society. This is the sphere in which are established the appropriational powers—the rights and obligations—which order the relations between men in the acquisition and disposition of valued things, and in the recruitment of the human agents of the economic process. Broadly, it might be thought of as the sphere of "property" relations, and, on the input side, at least one of the meanings attached to Marx's "relations of production."

The social organization of appropriational power is the key to any consideration of the economy as a social system. It locates the institutional matrix which orders man-to-man economic relations, and defines the place of the economy in society in the sense that it locates the societal source of the rights and obligations which sanction the movements of goods and persons into, through, and out of the economic process.

Polanyi has identified three general types of the social organization of economic activities under the heading "forms of integration." These are: "reciprocity, redistribution, and exchange." (A fourth subtype, "householding," which might have characteristics of all the three main types, was identified to apply to the peasant household economy.) Although Polanyi does not explicitly say so, these refer to the appropriational sphere of the economy's social organization; that is, they identify typical patterns in the relations between men as they acquire and dispose of productive resources and the material means of want satisfaction. These types also serve to locate the economy in society in the sense that they identify, broadly, the kinds of institutional sanctions (social, political, economical) that fix the rights and obligations between persons in the economic process.

One typical form of the ordering of these appropriational movements was termed "reciprocity," though other terms such as mutuality or traditional might also have been employed. Each of these terms is apt in certain ways; none seems entirely adequate. In any case, the important thing is to describe clearly the situation. The central feature of this type of organization is that the sanctions, the validation, for goods and person movements into and out of the economy, and the productive uses of the material stuff of the substantive economic process are to be found in some part of the societal structure, like the kinship system, which has a function and a rationale that is not necessarily independent of, but goes beyond that of its role in ordering the relations between persons in the economic process. The family, or kinship system, is the prototype of this reciprocity situation, but it is also typical of relations between friends, neighbors, members of voluntary associations, peer groups, and the like. The central point here is that in reciprocity situations the goods and person movements and the sanctions regarding productive use of material resources derive from the behavioral requirements or expectations imposed by the particular kinship system, community, friendship circle, or association involved. The sanctions regarding such things as land use, inheritance, alienation of land, or other material means, and the movement of persons and things into and out of the economic process are here determined by the general expectations regarding behavior imposed by the prior existing or broader functioning social institution in question. Here, in other words, the universal questions of who is to do what, what means are to be used, how much is to be used and when, and to whom the productive results go in what amounts are questions that are decided by the behavioral norms of the particular social structure which rules in the given case.

The second term, "redistribution," is derived from the actual physical movement of goods into a central place from which they are redistributed. Prime examples of the redistributive economy are the vast bureaucratic empires of ancient Mesopotamia, Egypt, or the Incas of Peru. But it is essential to recognize that, as a type of organization, its distinctive feature is not the pattern of the physical movements of goods but of the rights and obligations that sanction the "between hands" movements of goods and persons into and out of the economy. The "centricity" of the redistributive pattern refers to the fact that the power to determine rights and obligations is located at an identifiable center, from which these are distributed through a matrix of formal rules and authority which order the movement of things between persons. The emergence of redistribution as a form of organization of the economy is, therefore, closely related to the emergence of the political order as a differentiated system in society.

The third pattern of organization is the transactional pattern of exchange. Its characteristic motive is rational self-interest. Its characteristic institution is the market, which is not to say that all markets fit the pattern. The self-regulating or "price-making" market of the modern West is the prototype of the exchange system. Here, as in the case of the other patterns of organization, the essential characteristic of exchange hinges on the manner in which appropriational rights and obligations are determined. The institutional medium of markets, money, and prices provides a self-contained mechanism through which rights are constituted, interests represented, and conflicts adjusted. The rights to acquire and dispose, while ultimately, and necessarily, sanctioned by the political order in the form of private property and free contract, are actually generated in the buying and selling activities that engage people in the market; interests are represented in markets open to all in possession of the necessary means; and conflicts resolved by the movement of prices. A distinctive feature of the exchange pattern is that it isolates the economic element (used here in the formal sense of economic rationality) in the essential give-and-take relations of the substantive economic process, the act of exchange always representing, in theory, a calculated gain to each individual involved.

Like each of the other two of Polanyi's "forms of integration," exchange is a principle of social organization which may, if the conditions are right, be extended to spheres of human activity other than the economy as it is defined here. Indeed, each of these three patterns identifies principles of social order that may apply to wide or dispersed areas of activity in any given society. The principles are easily identified and widely recognized as the inexplicit mutuality typical of the societal realm of face-to-face affective relationships, the rational control toward collective ends of formal rules and central authority, and the economically rational self-interest of exchange relations. Taken in this sense, they might be termed the social, the political, and the economical principles of order in society. Each has its typical mode of organization, its values, and its logic of operation. Our society, for example, is an exchange order because the market–money–price complex remains the primary mode of structuring the relations between persons, not only in the substantive economic sphere, but in and between most of the generic spheres of activity (such as sports, entertainment, art, communications, transportation, finance, and personal services) in that society. And other spheres (such as education, religion, politics, and the military) which, for the most part, are not directly structured through market relations, are deeply involved in and influenced by the dominant market exchange mode.

Polanyi's ultimate aim at this theoretical level was to create a substantive nonmarket economics which would, indeed, provide a general conceptual framework "for the whole range of earlier societies where patterns of integration other than exchange have been found to prevail."[3] That aim was never fully realized, but the groundwork was firmly laid, providing us with a conceptual framework to be developed which can apply to societies early and late, as Polanyi clearly intended.

Polanyi's scholarly aims were serious and compelling, and they continue to motivate scholars in many fields, but the deeper significance and the unifying theme of all of his work lies in the realm of social and political philosophy. Put most simply, his concern was

[3] See below.

that the market system of the modern West had usurped the generic functions and integrity of human society itself, making economic values supreme and turning both man and nature into commodities—all fodder for the "satanic mill" of the self-regulating market, as he put it in *The Great Transformation*. The driving force behind all of his historical work was the conviction that this had not always been so; that it had been possible to produce and distribute the livelihood of man while maintaining the integrity of society, and that premarket history offered many clues to the possibility of returning the mandate for man's fate to the variegated social, political, and cultural institutions of society. Thus did he challenge the liberal axiom that freedom and justice were inextricably tied to the market order. Thus did he also challenge economic determinism, one of the basic axioms of that other nineteenth-century orthodoxy, Marxism.

Much remains to be done. Polanyi's work presented here remains but a sketch of the massive undertaking he began. What I hope this book accomplishes is a more thorough, consistent, and complete view of his conceptual system, and of his role as a general economic historian than is anywhere available. With him, I also hope that it will lend some important insights to the problems of our time, problems which have hardly grown less urgent, nor have they been resolved, since his death in 1964.