Some Notes on The Economic Theories of Karl Polanyi

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Introduction

The following essay explores the contribution to institutional economics made by Karl Polanyi. Polanyi is world-famous for his *The Great Transformation*, but he has also written extensively on the nature of trade in pre-capitalist societies, and on the nature of ”the economy”. Although he has not given a clear legacy to a separate tradition of economics and economic history, the importance of Polanyi’s thoughts to heterodox economic thought should not be underestimated. It is hence meaningful to treat Polanyi’s thought as a separate tradition of institutional economics. Polanyi’s followers usually belong to other social sciences such as anthropology, archeology etc. Researchers influenced by Polanyi include people such as Dalton (1968) and Sahlins (1989). There also exists a Karl Polanyi Institute of Poltical economy in Montréal, headed by Mendell. In economics Polanyi’s influence is restricted to some heterodox institutionalists such as Stanfield (1980) and Brown (1989).

In the following I shall focus mainly on Polanyi’s substantivist conceptualization of the economy on the one hand as well as his description (and opposition) to the market capitalism on the other.

Although, Polanyi’s theory of trade, markets and the market system are extremely valuable for a criticism of orthodoxy, and although his understanding of the protective ”the double movement” is helpful, it will be argued that Polanyi has only got it half right and that there are some real shortcomings to Polanyi’s theories worth taking seriously.

The economics of Polanyi

a. The economistic fallacy

The stepping stone of Polanyi’s thought is his critique of the view of the economy. To orthodoxy the economy is the *choice* between *scarce* means in relation to preferred ends. Economizing means allocation of these scarce resources. This according to orthodoxy is ”the economic problem”. Polanyi calls this a formalist definition of the economy. Its validity is relative to the historical development - and fact - of a market society (a specific form of economic organization) but, in essence, the substance of the economy is to provide a physical environment to sustain human life. According to Polanyi, it is impossible to understand human society, the economy and human history from the formal perspective of neo-classical economy.
Because: ”To narrow the sphere of the genus *economic* specifically to market phenomena is to eliminate the greatest part of man’s history from the scene” (Polanyi 1977 p. 6).

For a more plausible understanding of the economic history of mankind, Polanyi stresses that distribution mechanisms are to be seen as socially instituted without necessarily an economic meaning (in the formal sense). Polanyi distinguishes between reciprocity, redistribution and exchange as the modes of circulation within society; and finds that all these have coexisted in different mixes and to different degrees throughout human history. Where trade and exchange (the market) have indeed existed they have taken on very different meanings and social functions than those described by neo-classical economists. First and foremost because exchange and markets have not *regulated* the economy (we will return to that) but also for the fact that scarcity and choice do not entail a market. To believe so is to commit the economistic fallacy, according to Polanyi.

The simple point is that choice does not presuppose insufficiency of means, ”scarce” resources. Moral choices (between right and wrong, good and evil) as well as crossroads (which way to choose) does not presuppose scarce means. Rather the opposite: if means are less ”scarce”, the more and harder choices we are forced to make (Polanyi 1977 p. 25). Furthermore insufficiency of means (scarcity) does not imply choice, unless other conditions are fulfilled. The choice has to be induced by the insufficiency of means, there has to be the possibility of different usage of that which is chosen - otherwise there is nothing to choose from etc. But even so, Polanyi argues, we see that we are not describing the economy, but somewhat of the predicament of human moral and social being as such: ”Thus the task of attaining the greatest satisfaction through the rational use of insufficient means is in no way restricted to the human economy” (Polanyi 1977 p. 26). The conclusion from Polanyi is that the economy is substantive, reflecting two different levels: (i) Man’s relation to nature and interaction with his surroundings, (ii) the social institutionalization of the economic process. (Polanyi 1957b), (Hopkins 1957). The need for economy arises because human beings cannot survive without production and nature. The economic writings of Polanyi tries to understand this process.

b. Modes of circulation

Polanyi stresses against the formalist tradition that a market is only one possible way of allocating resources, *redistribution*, designating "approportional movements towards a center and out of it again", and *reciprocity* "movements between correlative points of symmetrical groupings" are other alternatives, and historically more important than the market. A *market system* only comes into being when there is a market for the "fictitious commodities" of land, labor and money. It is only when income, the bulk of survival, becomes dependent upon the market, that the market becomes the market economy. It is only then that the market takes over society and indeed becomes society.

Polanyi stresses that there is no sense in privileging one mode of circulation in relation to the others. He says: ”the need for trade or markets is no greater than in the case of reciprocity and redistribution” (Polanyi 1957c. p. 53). In fact reciprocity and redistribution are more stable forms of economic integration than the market:

> Reciprocity and redistribution are able to ensure the working of an economic system without the help of written records and elaborate administration because the organization of the societies in question meet the requirements of such a solution with the help of patterns such as *symmetry* and *centricity*. (Polanyi 1957c. p 48).

Thus we arrive at Polanyi’s main criticism of economic orthodoxy in this area. Polanyi points to the fact that an economic man, as well as an economic society, is the result of specific historical and social conditions, which are rather novel. But in pre-capitalist societies where reciprocity and redistribution are the main forms of integration and resource allocation, the logic of the economy is embedded in social relations. Polanyi concludes:

As long as social organization runs in its ruts, no individual economic motives need come into play; no shirking of personal effort need be feared…In such a community the idea of profit is barred; higgling and haggling is decried; giving freely is acclaimed as a virtue; the supposed propensity to barter, truck and exchange does not appear.[1] The economic system is, in effect, a mere function of social organization. (Polanyi 1957c. p. 49)

Polanyi thus maintains that historically, the market has played no vital role in human social life until recently. Because, as Polanyi points out, the division of labor in society does not entail market exchange, only the circulation of goods either by reciprocity, redistribution or exchange.

Trade and exchange in themselves do not explain the birth of a market system, "...controlled, regulated and directed by markets alone" (Polanyi 1957c p. 68) and the subordination of "the substance of society to the laws of the market". (Polanyi 1957c p. 71). In short exchange does not explain the economy. What we need is a theory of the institutionalization of the economic system, including trade and market. (Polanyi 1957b)

To drive home this point let us quote Polanyi in some length:

It is not true, however, that individual acts and attitudes simply add up to create the institutional structures that support the forms of integration.

The supporting structures, their basic organization, and their validation spring from the societal sphere. In the case of redistribution...the movement cannot proceed without an established center from which redistribution takes place. Redistribution is not an individual pattern at all; and even when started on a small scale, it would depend upon the prior existence of a recognized center. With reciprocity and exchange the position is essentially the same. They certainly also denote different kinds of attitudes and actions, those of mutuality and barter, but diffuse actions of mutuality and barter lack the essentials of effectiveness and continuity on the societal plane. Neither reciprocity nor exchange is possible at that plane without a structure pattern, which neither is or can be the result of individual acts of mutuality and barter...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 springs not from the individual but from the collective actions of persons in structured situations. Exchange as a form of integration is dependent on the existence of a market system, an institutional pattern which, contrary to common assumptions, does not originate in random actions of exchange (Polanyi 1977 p. 37.)

Contrary to the preconceptions of liberal political economy, Polanyi maintains, the question is not how come the market did not come about, but rather how it did come about? This is what the great transformation is all about. But before we go there, let us look a bit into Polanyi’s account of markets in history.

c. Pre-capitalist markets

It must be emphasized that markets throughout history have been very different forms of markets, with very different functions. This differentiation is very important to make in order to evaluate the economist's theory of a market. This applies both to the extent and function of markets. Polanyi says that in old pre-industrial societies, the presence of market places and money "does not necessarily affect the economic system", (Polanyi 1957c p. 58).

Internal trade on local markets have had other and more important functions in society than that of allocating scarce resources or setting prices. Actually, trading is a matter of culture,

[1] Weber points to a similar fact in the following quote (Weber 1958 p. 60): ”The opportunity of earning more was less attractive than that of working less. He did not ask: How much can I earn a day if I do as much work as possible? But: how much must I work to earn the wage…which I earned before and which takes care of my traditional needs?… A man does not ‘by nature’ wish to earn more and more money, but simply to live as he is accustomed to live and to earn as much as is necessary for that purpose”.

religion, status (gift-giving) and ceremonial values, rather than economic allocation, before capitalism. Long distance trade between nations and regions, is rather one of reciprocity, also entailing gift-giving, and most of all, it is highly administered by the state (the *polis*). Local markets and long-distance trade were sharply separated from each other. Prices were matters of custom, administered by agencies, not spontaneous or fluctuating according to market rules. (In local markets, uniform prices were not the rule, pricing was different depending upon status, kinship etc.). Commercial elements (money, price, credit etc.) did gradually make their entrance to the local markets and long-distance trade.

Theoretically, it is important to understand that the market has little to do with the "market-place". The market is an abstraction which denotes a mechanism which cannot be equated with a locus. Likewise the market-place (indeed a locus: e.g. a fair) does not necessarily imply the market mechanism, only trade as we have defined it above: neither price nor economizing need enter into it, according to Polanyi. Therefore the presence of fairs and market places in the Roman empire, the medieval market etc. does not prove the presence of a market in the economic sense. (Neale 1957 p 366f).

This implies that the first starting point of a relevant theory of the birth of the market system is to separate the concepts of trade and market. The market is simply one of many modes of trade. Trade does not entail a market, whereas the market entails some specific kinds of exchange. Also market exchanges are very different in character. It is exactly this that Polanyi notes: In history there is ample evidence to suggest that exchange has been prevalent in many pre-capitalist societies, without involving prices or self-regulation, and without even involving an *economic* motive for exchange. In a compilation of articles on the matter Karl Polanyi, writing on trade in ancient Babylon, maintains:

> Nonmarket trade - this is the crucial point - is in all essentials different from market trade. This applies to personnel, goods, prices, but perhaps most emphatically to the nature of trading itself.
>
> The traders of the *Karum* of Kanish were not merchants in the sense of persons making a living out of the profit derived from buying and selling, i.e., price differentials in regard to the transaction in hand. They were traders by status, as a rule by virtue of descent or early apprenticeship, in other cases maybe by appointment. (1957a p. 19)

The income earned for trading was not profit but either land grants or a commission for traded goods. If prices were indeed used in trading they "took the form of equivalents established by authority of custom, stature of proclamation. (ibid. p. 20).

In short trading was social in origin and function, not economic in the formalist sense described by economists.[2]

This conceptualization in Polanyi’s argument on the difference between trade and market is supported by some of Polanyi’s followers: Rosemary Arnold says, commenting on the slave trade of Whydah of the Guinea coast.

> ...We [have] no need to refer to markets in order to explain the conduct of trade. From start to finish, the trading operation is an affair of the state, administered from the palace, and conducted by the dignitaries of the land under terms of treaty. The presence or absence of markets makes no difference to the trading operations

[2] As Pearson points out in (Pearson 1957) Polanyi and his followers maintain that scarcity is a socially instituted phenomenon, not a natural one. The same goes for the idea of ”surplus”, according to Pearson. As Polanyi has pointed out scarcity as a transhistorical, natural phenomenon arises from the economistic fallacy. It has, even in orthodox economics little to do with scarcity in the physical sense. Scarcity does not increase or decrease by itself if the economy grows.

described there. That a market exists in the port of trade itself is, then, striking confirmation of the independence of trade from market. (1957 p. 177)[3]

Vishwa R Gosch has concluded in the case of the sonepun fair in India:

Two elementary features of the non-capitalist market stand out vividly. *One*, periodic or otherwise, they did not emerge as institutions designed to perform strictly one function, namely the economic. The market served a gamut of proto-materialistic, spiritual and non-spiritual, social intercourse, political needs of society, etc.. *Two,* the economic function was intertwined with the other functions and inlaid in social values...The non-capitalist market mechanism is rooted in prevalent values of ritual and status. Hence the markets were socially embedded. (Gosch 1995 p. 17)

Hence these sorts of markets are governed first and foremost by social status, kinship etc. and only as a secondary feature by economizing.

Polanyi himself sums up the argument by maintaining that in pre-capitalist societies "markets are not institutions that function within an economy, but without. They are meeting places of long-distance trade. Local markets proper are of little consequence" (Polanyi 1957c p. 58).

Hence the need for a theory of the self regulating market, and the market system.

d. The great transformation

Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. Inevitably society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way. (1957c. pp. 3-4)

Thus begins *The great transformation*. Already we have the central thesis of the book presented to us. The market economy: ”…an economic system controlled, regulated and directed by markets alone” (ibid. p. 68) is built upon the ”fictitous commodification” of land, labor and money, ”to subordinate the substance of society itself to the laws of the market” (ibid. p. 71). This commodification makes human social life dependent upon the fluctuations of the market, to the supply and demand of the market and hence threatens to annihilate human being as such. Society had to, as a self-preserving measure, protect itself from this ”satanic mill” of the market.[4]

Contrary to the laissez-faire creed of liberal political economy, Polanyi maintains ”*laissez faire* economy was the product of deliberate state action, subsequent reactions on laissez faire started in a spontaneous way. *Laissez faire* was planned, planning was not.” (ibid. p. 141). There is, as we’ve said, nothing inherent in trade and exchange to become a market system. Market mentality, the allocation of scarce means, is nothing that is natural to human being. It has to be taught and learned. It was. By the social institutionalization of ”scarcity” and the threat of individual starvation. (ibid. p. 216).

Polanyi’s book is a detailed conceptualization of this process, including a long chapter on policy and the Speerhamland laws. This is interesting, but not for the purpose here. Rather we

[3]This example is conductive in the sense that it shows a clear division between (slave)-trade and popular markets. A distinction which is differentiated in many characteristics in the article. However the usage of market in the article (and especially in the quotation) refers to what I would call "market places". But I find no severe inconsistency in Rosemary Arnolds main points in that respect.

[4] See also (Thompson 1978, 1991) and (Rule 1986, 1992)

stress the conceptualization in Polanyi's work. It is summed up in the book in the concept of the great transformation which consists of a "double movement". This involves (i) the politically induced transformation to the market system (the commodification of land, labor and money), (ii) the counter movement, and self-protection, from society. In this fashion Polanyi understands the interventionist drift of the late 19th century, the short-lived period of laissez-faire ideology in the 1920s and its ultimate collapse from the 1930:s and on. This is also an important part of Polanyi's account, but again, not for the pupose of conceptualization here.

Economic history in the descriptive sense of the word is not attempted at by Polanyi, but rather he seeks to provide a theoretical framework for rewriting and reevaluating the economic and political origins of our time (as is the subtitle of Polanyi's book). It is in this sense both Polanyi's idea of different modes of resource allocation, the substantive view of the economy and his theory of a great transformation can be viewed as an institutional approach to the economy and society.

e. Polanyi's vision of a free society

To clarify Polanyi's position further, we will in closing look a bit into his vision of a free society, of socialism.

As should be clear Polanyi is entirely hostile to liberalism and its market society, both because a self-regulating market is a utopia with devastating consequences, and also because liberalism as a creed: of individualism, laissez-faire and anti-state, entails a faulty view of human history and human society. In short, Polanyi was a socialist.

Polanyi was a political activist: first in student movements and then in worker's education in England. Secondly he was throughout his life "friendly" to Marxism although he had some differences with the "communist" parties and the "socialist" states, and also with the alleged determinism and rationalism of Marxism. **(We leave aside here, the question whether these "socialist states" and "communist" parties indeed were socialist or communist in the Marxian sense.)** Marguerite Mendell (1994 p 25) quotes Polanyi:

> Forty years of my life were spent in the worker's education movement…I was engaged mostly in the study of the social sciences including the Marxian approach. The happiest memories link me with the W.E.A. [Workers Education Association], and wholesale attacks on Marxism still make me react in favor of a creed which has earned the fanatical detestation of fascists all the world over.

Karl Polanyi's daughter Kari describes her father's socialism in the following way:

> His socialism was neither that of traditional European social democracy, nor that of centralized communist planning. It was more akin to the third stream of the European socialist tradition - the Populist, syndicalist, quasi-anarchist and corporativist one. Among his heroes were all the Russian revolutionaries of the late nineteenth century. Other important influences included Robert Owen and English guild socialism; the "democratic functional socialism" of Otto Bauer; Max Adler's insistance on the socialist mission of the working class to raise the cultural level of society above the commercial ethic of the bourgeoisie; and last, but not least, a re-reading of *Capital* which brought to the fore Marx's "alienation" critique of capitalism. (Polanyi-Levitt 1994 p. 115)

In *the great transformation* Polanyi himself comments upon the matter:

> Socialism is, essentially, the tendency of inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society. It is the solution natural to the industrial workers who see no reason why production should not be regulated directly and why markets should be more than a

useful but subordinate trait in a free society. From the point of view of the society as a whole, socialism is merely a continuation of that endeavor to make society a distinctly human relationship of persons…From the point of view of the economic system, it is, on the contrary, a radical departure from the immediate past, in so far as it breaks with the attempt to make private money gains the general incentive to productive activities, and does not acknowledge the right of private individuals to dispose of the main instruments of production. (Polanyi 1957c p. 234)

Polanyi's vision of a free society thus entails the reembedding of the market, the end of the commodity form of production: the end to fictitious commodification:

To remove the elements of production - land, labor and money - from the market is thus a uniform act only from the viewpoint of the market, which was dealing with them as if they were commodities. From the viewpoint of human reality that which is restored by the disestablishment of the commodity fiction lies in all directions of the social compass. In effect, the disintegration of a uniform market economy is already giving rise to a variety of new societies. Also the end of market society means in no way the absence of markets. Those continue in various fashions, to ensure the freedom of the consumer, to indicate the shifting of demand, to influence producers' income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of self-regulation. (ibid. p. 252)

Yet clearly any method of intervention that offers protection to the workers must obstruct the mechanism of the self-regulating market, and eventually diminish the very fund of consumers' goods that provides them with wages. (ibid. p. 231)

f. A summary

Let us before we go on summarize Polanyi's main points

(i) There is a clear cut difference between trade, market and the market system. Liberal political economy conflates them into one; and believes that trade (and exchange) proves the existence of a market (or at least a potential one) and a market system. But, exchange needs not necessarily originate for economic purposes, or be regulated by economizing as the sole motive. Even markets with prices and commodities can be ruled by status, kinship or other social functions, so that the economizing aspect of choosing among scarce resources plays no significant role in it.

(ii) The market system is an instituted order, an order not spontaneously evolved from acts of exchange and trade, but from the commodification of labor, land and money. The market system is a disembedded from society. Pre-capitalist markets were embedded in society and did not play the role of a guiding principle for production and distribution. The most important point is that there is no spontaneous expanding feature of exchange as such to become market exchanges or market exchanges to evolve into a market system. Exchange is as old as human history but the market system is a rather novel phenomenon. The creation of a market system is dependent upon social, collective action, not individual economic ones. In that sense the market is an instituted process, as is the market system. (Dugger 1989)

(iii) The disembedding of the market makes human social existence dependent upon this market. Income becomes dependent upon the sale of land and labor. Production becomes conditioned upon market exchange. Hence failure to exchange means the threat to production and survival. When labor and land become commodities, when the market takes over society, the livelihood of man is threatened. When livelihood as such becomes ruled by the fluctuations of the market, individual well-being and ultimately survival, becomes market-conditioned. Societal and governmental intervention, as well as calls for socialism, do not therefore originate in "market failures" or transaction costs, but from the very fact that individuals and society need to protect themselves from the fluctuations and price-shifts inherent of markets.

(iv) Society's protection against the market system (the reembedding of the market) was no socialist or reactionary conspiracy but the scattered, spontaneous, self-preserving acts of people subjected to this law of the market. Not until this spontaneous movement grew into organizations and political movements could the counter-movement constitute an alternative to the market system of capitalism. The market system then is not a confirmation of human nature as we know it. As a matter of fact the market system is a coercive threat to human beings (in a sense "unnatural" to human nature), an instituted process and one from which human beings must protect themselves.

v. The quest for socialism is literally a matter of life and death for human social being. The decommodification of land, labor, and money is a prerequisite (a self-protective and self-preserving act) to the further development of humankind. The market economy is a threat not a marvel!

A free society according to Polanyi, hence presupposes the end to market society. But, as I will point to further down, it is not entirely clear what Polanyi has in mind here. And this ambiguity stems from Polanyi's framework at large. We therefore turn to an over view of some of the major criticisms of Polanyi. Then I go on to accounting for my own evaluation of Polanyi's framework.

Polanyi's critics

The first criticism that has been launched against Polanyi relates to his downplaying of the role of markets in history. Writers with a liberal and conservative bent have tried to argue that Polanyi is simply wrong on empirical grounds.

One of the more ambitious attacks, in this area, on Polanyi's framework is delivered by the economist Silver (Silver, 1983, 1995). He is a clear advocate of transaction cost theory. But more importantly for our purposes he puts forward the thesis that Polanyi is simply wrong on empirical grounds.

Silver's account is important because it is so well elaborated and based on such a vast reading of literature and ”evidence”. But also because it so directly contrasts to the views of Polanyi. Silver himself tries to prove that Polanyi's ideas on the economy of antiquity is totally wrong on every account. In summing up this criticism we can say that Silver holds that Polanyi is wrong on the following:

i. Markets did not only exist in the ancient economy, but they operated in the ordinary sense of price fluctuations and supply and demand. They were hence much more prevalent and important than Polanyi maintains.
ii. And furthermore, there was an extensive banking and debt system, with quite developed markets of land, of (Silver 1995 p, 122ff) of free wage workers ”in considerable number” (ibid. p. 135) and of a slave market (ibid. pp. 132-135)

To pursue this line of reasoning, however, Silver has to deal with the consequences head on. Hence, when he finds evidence of trade, he sees a market economy. When he finds evidence of contract, he sees a labor market (although what is contracted are slaves!) When he sees a merchant, he sees a capitalist. When he sees production in the family, he calls it a family firm. When he sees different prices he calls it the law of supply and demand. When he sees status, he calls it investment in name trust. When he sees skill, he calls it human capital. When he sees temples and worship, he calls it the lowering of transaction cost by the collective ”investment in Gods”. When he sees Gods he analyzes ”their contribution to economic growth”. (1995 pp. 3-38). When he sees man he sees economic man. In short when he sees economy, he sees a capitalist economy.[5]

I must also say that to conflate the issue of ancient economies of Ure-dynasties, Babylonia, Egypt, Greece etc. into a question of direct ”evidence” strikes me as a very tricky business indeed. The evidence is really scanty, so the question rather becomes conceptual.[6] And it is exactly the concepts of Polanyi that Silver comes to attack. But what does Silver prove? And what would be the result of his argument? I’ll get back to that question further down.

Another instance of similar criticism is delivered by Latham (1996). He argues that Polanyi has misunderstood the relationship between money, exchange and reciprocity. For instance slave trade, so important to ancient and primitive economies, is not one of reciprocity: ”How can a slave enjoy a reciprocal gain from the person who sells and sacrifices him?”. (Latham, 1996 p. 13). Furthermore, Polanyi states that money in pre-capitalist economies were not universal equivalents but bearers of status, and hence did not fulfill the same function as in capitalist market exchange. To this Latham objects:

> The rod currency was the principle Polanyist example of a status exchange unit operating within a system of reciprocity, and key to their interpretation of primitive and archaic societies. But if it turns out to have been a true general purpose currency operating within a market economy, as appears to be the case, then the whole Polanyist interpretation is called into question…It must be emphasized that if a currency contains both large units and small units and small units which can be used as small change for petty transactions, then it is almost certainly a true general purpose currency. If it is a true general purpose currency, then it is operating in a market economy and not a reciprocity system. True general purpose currency and market economies are synonymous. (ibid. p. 13)

All in all this line of criticism can be summed up in McCloskey’s revision of history as one great achievement of the bourgeoisie; he claims that Rome and Greece were "business empires" and that: "The emerging truth is that we have lived in a world market for centuries, a market run by the bourgeoisie". (McCloskey 1994 p, 191).[7]

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[5] This reminds me of Marx/Engels’s comment: ”The selfish misconception which induces you [the bourgeois] to transform into eternal laws of reason, the social forms springing from your present mode of production and form of property… this misconception you share with every ruling class that has preceded you. What you see clearly in the case of ancient property, what you admit in the case of feudal property, you are of course forbidden to admit in the case of your own bourgeois form of property.” (Marx,/Engels 1988 p. 100), Or how about the following?: ”What is called historical evolution depends in general on the fact that the latest form regards earlier forms as stages in the development of itself and conceives them always in a one-sided manner.” (Marx 1970a p. 188).

[6] The bulk of Silver’s evidence is textual and relates to letters, inscriptions, books and tales of the ancient societies, but the understanding of these entail translation, which is certainly tricky without knowing the context. Silver here is totally unconvincing; because he has already decided what the meaning of ”house”, ”business”, and ”merchant” must be in the ancient societies. The point is rather if these concepts really are the same then and now. Even today economic language is context-dependent. If I tell some-one to mind his ”own business”, it does not mean that I imply the guy is a business man or entrepreneur!

[7] Books and articles more or less in this tradition of economic history now abound. Examples are (Andersen/ Latham eds. 1986) and (Galenson ed. 1989). See also (North 1981) and (Schultz 1964). The latter deals with development issues in agriculture, but Schultz’s main point in the book is that although these economies are poor they are both efficient and rational in the micro-economic sense of orthodox economics. That does not

This empirical criticism is hard to evaluate directly. It must rather be considered in relation to theoretical and conceptual questions. An important version of this line of criticism against Polanyi is delivered by North (1977, 1981)

North values Polanyi's challenge in that Polanyi has convincingly shown that the market is only one of the modes of resource allocation in history and that it (even on a market system) is a very limited mode of allocation. However North maintains that Polanyi makes a theoretical mistake to start with:

Polanyi made a market synonymous with a price-making market. It should be readily apparent, however, that any form of voluntary contractual exchange involves a market and that its form will be dictated by the considerations [of transaction costs] advanced… (North 1981 p. 42)

North does agree with Polanyi that any economic system is a system of market, redistribution and reciprocity, but he puts forward the view that the explanation to the different modes of allocation actually lies in the transaction cost theory.

Because what is the challenge of Polanyi? Well, it seems to be to account for alternative ways of allocation than the market. North says:

But the point goes much deeper than even Polanyi realized, and poses a fundamental problem to the economist and the economic historian. How do we account for substitutes for price-making markets of which families, firms, guilds, manors, trade unions, cooperatives, etc., are organizing institutions which allocate resources in place of markets. (North 1977 p. 709)

This problem is exactly what NIE addresses, according to North; most famous is of course the explanation to the firm (a non-market). About the firm North says:

...[I]t is clearly a wealth maximizing institution which substitutes for price-making markets. It is reasonable to assume that the forces that lead to the substitution of firms for markets today may help us to explain the variety of forms of organization in past societies. (ibid. p. 711)

North puts forward the idea that the same goes for the alternative ways of resource allocation to the market. Reciprocity then is "the least-cost trading solution where no system of enforcing the terms of exchange between trading units exists" (ibid. p. 713). He hence maintains that Polanyi's description of economic organization is precisely consistent with the transaction cost explanation (ibid. p. 714). But even further the great merit of the transaction cost approach is that can provide us with refutable explanations (whereas Polanyi's explanation cannot). North summarizes:

Polanyi provides us with an account of reciprocity and redistributive systems which is inherently changeless. There is nothing in his framework that explains changes in the mix of the system over time. To the degree we can develop an ordinal ranking of transaction costs, then changes at the margin should produce predictable pressure for institutional rearrangement. (ibid. p. 715)

This last point is endorsed by the sociologist John Lie (1991). Lie shows how Polanyi comes to see reciprocity, redistribution and pre-capitalist trade as embedded in society, in social relations. But in Polanyi’s account, wrongfully, the market economy is described as *distinct* from society, sort of devouring and destroying the social fabric of society. Lie agrees with Polanyi that the market system is a devastating utopia, but the market system too is a social

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immediately relate to this issue of Polanyi’s economics, but Schultz’s approach is quite influential in among Polanyi’s critics.

system, a society, not something outside it. Lie shows how Polanyi therefore comes to rely on a neo-classical view of the market; and that he consequently, and again wrongfully, comes to underestimate different modes of market exchange and their relevance to history. Rather than seeing qualitative changes in the organizations of markets (different modes) Polanyi, to salvage his theory, has to deny the economic motive of pre-capitalist market trade, because, actually, Polanyi himself then equates ”economic” with market exchange and allocation of scarce resources. To this aim Lie has developed a concept of ”mode of exchange”[8] I will elaborate on this further down.

Lie suggests that Polanyi is mistaken in equating commodification for the market and in maintaining that the market system comes about when the realm of commodification reaches ”fictitious” ones of land labor and money. Thereby a qualitative change is described in mere quantitative terms, according to Lie. Furthermore, as Lie shows, market and commodification predate Polanyi’s great transformation and Polanyi fails to incorporate this fact (enclosure movement, class struggle, and the different conflicts inherent in different modes of exchange) in his analysis. Lie accuses Polanyi for not taking his theory far enough and see that the market system itself is a society, not disembedded from it. Lie sums up his evaluation of Polanyi in saying:

> Instead of offering an institutional analysis, Polanyi makes a moral critique of commodification (Lie 1991 p. 220)… By elevating the moral criticism at the expense of the analytical, he [Polanyi] discloses neither the institution nor the process of market exchange (ibid. p. 225)

I would say that the problem is that although Polanyi has a well-founded case for separation between society and economy in the formal sense. And although he conceives the market system as disembedded from society, he provides no clear theory of the commodification of labor and land as the prerequisite for capitalism. In the great transformation, true, this is not the focus of the story, but between Polanyi’s theoretical elaboration on antiquity, tribal societies and the capitalism of the 19th and 20th centuries, a vital part of the story is lacking; the part which economic historians have been engaged in solving in various ”transition debates”.[9]

Polanyi himself offers no solution to this problem and therefore he comes to overemphasize the law and state in the transition from feudalism to capitalism (i.e. the commodification of labor-power and capital). The enclosure movement was a response to a crisis within the feudal mode of production (the debate concerns why feudalism was in crisis and when this crisis can be said to start), and started as a political (class) movement long before the parliamentary enclosure acts. The process of proletarianization in the country-side was a long and painful experience for those subjected to it. (Thompson 1978), (Levine 1984).

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[8] Lie criticizes the orthodox view of the market as being asocial and unqualified. Lie suggests a sociological account of the market in different modes of exchange, depending upon whether trade is open or closed (socially) and on whether it is intraregional or interegional. He can therefore account for the conflicts and power structure within different modes of exchange and markets based on power, stratification and class. I’ll get back to this, because I like it a lot, as far as conceptualization goes. The only thing is that I find that his analysis needs to be complemented with ”my” concept of market society and the history of the labor market.
See: (Lie 1992).

[9] One of the more provocative accounts on this matter is given by Macfarlane (1978, 1987). He argues that the transition to market economy happened much earlier in the case of England than previously believed. He says that the economy was just as capitalist and market oriented in 1250 as it was 500 years later in 1750. This view is not uncontested and critics include (Dyer 1979) and (Waugh 1979). The transition debates that are most famous are the transition debate among Marxists, collected in (Hilton ed. 1986) and the ”Brenner-debate”, which originated in Brenner’s critique of neo-Malthusianism (Brenner 1976).

The latter part of this process is covered by Polanyi, but its origins remains to be satisfactorily explained in his framework.

This leads to a second problem in Polanyi's account, which I think may lead to some unnecessary misunderstandings. Polanyi talks of money, land and labor as ”fictitious commodities”. He says they clearly are *not* commodities, since neither of them are produced for sale (Polanyi 1957c p. 72). But, there is a problem in Polanyi here because he differentiates between these fictitious commodities and ”genuine” commodities (ibid. p 72. footnote). But my question is, does not all commodification assume social institutionalization? True: land, labor and money are not genuinely produced for sale, but neither is an apple, education, or a book. In fact, to be consistent, all commodities are institutionalized as such, and hence all commodities have only institutional validity. There is nothing more ”fictitious” about the commodification of labor and land than that of apples and books. Although the commodification of the former is much more devastating to human kind. Had Polanyi not engaged so much in proving that the market for labor, land and money are fictitious he would perhaps have been able to trace the uniqueness of capitalism as a mode of *production* and thereby theoretically *ground* his own analysis of the uniqueness of the market system.

The general weakness in Polanyi's account comes out in relation to political economy at large. The fact is that Polanyi simply has a different focus than poltical economy, not an alternative one. As for instance J.R. Stanfield has noted. Polanyi was not interested in analyzing the determinants of price but rather the normative question on how they should be set. (Stanfield 1980 pp. 601-602).

Furthermore Polanyi stresses that the economy only makes sense in society, i.e. in the social relations into which human beings enter, by virtue of being human. This is certainly correct, but unlike Marx for instance (and political economy at large, for that matter) Polanyi does not trace the origins of these social relations *in* the economy. Therefore, as North and Lie point out, it is unclear what is the engine of social change and commodification. Marx's classical account on these matters is that the development of the forces of production and relations of production, provide the engine for social change (in the classical Smithian account it is trade and division of labor which does all this). And it is the economy (in the substantial sense) that provides the basis for social life as such. For instance family, kinship, trade etc. presuppose an economic basis and economic relationships and are not comprehensible aside from these economic relationships.[10] There is some ambiguity in Polanyi's framework here, because in one reading one might interpret him as saying that society is a supra-structural phenomenon changing the economy by way of cultural and social processes.[11] If so, (and this is the reading Lie takes for instance), Polanyi clearly differs from classical political economy and Marxism. Although certain passages cling with a Marxian tone:

> But the more complicated industrial production became, the more numerous were the elements of industry the supply of which had to be safe-guarded. Three of these, of course, were of outstanding importance: labor, land and money. In a commercial society their supply could be organized in one way only: by being made available for purchase. Hence, they would have to be organized for sale on the market - in other words, as commodities.

[10] Even Smith has got this focus right although he thinks that then economy has its ultimate base in a human propensity to ”truck and barter one thing for another”. (Smith 1976 p. 15). However division of labor and the extension of the market as well as capital-accumulation is at the very fundament of the story of political economy both in the Smithian and the Marxian version. Polanyi simply offers no equivalent theory.

[11] This seems to be the track followed by most of Polanyi's current followers. See (Brown 1989), , (Mendell, M./Salée D. eds.1991) and (McRobbie, K. ed.1994).

The extension of the market mechanism to the elements of industry…was the inevitable consequence of the introduction of the factory system of commercial society. The elements of industry had to be on sale. (Polanyi 1957c p. 75)

If we follow Lie, and North, on this matter the result becomes ironical. Yes, it might strike one as a bit paradoxical that an economic historian who has been called an institutionalist in a broad sense, actually lacks a coherent theory of the mechanisms of institutional change. Here Polanyi is at worse odds than Veblen, who comes to stress technological change, and even NIE, which at least they has a theory of transaction costs, production costs and ”constraints”; no matter how we evaluate it. Polanyi actually offers us, in this area of a theory of institutional change, little more than an index between different modes of circulation.[12] Therefore I think Lie is 100% correct in pointing out the inherent contradictions in Polanyi: his moralism rather than institutionalism and his uncritical acceptance of the unqualified neo-classical view of the market, and the market system.

This moralism of Polanyi's runs through his discription of both capitalism and socialism. We can consequently note that there are some clear ambiguities in Polanyi's vision of a socialist society. Because at times he stresses that human freedom presupposes the abolition of wage-labor and the decommodification of the elements of production. (In short this would mean that socialism is the absence of a labor- and capitalmarket). But as soon as this, to my mind logical, conclusion is stated, Polanyi retracts most of it and says that in a free society (i.e. socialism) there will indeed be markets, which guarantees consumers' choice, sensitivity to demand etc.

But this shows itself as an inconsistency, because, suddenly, it seems that Polanyi, willynilly, has found recourse in a purely technical and asocial definition of the market himself. In a sense, he seems to hold the view that only a self regulating market is a social phenomenon, contrary to society, but when society reembeds the market, he thinks the market becomes a pure technical matter. This is paradoxical to Polanyi's own account in which one would think that the market system is a disembedded phenomenon to society.

One of the main points of the conception of economics as advocated Polanyi, institutionalists (and Marx for that matter, perhaps even Smith and Ricardo) is exactly that the economy itself is built upon social relations. Distribution is not a technical matter, but rather a social matter. (In political economy distribution among classes). Polanyi seems to hold the view, that when society takes over the market, the market does indeed become a technical matter. But this gives rise to some burning questions. Let us pose the questions thus:

If there is an abolition of wage labor, that would entail that abolition of wages. But in what sense can we then talk of a market of producers and consumers and of consumers' choice? Even further if we decommodify money, what sense is there to talk of a market at all? How is demand shown in such a market without money?

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[12] J.R. Stanfield, a leading institutionalist of the Veblenian tradition, has attempted to show that the general animus of Polanyi is very akin to the one in institutionalism and Marxism. (Stanfield 1980). This is instructive, but not entirely convincing. Especially, Stanfield cannot show what *theory* of institutional change Polanyi holds. The recemblence between Polanyi and institutionalism lies in the themes and conceptions involved: the critique of market society, equillibruim-analysis, market fetischism and individualism. A major weakness Polanyi shares with OIE at large is the immediate step to normative economics, without a credible theory that accounts for and goes beyond the questions of ”positive economics”. Stanfield himself recognizes this fact in relation to Polanyi: ”Polanyi offered no attempt to develop a theory of value in the sense of analyzing the determinants of price. He also did not offer any systematic critique of existing theories of price determination. He probably would have accepted much of orthodox theory in this regard…” (p. 601)

A thinkable answer from Polanyi is of course to say that he only wants to end the *self regulating* market, not the market proper. (Note that Polanyi always says ”self regulating” together with the ”market”, when he criticizes it, thereby giving it a moral tone). But then we have to have a theory of the link between property relations, production relations and the mode of distribution. In that case we can see that there exists no such thing as a market proper, markets always exist in a specific social and economic system of property and production.

If so, the question is not the existence or nonexistence of the market, but the existence or nonexistence of the capitalist property and production relations, i.e. private property and wage-labor. Since Polanyi is theoretically ambiguous on these matters, his depiction of socialism becomes ascientific and moral rather than economic. He speaks indeed of a rapture from the past, in the economic sense, but then he lacks an economic analysis of socialism as a new system of production and property. The only hint he gives is that socialism will be the end of land, labor, and money as commodities. But through the back door he introduces all other relations that in his framework, are specific to capitalism (consumers' demand, market, wages etc). Or rather he refuses to do away with them in his description of socialism.

In the end one could say that Polanyi's socialism is not contrasted to capitalism, but to liberalism. Polanyi comes out not as 100% anti-capitalist, but as 100% anti-laissez faire liberal. Polanyi offers not even the beginning of coherent theoretical framework of a socialist economic system. Simply because he is not entirely clear in his depiction of capitalism

Evaluation of Polanyi's critics

However, I will now wish to argue that, although there are serious criticisms to be directed towards Polanyi. His critics, mainly from the NIE-inspired camp, most often miss the mark. North is probably the most balanced of these critics, but he fails to fully understand Polanyi's account. And he falls into some traps of his own. Two points:

(i) North has slightly misunderstood the challenge of Polanyi. What Polanyi really is saying is that an analysis of an economic system cannot start from the viewpoint of market and then explain alternative modes of resource allocation, from this viewpoint. Polanyi´s point is actually *historical* and maintains that the market is an alternative (and historically limited) way of allocating resources to reciprocity and redistribution. (Non-price redistribution and reciprocity within a family, a clan etc. of course precedes the market and can therefore not be explained as an alternative to a market).

(ii) Therefore the transaction cost theory of North's, which is heuristically dependent upon the existence of a market (e.g. the explanation to the firm) is inadequate in explaining economic systems, because economic systems that are not markets cannot *per se* be seen as alternative to markets. An historical approach to economic history must take allocation systems as alternatives (or perhaps even complements) to *each other* not just to the one (the market) and their efficiency can only be measured in relation to the institutional system it itself is part of defining. And as Polanyi has stressed, each allocation system is part of a social system. The allocation system that we call a market system is an effect of the capitalist ownership structure. Other social systems and modes of production have *preceded* this system and cannot therefore be seen as mere alternatives to this system in relation to "costs" and maximization. (This point will be developed in my coming thesis)

Silver as we have shown follows this line of reasoning to its perverse conclusions. But let us see what happens if Polanyi simply is wrong on conceptual account because of the empirical work Silver provides.

Let it duly be stated that if Silver's description of the ancient economies were true: if these economies were basically operating on the same capitalist market principles as the ones of today; then he is remedying a problem for his own economics by killing off the patient.

Some questions will arise: If capitalism and all its prerequisites were there already from the start of civilization, if the economy abounded with wage laborers, of capital, ”entrepreneurs”, profit-motive, long distance trade, diffusion of technology etc., like Silver says, why is it that the economy develops its productive forces, its technology and organization, in short its economic growth, only now and not then? If basically a capitalist market economy was already there, why did it not grow the way modern capitalism does? In Silver's framework economic development becomes accidental and not at all integrated with the way the economy itself works!

It is exactly this question of economic development, of ”the wealth of nations” that political economy tried to address by looking at the *economic* logic of wealth and growth. (Marx then **further argued** that this growth and development was contradictory, and crises ridden, but the focus was in that sense the same as with Smith and Ricardo).[13] Political economy as well as Polanyi provide a framework for explaining this qualitative change in the development of human societies exactly in the qualitative change that capitalism became for the people involved in it. Following Silver's argument no such change even occurred. It could not occur, because the result was already there![14] The real difference between political economy and Silver's transaction cost economics lies here, and not elsewhere.

Silver cannot solve this problem because he cannot see it. He is so busy salvaging the ubiquitous existence of capitalism throughout history (as is McCloskey for instance) that he does not realize the consequences of such salvation. If capitalism has always existed, its history becomes extremely poor even by Silver's own standards and by the standards of liberal political economy at large. Private ownership, trade, entrepreneurship, i.e. the market, does not create growth and freedom, it is also consistent with slavery, barbarism, pagan religion etc. This is rather ironic. Liberal political economy has since at least the days of Smith sought the rationale of its economic system in the invisible hand of this system itself; in this self integrating and civilizing aspect of capitalism, in its growth and ”efficiency”. With Silver's transaction cost theory this focus is lost; it is actually denied and thrown away. To paraphrase a famous American saying ”If you're so market, why aren't you rich?”.

Rather than analyzing, and providing new tools to explain new phenomena, Silver translates what he ”sees” into the language of the preconceptions of his own theory. The proof of the pudding lies in the eating, but simple translation will not do as counter proof of received theory from the early days of political economy. Here Silver approaches the absurd, as I have accounted for above. To Silver any economy is capitalist market. Not by virtue of fact, not by virtue of analysis. No, actually only by virtue of his ideological preconceptions.

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[13] Compare (Smith 1976) to (Marx 1967, 1981). For Marx's account on pre-capitalist formations see. (Marx 1964, with an introduction by Hobsbawn).

[14] Hayek, at least completes this story with a villain, the state, and then further on socialism, to explain why the ”spontaneous order” is not free to operate. Also, as I have noted earlier, in Hayek's framework capitalism does not guarantee prosperity and growth for all, it however gives then ”freedom” and population growth. (Hayek1988).

In this light, Polanyi's theory does have some defects, but his formulation of the problem of transformation is essentially correct, as is his analytical description of pre-capitalist economies. In the story of Polanyi, Marx and political economy at large, something actually happens in history. In Silver's framework, in a strict sense, nothing happens.

There is hence also an answer to the attack on Polanyi, launched by Latham on the general currency and market exchange, but it is unclear if it can be stated within the Polanyist framework itself. Latham, and those who argue like him, equate the market economy with exchange and general purpose currency as "a medium of exchange". General purpose currency and market economy is not synonymous at all; in a capitalist mode of production, where production is dependent upon the exchange between wage-labor and capital, it in some sense is. But exchange of slaves is neither reciprocity or a market economy, it is trade, even market trade, but definitely not a market economy or capitalism. Money may very well be a general purpose currency in pre-capitalist societies, but it is not so by virtue of being a universal equivalent from socially concrete labor to socially abstract labor, as it is in capitalism. In short, as I will argue further down, money is not a structural need under such a system, whereas it is in a market society.

The most promising criticism and alternative to Polanyi is provided by John Lie. And I concur with it almost fully. However I think that the solution to Polanyi's analytical problems does not solely come with a qualification of different modes of market exchange as Lie suggests, but with a conceptualization of under what *economic* conditions the market operates. I will indicate the term "market society", as distinct from market, exactly on the Polanyist term that a market society does indeed take over society, but not from the outside (and neither from "unnatural" planning from the state etc.) but from the specific social relations that spring from *property and production*. Unlike Lie I would stress that commodification and market is indeed the same, in the sense that in the market things and people have to be commodified, in order for it to be called a market exchange. (uncommodified exchange and barter I'd just call "exchange"). These commodified exchanges are like Lie says, in different modes. (And in passing it is also true that these different modes are consistent with the market system i.e. the commodification of labor power)

But what makes the capitalist market system into a specific form of society is its tendency of self expansion and ever more commodification.[15] Lie is correct in stressing that we need an analysis rather than moral condemnation of this commodification, but it is uncertain if his own theoretical "mode of exchange approach" can fully provide for one. Unfortunately Lie's theory of the spread of a market system and capitalism, in as much as it does not rely on Marxist scholars (which it does sometimes) is not economically grounded, but grounded rather on power, and conflict *per se*. But to reiterate the basic economic facts: Exchange *presupposes* property relations (division of labor), market exchange individual property relations and a market system private, bourgeois property of the means of production. Like Lie himself stresses over and over again (in the footsteps of Marx) the market (and the market system) consists of relations between *people* not things. It is hence social, not technical. And it is on this point, paradoxically, Polanyi goes astray.

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[15] See Richard Wedberg's Weber inspired typology of different market structures where he notes that: "All capitalist markets tend to be formally free and formally rational. Competition extends deeply into society ("Competition in the market" as well as "competition in production"). (Swedberg1993)

The great transformation, Polanyi talks about, is an accurate formulation of the transition to capitalism, but it is not grounded, where it should have been grounded, in capitalism as a mode of *production.* Hence Polanyi disables himself somewhat from criticisms from orthodoxy, although as such they are quite weak. And he fails to come up with a better economic theory himself.

We must therefore conclude that Polanyi cannot fully and satisfactory solve the problem of transformation which he so correctly has stated. In relation to Veblen, he lacks a coherent *theory* of institutional change; and in relation to Marx he lacks a theory of dialectical change, and in relation to political economy at large he lacks a theory of production, of value- and price determination.

This is very unfortunate from a scientific and economic point of view, but it is not totally surprising, considering Polanyi's framework at large. The great transformation is at its best a brilliant exposé of the birth of capitalism in England. But pretty soon it turns out to be an account of a political system (liberalism) and a moral indictment on laissez faire liberalism and a self-regulating market. The economic basis of Polanyi's description gets lost. The economic and institutional analysis disappears into a haze of an account of the political system. Unfortunately therefore, Polanyi's theories, for all their brilliance of criticism, cannot be a basis for an alternative to economic orthodoxy at large, and consequently not to NIE either.

In conclusion: a bad economic theory needs to be replaced by a better *economic* theory. Maybe that is the real reason why Polanyi, still, is so neglected by economists. He fails to address them. And that is a pity.

Beyond Polanyi

I think that Polanyi's framework is ultimately unsatisfactory as an alternative to economic orthodoxy. However I suggest that his original formulations and conceptions have promising aspects. Inspired by these formulations, and this view I would like to introduce the concept of ***mode of circulation,*** which I would ground in the specific production relations in society. Once this is done we are able to criticize orthodoxy, including NIE, more efficiently than Polanyi on his own can do. I sketch an outline to such criticism in the end of this paper.[16]

i. A mode of circulation is dependent upon a division of labour, of property and of a separation of producer and consumer. Whenever this is at hand the product has to find its consumer by way of a distribution through society. I.e. in a social system of distribution. Note: a system of circulation presupposes definite social relations between human beings and not solely of things. It is true that things and products are transferred in a mode of circulation, but the important thing is the human social relation.
ii. Modes of circulation are therefore dependent upon definite social relations of property and production. They regulate the modes of circulation at hand. But this is not the place (yet) to discuss modes of production. We have to tackle institutionalism on its own terms first.

A framework of modes of circulation in society:

[16] I am indebted to W. Dugger for his suggestions and comments to earlier drafts of these ideas and concepts. Among other things he suggested that I use the concept of mode of circulation rather than mode of exchange. (Private correspondence from prof. W. Dugger).

a. *Gift giving and status*: This is not a very interesting mode of circulation in contemporary society but it has played a bigger role in earlier societies. It entails an *unequal status* relationship between the giver and recipient of the product (in circulation). It is built on specific duties and obligations of subjects to rulers and status groups. It can even entail offerings and sacrifices to deities and people of status. The circulation is not immediately mutual. Rights and obligations go one way. In effect, this can be viewed as a kind of waste or conspicuous behaviour in society. (Charity might belong here too).

b. *reciprocity* is a specific kind of mutual gift giving or mutual exchange between symmetrical and equal groups or individuals, as depicted by Polanyi. This too is of rather limited interest for our purpose, but more relevant to earlier societies. At least according to Polanyi and his followers.

c. *redistribution*: Explicitly non-market circulation. Entails a third party between giver and recipient. ”A recognised centre” as Polanyi said. In modern society this role is usually assigned to the nation state (welfare systems) but also private insurance is an example of this. This mode of circulation hence entails contributions to the centre (such as taxes) and payments out of it again (such as social security, pensions etc). This circulation in society is non-market and non-barter in the sense that the individual does not by necessity receive in relation to what he/she pays to the centre. In that sense the transaction may be mutual (in terms of rights and obligations) but not proportional. State planning is a particular form of redistribution, as far as circulation of assets goes. (Planning of production does not belong here, but in a typology of different modes of production)

d. *barter and exchange:* A specific form of circulation where a product is immediately exchanged for another product. The buyer and the seller are in immediate and personal relation to each other. Each individual in the trade is simultaneously a buyer and a seller. There is no separation between supply and demand. In such a system there is no need for a universal equivalent such as money. Money in as much as it exists in such a mode of circulation is indeed only a medium of exchange. This mode of circulation does not even entail commodity production, i.e. production for the market. This is exchange *of* the surplus products of society, not *for* surplus. The transaction is mutual, proportional, but not necessarily ”equal”. Exchange tends to be periodic and final. (Ironically, this is the economy of Say’s Law and equilibrium analysis)

e. *Market*: a specific mode of exchange in society. First of all a market presupposes commodification of the product. I.e. the product is recognised as something that has exchange value, an explicit relationship to all other recognised commodities. Secondly a market entails the *separation* of buyer and seller, and of buying and selling. Hence a market trade *needs* a universal equivalent: money. Purchase and sale are not simultaneous. I first sell (and receive money) I then buy a commodity (with the money). In fact market trade entails not two parties (as in barter) but three: A seller - a buyer - and a new seller. Hence the place and need for ”middle men” (Freeman/Gardechi 1996). In pre-capitalist market exchange, the relation between buyer and seller may be unequal or equal depending upon the social status of buyer and seller. This status may also regulate the price of the commodity within the market, depending upon who the buyer and seller is. Markets may be open or closed, in terms of popular access, or regional or interregional in terms of the width of trade and exchange. (John Lie). A market proper does not need to interfere with the rest of society. That is what Polanyi means by an embedded market. The market does not regulate society and production, nor peoples livelihood at large. People are not yet dependent upon the market. Competition and the law of supply and demand does exist, but is not universal or omnipotent.

f. *A market system*: denotes a system of interrelated markets, where the development and fluctuations of one market will have repercussions on other markets as well. A market system simply denotes the development and integration of markets in society as well as the development of different types of markets. A study of a market system hence entails an analysis of different market types in the cities and in the country side, regional versus national and international markets, popular or entrepreneurial markets (”from below”) versus mercantile and regulated markets ”from above” (John Lie 1992)

g. *Market society:* A market society is a society run by the market. (Polanyi’s term). The characteristics of a market society is that *production* itself is run by the market. This presupposes that the means of production including labour power are commodities. A market society is a society of ”universal commodity production” (Marx). This is a society of production and exchange *for* surplus. In a market society, not only things and products are circulated according to the rules of the market, but people themselves. Also: not only the destiny of products, but the destiny of production itself, becomes market dependent. In that sense capitalism is a market society. A market society does not presuppose *free* markets as in universal access to the market or non-regulation of prices and costs. However in a market society exchanges will tend to be between formal equals in the circulation of society. This is a society of competition and the law of supply and demand A market society does entail that labour power (free labour), capital and money are recognised as commodities to be sold on the market. A market society thus entails *social* ownership i.e. private property of assets, including of the means of production. (If there is inequality, it lies here). In a market society the livelihood of human being is market dependent.[17]

These conceptual differences can be summed up with the following quote from Marx:

> Prices are ancient and so is exchange; but the increasing determination of prices by the cost of production, and the influence of exchange on all production relationships can only develop fully and ever more completely in bourgeois society, the society of free competition. What Adam Smith in true eighteenth century style, places in the pre-historic period, puts before history, is in fact its product. (Marx 1973 p. 156)

With this conceptualization, this elaborated Polanyi-inspired framework, a criticism of the neo-classical institutionalism (NIE) can be summarized in the following propositions[18]:

i. NIE tends to see all other modes of circulation in society in relation to only one, namely the market. This implies the belief that the market is always a possible mode of circulation in any society for any commodity. But this is unwarranted if you cannot prove, both conceptually and historically, that this is the case. Actually NIE has a tendency to see even an organisation such as the firm in the light of the market.

ii. Furthermore, NIE conflates market to any kinds of exchange: North for instance says that ”It should be readily apparent… that any voluntary contractual exchange involves a market” (North 1981 p. 42). That is a really uninstitutional belief indeed. Firstly because

[17] (McNally 1993) offers a thorough and critical exposé of this capitalist market society, in these terms.
[18] Among the works within NIE here criticized are notably (Alchain/Demsetz 1972), (Demsetz 1967), (Barzel 1989), (Coase 1993), (Cheung 1983), (North 1981, 1990), (North/Thomas 1973), and (Williamson 1975, 1985)

there are many exchanges that are contractual and voluntary which are not market, but just barter and exchange. Secondly you cannot jump from barter and exchange to a market exchange without accounting for the institutional prerequisites of such market exchange. Hence we need a theory of commodification, production, the state, status and power. NIE offers none.

iii. NIE will hence see all relations outside the market as socially instituted (constraints), except the market itself. (”The myth of the constraint”). NIE will not account for the specific *social relations* of the market itself. NIE sees the market as an individual sphere, rather than a social sphere. NIE shares with orthodoxy the tendency to see the market as ”extended exchange”, rather than a specific social form. An institution. (This is ”the myth of the market”).

iv. Enter transaction costs as the costliness of exchange (enforcement, information, monitoring etc.). This is a tricky business, but the question is: when do these costs arise? And what are they? In order to make sense of it they do not arise in gift-giving, reciprocity or in redistribution (as mentioned above). They are only possible in various kinds of exchanges. But in all exchanges? The question is; where is the transaction cost in barter? And even further, how do we measure these transaction costs in the case of barter, where supply is demand and demand is supply (and where no prices need be involved)? Solution 1 would be in a stratified ontology where transaction costs are viewed as *underlying structures* which govern all exchanges including those on the market. This would however necessarily lead us to a need for a *theory of value or costs* which is not prices, nor dependent upon choice. Goodbye positivism, choice and methodological individualism! This would lead us to the conclusion from Marx: ”The point is rather that private interest is itself already a socially determined interest, which can be achieved only within the conditions laid down by society... it is the interest of private persons; but in content, as in form and means of its realization, it is given by social conditions independent of all.” (Marx 1973 p. 156). The other possible solution would be to say that transaction costs may be valued on the market too, i.e. they also have a price (prices for contracting, state legislature, courts and lawyers etc.). But if these have a price and there is ”a cost for using the price mechanism”, as Coase says, there is consequently a transaction cost on the transaction costs as well. We will hence get a hierarchy of markets which all have transaction costs! (Even further if this is the case, then in principle general equilibrium could be attained. You just include the new markets. Still, the problem is that the number of markets will be infinite)

v. NIE describes qualitative changes merely in quantitative terms, because they do not have any concepts that will allow them to see any qualitative difference between exchange, market and a market society. The latter is a mere extension of the former. And the former exists because the latter is ”constrained”. This is the Smithian legacy to NIE. A market society is already implicit in the relations of exchange. It needs not be instituted. Only the constraints need to be removed. Furthermore this change is now suddenly dependent upon choice and a calculus between pain and utility. But this turns the whole thing upside down. The challenge is to explain the transition from exchange to market and to a market society (i.e. capitalism). Otherwise past history is reviewed in the logic of current history, rather than vice versa. I thought you said history matters, Mr. North?! In this version of history nothing happens. In the case of Silver and McCloskey, the bourgeoisie is not only the end of history, it is the beginning of history too.

vi. NIE will account for bargaining power, access to information, assymetric information etc.. But it will only account for these as arising *outside the market* but not within the market itself. Or more precisely: the whole economic sphere remains asocial and powerless; any bargaining power arises outside this sphere (privileges, politics, knowledge etc.). But if we see the economy as a social relation itself, an institution; if we see the market and furthermore a market society as arising from social relationships in production and exchange, then the question becomes: what economic and social conditions make it possible for some people to have more information, more privileges and stronger bargaining power than others? It is not bargaining power and knowledge that gives rise to economic systems and outcomes as much as it is the economic system which gives rise to bargaining power and knowledge. (Dugger 1980). As North himself stresses: we need a *sociology* of knowledge formation in society! (North 1981 p. 47)

vii. The funny thing then is that in NIE every institution is the result of societal evolution but one: the market and the market society. They are already implicit, and need no explanation. Even further: all individual traits, such as culture, ideology and other constraints need to be accounted for because the evolve through the course of history. The only aspect of human being that does not evolve through history is the self interested, economic man: the isolated calculator of economic pleasure and pain, of free riding, shirking, and capitalist shop keeping. This aspect of human being is human nature par excellence. It is ubiquitous! It need not be explained; it is assumed. (Note the bewilderment of the analysis of ideology and solidarity in North's account, whereas free-riding and competition is not surprising at all!)

viii. Claiming that institutions as well as history matters, like NIE does, opens a Pandora's box for orthodox theory. If these claims are taken seriously and to their conclusion, the implicit methodology of orthodoxy will have to go full scale. Not only do we need to drop the equilibrium analysis of orthodoxy but also the following: methodological individualism needs to be replaced by an analysis of social relations between individuals in specific social positions in society. (Actually in society we are not individuals, rather we are individuals only when we are "outside society".). The flat ontology of positivism and event regularities needs to be replaced by a hierarchical ontology of underlying structures which govern events and choices.[19] More precisely the theory of price and costs dependent upon choice and calculation needs to be complemented by a theory of value, which is not price and calculation (i.e. value and price are different levels of abstraction, different spheres in the ontology). Otherwise transaction costs become incomprehensible. Every institution in society including the market as well as the development of the individual in society need to be explained and accounted for, rather than assumed. An institution is an alternative to all other institutions, rather than the belief that all other institutions are alternatives to the one: the market. Institutions and organisations are in different levels of abstraction in the analysis. Therefore a firm cannot be a replacement for a markets, nor individual production, but to other production units or modes.

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[19] The critical realism of Roy Bhaskar (Bhaskar 1978, 1989) solves the problems of philosophy and social science exactly by this formulation of a stratified ontology. He does echo Marx in the insistence that "society" does not consist of individuals nor collectives but of relations and positions between individuals. A social structure of social positions dictate the choices and actions available to individuals. It is exactly this Marx means when he says that we are not human beings in society but rather outside society (Marx 1973, p. 265). Critical realism has been introduced to economics on a full scale with (Lawson 1997).

ix. Hence in an economic history where ”history matters” the market and the market society cannot be assumed, even as a heuristic device!

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