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The Great Transformation

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Chapter IV, SOCIETIES AND ECONOMIC SYSTEMS (pp 43 - 55)

Before we can proceed to the discussion of the laws governing a market economy, such as the nineteenth century was trying to establish, we must first have a firm grip on the extraordinary assumptions underlying such a system. (43)

Market economy implies a self-regulating system of markets; in slightly more technical terms, it is an economy directed by market prices and nothing but market prices. Such a system capable of organizing the whole of economic life without outside help or interference would certainly deserve to be called self-regulating. These rough indications should suffice to show the entirely unprecedented nature of such a venture in the history of the race. (43)

Let us make our meaning more precise. No society could, naturally, live for any length of time unless it possessed an economy of some sort; but previously to our time no economy has ever existed that, even in principle, was controlled by markets. In spite of the chorus of academic incantations so persistent in the nineteenth century, gain and profit made on exchange never before played an important part in human economy. Though the institution of the market was fairly common since the later Stone Age, its role was no more than incidental to economic life. (43)

We have good reason to insist on this point with all the emphasis at our command. No less a thinker than Adam Smith suggested that the division of labor in society was dependent upon the existence of markets, or, as he puts it, upon man's "propensity to barter, truck and exchange one thing for another." This phrase was later to yield the concept of the Economic Man. In retrospect it can be said that no misreading of the past ever proved more prophetic of the future. For while up to Adam Smith's time that propensity had hardly shown up on a considerable scale in the life of any observed community, and had remained, at best, a subordinate feature of economic life, a hundred years later an industrial system was in full swing over the major part of the planet which, practically and theoretically, implied that the human race was swayed in all its economic activities, if not also in its political intellectual, and spiritual pursuits, by that one particular propensity.

Herbert Spencer, in the second half of the nineteenth century, could without more than a cursory acquaintance with economics, equate the principle of the division of labor with barter and exchange, and another fifty years later, Ludwig von Mises and Walter Lippmann could repeat the same fallacy. By that time there was no need for argument. A host of writers on political economy, social history, political philosophy, and general sociology had followed in Smith's wake and established his paradigm of the bartering savage as an axiom of their respective sciences. In point of fact, Adam Smith's suggestions about the economic psychology of early man were as false as Rousseau's were on the political psychology of the savage. Division of labor, a phenomenon as old as

society, springs from differences inherent in the facts of sex, geography, and individual endowment; and the alleged propensity of man to barter, truck, and exchange is almost entirely apocryphal. While history and ethnography know of various kinds of economies, most of them comprising the institution of markets they know of no economy prior to our own, even approximately controlled and regulated by markets. This will become abundantly clear from a bird's-eye view of the history of economic systems and of markets, presented separately. The role played by markets in the internal economy of the various countries it will appear, was insignificant up to recent times and the changeover to an economy dominated by the market pattern will stand out all the more clearly. (43, 44)

To start with, we must discard some nineteenth century prejudice, that underlay Adam Smith's hypothesis about primitive man's alleged predilection for gainful occupations. Since his axiom was much more relevant to the immediate future than to the dim past, it induced in his followers a strange attitude toward man's early history. On the face of it, the evidence seemed to indicate that primitive man, far from having a capitalistic psychology, had, in effect, a communistic one (later this also proved to be mistaken). Consequently, economic historians tended to confine their interest to that comparatively recent period of history in which truck and exchange were found on any considerable scale, primitive economics was relegated to prehistory. Unconsciously, this led to a weighting of the scales in favor of a marketing psychology, for within the relatively short period of the last few centuries everything might be taken to tend towards the establishment of that which we eventually established, ie., a market system, irrespective of other tendencies which were temporarily submerged. The corrective of such a "short-run" perspective would obviously have been the linking up of economic history with social anthropology, a course which was consistently avoided. (44, 45)

We cannot continue today on these lines. The habit of looking at the last ten thousand years as well as at the array of early societies as a mere prelude to the true history of our civilization which started approximately with the publication of the Wealth of Nations in 1776, is, to say the least, out of date. It is this episode which has come to a close in our days, and in trying to gauge the alternatives of the future, we should subdue our natural proneness to follow the proclivities of our fathers. But the same bias which made Adam Smith's generation view primeval man as bent on barter and truck induced their successors to disavow all interest in early man, as he was now known not to have indulged in those laudable passions. The tradition of the classical economists who attempted to base the law of the market on the alleged propensities of man in the state of nature, was replaced by an abandonment of all interest in the cultures of "uncivilized" man as irrelevant to an understanding of the problems of our age. (45)

Such an attitude of subjectivism in regard to earlier civilizations should make no appeal to the scientific mind. The differences existing between civilized and "uncivilized" peoples have been vastly exaggerated, especially in the economic sphere. According to the historians, the forms of industrial life in agricultural Europe were, until recently, not much different from what they had been several thousand years. Ever since the introduction of the plow – essentially a large hoe drawn by animals – the methods of

agriculture remained substantially unaltered over the major part of Western and Central Europe until the beginning of the modern age. Indeed, the progress of civilization was, in these regions, mainly political intellectual and spiritual; in respect to material conditions, the Western Europe of 1100 AD had hardly caught up with the Roman world of a thousand years before. Even later, change flowed more easily in the channels of statecraft, literature, and the arts, but particularly in those of religion and learning, than in those of industry.

In its economics, medieval Europe was largely on a level with ancient Persia, India, or China, and certainly not rival in riches and culture the New Kingdom of Egypt, two thousand years before. Max Weber was the first among modern historians to protest against the brushing aside of primitive economics as irrelevant to the question of the motives and mechanisms of civilized societies. The subsequent work of social anthropology proved him emphatically right. For, if one conclusion stands out from the recent study of early societies it is the changelessness of man as a social being. His natural endowments reappear with societies of all times and places; and the necessary preconditions of the survival of human society appear to be immutably the same. (45, 46)

The outstanding discovery of recent historical and anthropological research is that man's economy, as a rule, is submerged in his social relationships. He does not act so as to safeguard his individual interest in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only in so far as they serve this end. Neither the process of production nor that of distribution is linked to specific economic interests attached to the possession of goods; but every single step in that process is geared to a number of social interests which eventually ensure that the required step be taken. these interests will be very different in a small hunting or fishing community from those in a vast despotic society, but in either case the economic system will be run on noneconomic motives.

The explanation, in term of survival, is simple. Take the case of a tribal society. The individual's economic interest is rarely paramount for the community keeps all its members from starving unless it is itself borne down by catastrophe, in which case interests are again threatened collectively, not individually. The maintenance of social ties, on the other hand, is crucial. First, because by disregarding the accepted code of honor, or generosity, the individual cuts himself off from the community and becomes an outcast; second, because, in the long run, all social obligations are reciprocal, and their fulfillment serves also the individual's give-and-take interests best. Such a situation must exert a continuous pressure on the individual to eliminate economic self-interest from his consciousness to the point of making him unable, in many cases (but by no means in all), even to comprehend the implication of his own actions in term of such an interest. This attitude is reinforced by the frequency of communal activities such as partaking of food from the common catch or sharing in the results of some far-flung and dangerous tribal expedition.

The premium set on generosity is a great when measured in terms of social prestige as to make any other behavior than that of utter self-forgetfulness simply not pay. Personal

character has little to do with the matter. Man can be as good or evil as social or asocial, jealous or generous, in respect to one another. Not to allow anybody reason for jealousy is, indeed, an accepted principle of ceremonial distribution, just as publicly bestowed praise is the due of the industrious, skillful, or otherwise successful gardener (unless he be too successful, in which case he may deservedly be allowed to wither away under the delusion of being the victim of black magic). The human passions, good or bad, are merely directed towards noneconomic ends. Ceremonial display serves to spur emulation to the utmost and the custom of communal labor tends to up both quantitative and qualitative standards to the highest pitch. The performance of all acts of exchange as free gifts that are expected to be reciprocated though not necessarily by the same individuals – a procedure minutely articulated and perfectly safeguarded by elaborate methods of publicity, by magic rites, and by the establishment of "dualities" in which groups are linked in mutual obligations – should in itself explain the absence of the notion of gain or even of wealth other than that consisting of objects traditionally enhancing social prestige. (46, 47)

In this sketch of the general traits characteristic of a Western Melanesian community we took no account of its sexual and territorial organization, in reference to which custom, law, magic, and religion exert their influence, as we only intended to show the manner in which so-called economic motives spring from the context of social life. For it is on this one negative point that modern ethnographers agree: the absence of the motive of gain; the absence of the principle of laboring for remuneration; the absence of the principle of least effort; and, especially, the absence of any separate and distinct institution based on economic motives. But how, then, is order in production and distribution ensured? The answer is provided in the main by two principles of behavior not primarily associated with economics: reciprocity, and redistribution. With the Trobriand Islanders of Western Melanesia, who serve as an illustration of this type of economy, reciprocity works mainly in regard to the sexual organization of society, that is, family and kinship; redistribution is mainly effective in respect to all those who are under a common chief and is, therefore, of a territorial character. Let us take these principles separately. (47)

The sustenance of the family - the female and the children - is the obligation of matrilineal relatives. The male, who provides for his sister, and her family by delivering the finest specimens of his crop, will mainly earn credit due to his good behavior, but will reap little immediate material benefit in exchange; if he is slack, it is first and foremost his reputation that will suffer. It is for the benefit of his wife and her children that the principle of reciprocity will work, and thus compensate him economically for his acts of civic virtue. Ceremonial display of food both in his own garden and before the recipient's storehouse will ensure that the high quality of his gardening be known to all. It is apparent that the economy of garden and household here forms part of the social relations connected with good husbandry and fine citizenship. The broad principle of reciprocity helps to safeguard both production and family sustenance. (47, 48)

The principle of redistribution is no less effective. A substantial part of all the produce of the island is delivered by the village headmen to the chief who keeps it in storage. But as all communal activity centers around the feasts, dances, and other occasions when the

islanders entertain one another as well as their neighbors from other islands (at which the results of long distance trading are handed out, gifts are given and reciprocated according to the rules of etiquette, and the chief distributes the customary presents to all), the overwhelming importance of the storage system becomes apparent. Economically, it is an essential part of the existing system of division of labor, of foreign trading, of taxation for public purposes, of defense provisions. But these functions of an economic system proper are completely absorbed by the intensely vivid experiences which offer superabundant non-economic motivation for every act performed in the frame of the system as a whole. (48)

However, principles of behavior such as these cannot become effective unless existing institutional patterns lend themselves to their application. Reciprocity and redistribution are able to ensure the working of an economic system without the help of written records and elaborate administration only because the organization of the societies in question meets the requirements of such a solution with the help of patterns such as symmetry and centricity. (48)

Reciprocity is enormously facilitated by the institutional pattern of symmetry, a frequent feature of social organization among nonliterate peoples. The striking "duality" which we find in tribal subdivisions lends itself to the pairing out of individual relations and thereby assists the give-and-take of goods and services in the absence of permanent records. The moieties of savage society which tend to create a "pendant", to each subdivision, turned out to result from, as well as help to perform, the acts of reciprocity on which the system rests. Little is known of the origin of "duality"; but each coastal village on the Trobriand Islands appears to have its counterpart in an inland village, so that the important exchange of breadfruits and fish, though disguised as a reciprocal distribution of gifts, and actually disjoint in time, can be organized smoothly. In the Kula trade, too, each individual has his partner on another isle, thus personalizing to a remarkable extent the relationship of reciprocity. But for the frequency of the symmetrical pattern in the subdivisions of the tribe, in the location of settlements, as well as in intertribal relations, a broad reciprocity relying on the longrun working of separated acts of give-and-take would be impracticable. (48, 49)

The institutional pattern of centricity, again, which is present to some extent in all human groups, provides a track for the collection, storage, and redistribution of goods and services. The members of a hunting tribe usually deliver the game to the headman for redistribution. It is in the nature of hunting that the output of game is irregular, besides being the result of a collective input. Under conditions such as these no other method of sharing is practicable if the group is not to break up after every hunt. Yet in all economies of kind a similar need exists, be the group ever so numerous. And the larger the territory and the more varied the produce, the more will redistribution result in an effective division of labor, since it must help to link up geographically differentiated groups of producers. (49)

Symmetry and centricity will meet halfway the needs of reciprocity and redistribution; institutional patterns and principles of behavior are mutually adjusted. 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; division of labor will automatically be ensured; economic obligations will be duly discharged; and, above all, the material means for an exuberant display of abundance at all public festivals will be provided. 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. The economic system is, in effect, a mere function of social organization. (49)

It should by no means be inferred that socioeconomic principles of this type are restricted to primitive procedures or small communities; that a gainless and marketless economy must necessarily be simple. The Kula ring, in western Melanesia, based on the principle of reciprocity, is one of the most elaborate trading transactions known to man; and redistribution was present on a gigantic scale in the civilization of the pyramids. (49, 50)

The Trobriand Islands belong to an archipelago forming roughly a circle, and an important part of the population of this archipelago spends a considerable proportion of its time in activities of the Kula trade. We describe it as trade though no profit is involved, either in money or in kind; no goods are hoarded or even possessed permanently; the goods received are enjoyed by giving them away; no biggling and haggling, no truck, barter, or exchange enters; and the whole proceedings are entirely regulated by etiquette and magic. Still, it is trade, and large expeditions are undertaken periodically by natives of this approximately ring-shaped archipelago in order to carry one kind of valuable object to peoples living on distant islands situated clockwise, while other expeditions are arranged carrying another kind of valuable object to the islands of the archipelago lying counterclockwise. In the long run, both sets of objects—white-shell armbands and redshell necklaces of traditional make—will move round the archipelago, a trajectory which may take them up to ten years to complete. Moreover, there are, as a rule, individual partners in Kula who reciprocate one another's Kula gift with equally valuable armbands and necklaces, preferably such that have previously belonged to distinguished persons.

Now, a systematic and organized give-and-take of valuable objects transported over long distances is justly described as trade. Yet this complex whole is exclusively run on the lines of reciprocity. An intricate time-space-person system covering hundreds of miles and several decades, linking many hundreds of people in respect to thousands of strictly individual objects, is being handled here without any records or administration, but also without any motive of gain or truck. Not the propensity to barter, but reciprocity in social behavior dominates. Nevertheless, the result is a stupendous organizational achievement in economic field. Indeed, it would be interesting to consider whether even the most advanced modern market organization, based on exact accountancy, would be able to cope with such a task, should it care to undertake it. It is to be feared that the unfortunate dealers, faced innumerable monopolists buying and selling individual objects with with extravagant restrictions attached to each transaction, would fail to make a standard profit and might prefer to go out of business. (50)

Redistribution also has its long and variegated history which leads up almost to modern times. The Bergdama returning from his hunting excursion, the woman coming back from her search for roots, fruit, or leaves are expected to offer the greater part of their spoil for the benefit of the community. In practice, this means that the produce of their activity is shared with the other persons who happen to be living with them. Up to this point the idea of reciprocity prevails: today's giving will be recompensed by tomorrow's taking. Among some tribes, however, there is an intermediary in the person of the headman or other prominent member of the group; it is he who receives and distributes the supplies, especially if they need to be stored. This is redistribution proper. Obviously, the social consequences of such a method of distribution may be far reaching, since not all societies are as democratic as the primitive hunters. Whether the redistributing is performed by an, influential family or an outstanding individual, a ruling aristocracy or a group of bureaucrats, they will often attempt to increase their political power by the manner in which they redistribute the goods. In the potlatch of the Kwakiutl it is a point of honor with the chief to display his wealth of hides and to distribute them; but he does this also in order to place the recipients under an obligation, to make them his debtors,' and ultimately, his retainers. (51)

All large-scale economies in kind were run with the help of the principle of redistribution. The kingdom of Hammurabi in Babylonia and, in particular, the New Kingdom of Egypt were centralized despotisms of a bureaucratic type founded on such an economy. The household of the patriarchal family was reproduced here on an enormously enlarged scale, while its "communitistic" distribution was graded, involving sharply differentiated rations. A vast number of storehouses was ready to receive the produce of the peasant's activity, whether he was cattle breeder, hunter, baker, brewer, potter, weaver, or whatever else. The produce was minutely registered and, in so far as it was not consumed locally, transferred from smaller to larger storehouses until it reached the central administration situated at the court of the Pharaoh. There were separate treasure houses for cloth, works of art, ornamental objects, cosmetics, silverware, the royal wardrobe; there were huge grain stores, arsenals, and wine cellars.(51)

But redistribution on the scale practiced by the pyramid builders was not restricted to economies which knew not money. Indeed, all archaic kingdoms made use of metal currencies for the payment of taxes and salaries, but relied for the rest on payments in kind from granaries and warehouses of every description, from which they distributed the most varied goods for use and consumption mainly to the nonproducing part of the population, that is, to the officials, the military, and the leisure class. This was the system practiced in ancient China, in the empire, of the Incas, in the kingdoms of India, and also in Babylonia. In these, and many other civilizations of vast economic achievement, an elaborate division of labor was worked by the mechanism of redistribution.(51, 52)

Under feudal conditions also this principle held. In the ethnically stratified societies of Africa it sometimes happens that the superior consist of herdsmen settled among agriculturalists who are still strating the digging stick or the hoe. The gifts collected by the herdsmen usare mainly agricultural - such as cereals and beer - while the gifts distributed by them may be animals, especially sheep or goats. In these cases there is

division of labor, though usually an unequal one, between the various strata of society: distribution may often cover up a measure of exploitation, while at the same time the symbiosis benefits the standards of both strata owing to the advantages of an improved division of labor. Politically, such societies live under a regime of feudalism, whether cattle or land be the privileged value. There are "regular cattle fiefs in East Africa." Thurnwald, whom we follow closely on the subject of redistribution, could therefore say that feudalism implied everywhere a system of redistribution. Only under very advanced conditions and exceptional circumstances does this system become predominantly political as happened in Western Europe, where the change arose out of the vassal's need for protection, and gifts were converted into feudal tributes.(52)

These instances show that redistribution also tends to enmesh the economic system proper in social relationships. We find, as a rule, the process of redistribution forming part of the prevailing political regime, whether it be that of tribe, city-state, despotism, or feudalism of cattle or land. The production and distribution of goods is organized in themain through collection, storage, and redistribution, the pattern being focused on the chief, the temple, the despot, or the lord. Since the relations of the leading group to the led are different according to the foundation on which political power rests, the principle of redistribution will involve individual motives as different as the voluntary sharing of the game by hunters and the dread of punishment which urges the fellaheen to deliver his taxes in kind. (52)

We deliberately disregarded in this presentation the vital distinction between homogeneous and stratified societies, i.e., societies which are on the whole socially unified, and such as are split into rulers and ruled. Though the relative status of slaves and masters may be worlds apart from that of the free and equal members of some hunting tribes, and consequently, motives in the two societies will differ widely, the organization of the economic system may still be based on the same principles, though accompanied by very different culture traits, according to the very different human relations with which the economic system is intertwined.(52, 53)

The third principle, which was destined to play a big role in history and which we will call the principle of householding, consists in production for one's own use. The Greeks called it *oekonomia*, the etymon of the word "economy." As far as ethnographical records are concerned, we should not assume that production for a person's or group's own sake is more ancient than reciprocity or redistribution. On the contrary, orthodox tradition as well as some more recent theories on the subject have been emphatically disproved. The individualistic savage collecting food and hunting on his own or for his family has neverexisted. Indeed, the practice of catering for the needs of one's household becomes a feature of economic life only on a more advanced level of agriculture; however, even then it has nothing in common either with the motive of gain or with the institution of markets. Its pattern is the closed group.

Whether the very different entities of the family or the settlement or the manor formed the self-sufficient unit, the principle was invariably the same, namely, that of producing and storing for the satisfaction of the wants of the members of the group. The principle is

as broad in its application as either reciprocity or redistribution. The nature of the institutional nucleus is indifferent: it may be sex as with the patriarchal family, locality as with the village settlement, or political power as with the seigneurial manor. Nor does the internal organization of the group matter. It may be as despotic as the Roman familia or as democratic as the South Slav zadruga; as large as the, great domains of the Carolingian magnates or as small as the average peasant holding of Western Europe. The need for trade or markets is, no greater than in the case of reciprocity or redistribution.(52, 53)

It is such a condition of affairs which Aristotle tried to establish as a norm more than two thousand years ago. Looking back from the rapidly declining heights of a world-wide market economy we must concede that his famous distinction of householding proper and moneymaking, in the introductory chapter of his Politics, was probably the most prophetic pointer ever made in the realm of the social sciences; it is certainly still the best analysis of the subject we possess. Aristotle insists on production for use as against production for gain as the essence of householding proper; yet accessory production for the market need not, he argues, destroy the self-sufficiency of the household as long as the cash crop would also otherwise be raised on the farm for sustenance, as cattle or grain; the sale of the surpluses need not destroy the basis of householding.

Only a genius of common sense could have maintained, as he did, that gain was a motive peculiar to production for the market, and that the money factor introduced a new element into the situation, yet nevertheless, as long as markets and money were mere accessories to an otherwise self-sufficient household, the principle of production for use could operate. Undoubtedly, in this he was right, though he failed to see how impracticable it was to ignore the existence of markets at a time when Greek economy had made itself dependent upon wholesale trading and loaned capital. For this was the century when Delos and Rhodes were developing into emporia of freight insurance, sea-loans, and giro-banking, compared with which the Western Europe of a thousand years later was the very picture of primitivity. Yet Jowett, Master of Balliol, was grievously mistaken when he took it for granted that his Victorian England had a fairer grasp than Aristotle of the nature of the difference between householding and moneymaking.

He excused Aristotle by conceding that the "subjects of knowledge that are concerned with man run into one another; and in the age of Aristotle were not easily distinguished." Aristotle, it is true, did not recognize clearly the implications of the division of labor and its connection with markets and money; nor did he realize the uses of money as credit and capital. So far Jowett's strictures were justified. But it was the Master of Balliol, not Aristotle, who was impervious to the human implications of money-making. He failed to see that the distinction between the principle of use and that of gain was the key to the utterly different civilization the outlines of which Aristotle accurately forecast two thousand years before its advent out of the bare rudiments of a market economy available to him, while Jowett, with the full-blown specimen before him, overlooked its existence. In denouncing the principle of production for gain "as not natural to man," as boundless and limitless, Aristotle was, in effect, aiming at the crucial point, namely the divorcedness of a separate economic motive from the social relations in which these limitations inhered. (53, 54)

Broadly, the proposition holds that all economic systems known to us up to the end of feudalism in Western Europe were organized either on the principles of reciprocity or redistribution, or householding, or some combination of the three. These principles were institutionalized with the help of a social organization which, inter alia, made use of the patterns of symmetry, centrality, and autarchy. In this framework, the orderly production and distribution of goods was secured through a great variety of individual motives disciplined by general principles of behavior. Among these motives gain was not prominent. Custom and law, magic and religion co-operated in inducing the individual to comply with rules of behavior which, eventually, ensured his functioning in the economic system. (54, 55)

The Greco-Roman period, in spite of its highly developed trade, represented no break in this respect; it was characterized by the grand scale on which redistribution of grain was practiced by the Roman administration in an otherwise householding economy, and it formed no exception to the rule that up to the end of the Middle Ages, markets played no important part in the economic system; other institutional patterns prevailed.(55)

From the sixteenth century onwards markets were both numerous and important. Under the mercantile system they became, in effect, a main concern of government; yet there was still no sign of the coming control of markets over human society. On the contrary. Regulation and regimentation were stricter than ever; the very idea of a self-regulating market was absent. To comprehend the sudden changeover to an utterly new type of economy in the nineteenth century, we must now turn to the history of the market, an institution we were able practically to neglect in our review of the economic systems of the past. (55)