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**Karl Polanyi's Social Philosophy:
His Research Project from
*The Great Transformation to The Livelihood of Man***

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1. Introduction: The Outlook of Polanyi's Work

Karl Polanyi (1886-1964) was raised in Budapest and had been an influential personality in Hungarian student and intellectual circles before The First World War. After the W.W. I he moved to Vienna. In the 1920s, Polanyi worked as a senior editor for the economic and financial week of Central Europe. During this time he first encountered the argument of Ludwig von Mises and Mises's famous student, Friedrich Hayek¹. As early as the 1920s, Polanyi directly challenged Mises's arguments. Throughout his life, his critique of "the market liberals"² continued as his central concern³.

With Hitler's power in 1933, Polanyi left for England, where he worked as a lecturer of English social and economic history for the Workers' Educational Association, the extramural outreach arm of the University of Oxford and London. By utilizing these historical materials to his critique of Mises and Hayek's influential views, Polanyi formed his ideas on the market economy and published *The Great Transformation* (G.T.)⁴. By this work, Polanyi became to be among the first social thinkers to recognize the damaging impact of the self-regulating market upon human

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¹ Mises and Hayek were attempting to restore the intellectual legitimacy of market liberalism, which had been badly shaken by the First World War, the Russian Revolution, and appeals of socialism. As concerning the critical discussions in Vienna between Austrian Economist Mises and another side including Polanyi, recently researches of Cangiani and Thomasberger are important (See Nakayama's argument[2007], Polanyi [2002-2005]). Cangiani, Thomasberger and Polanyi-Levitt are editors of uncollected works of Polanyi in the period of 1920-1947 (See Polanyi [2002-2005]).

² Block[2002] "Introduction" for the 2001 edition of G.T. See pp.xix-xx.

³ See Polanyi-Levitt and Mendell[1987].

⁴ *The Great Transformation* was published in New York in 1944, in London in 1945. This is the first and the last book finished completely by Polanyi himself when he was 58 years old. The actual writing of the book was done while Polanyi was a visiting scholar with the support of a fellowship, at Bennington College in Vermont in the early 1940s. In these years, the intellectual friendship with Peter Drucker helped the birth of G.T. See Polanyi's "Author's Acknowledgement" in G.T.

beings and natural environment⁵.

At the end of 1946 Polanyi was invited as a visiting professor of Economics to Columbia University in New York City to read the course of in General Economic History. In the years after the Second World War, Polanyi and his students engaged in anthropological research on money, trade, and markets in pre-capitalist societies. With Conrad Arensberg and Harry Pearson, he published *Trade and Market in the Early Empires: Economies in History and Theory* (T.M.E.) in 1957. This book includes Polanyi's important articles: "Aristotle Discovers Economy", "Marketless Trading in Hammurabi's Time", "The Place of Economies in Societies"(with co-authors), and "The Economy As Instituted Process". Polanyi wrote "Carl Menger's Two meaning of "Economic""⁶ in 1958 and 1960, soon after the publication of T.M.E.

Polanyi found serious illness in 1957, and died in 1964. Later, his students prepared for posthumous publications volumes on Polanyi's work of this period. Polanyi's doctoral student Abraham Rotstein edited *Dahomey and The Slave Trade* (1966), Dalton edited selected writings of Polanyi as *Primitive, Archaic, and Modern Economies* (1968), and the most comprehensive posthumous work was published: *The Livelihood of Man*(1977) edited by Harry Pearson⁷. Polanyi had a plan to write L.M. when he just published 1944, but he couldn't finish it. L.M. consists of both arguments of his ideas already appeared around 1957 and other unpublished materials in 1946-1950s.

Certainly these Polanyi's works seem to be focused on his anthropological interpretation of early economies regarding on trade, money and markets. But the question we have to ask here is whether his concern limited to the economies of pre-market societies or not. Polanyi became an anthropologist? My answer is No. As we shall inquire into in the following sections, it also seems important that Polanyi continued to concern with his contemporary problems and to challenge his target; the market liberals.

Polanyi started his 'new' research after G.T. at a sociological congress in England (1946)⁸. He no longer used "the double movement". Now he started to use "the economic determinism" as his critical target. He argues it is true that the market system ceased to operate effectively in the world and had been rapidly disappearing in Europe as he described in G.T. However while Europe began to have mixed economies and the welfare states, the economic determinism had been still effective. Polanyi

⁵ Baum [1996]p15. Block [2001]p.xxv.

⁶ *Studied in Economic Anthropology*, AS7, 1971

⁷ This is an important posthumous publication of unfinished his work during the years after the Second World War edited by Harry Pearson. Pearson was an economist at Columbia University. He is also a co-author of *Trade and Market in the Early Empires*(1957) with Polanyi.

⁸ Karl Polanyi "On belief in Economic Determinism", *The Sociological Review*, vol.xxxix, Section One, 1947.

insists that the economic determinism is a habit of thought of the nineteenth century phenomenon, which supports institutions such as the self-regulating market system and the liberal states. Now Polanyi recognizes the wrong and strong effects caused by the economic determinism on the transformation process. Polanyi began to challenge the causes of difficulties to transform the market-liberal society into the non-market liberal one.

In “Our Obsolete Market Mentality”(1947), Polanyi says that any solutions cannot be successful “unless it is disciplined by a total view of man and society very different from that which we inherited from market economy”(ibid,p.77). In this article, he also pointed intellectual tendencies to rerun back to the market-society. He named them as the “obsolete market mentality”. Polanyi referred to Hayek⁹. While the market system had damaged in the early 20th century, market mentality continued so effective on the economic and social theory, and in the field of human history and human policy. Polanyi insists that “the market system violently distorted our views on man and society”. These distorted views are providing one of the main obstacles to the solution of the problems of our civilization.

From the mid-1930s thorough the 1960s, Keynesian economic ideas legitimating active government management of economies dominated national policies in the West. But after the Second World War, Mises and Hayek were tireless proponents for market liberalism in the United States and the United Kingdom, and they inspired such influential followers as members of Montpelerin Society¹⁰. As Cangiani argues, “a new “struggle of method” took place in the first half the 20th century, and in particular in the inter-war years; the opposing parties were, this time, institutional and conventional-neoclassical economics. Polanyi contributed to a revival of that debate short after the Second World War”¹¹. As we will see, Polanyi reveals his new research program and named it as “the place of economy in society and its shifts”(T.M.E1957).

Toward his unfinished last work; L.M., Polanyi continued to challenge the economistic social philosophy in the academic field of economic history¹². Pearson who was the editor of L.M. says that the deeper significance and the unifying theme of all of

9 In this article Polanyi criticizes people like Hayek who argued “that since free institutions were a product of market-economy, they must give place to selfdom once that economy disappears”(p.75). Polanyi sees Hayek that he identifies freedom with market-economy; market-economy alone determines the destiny of human freedom. Ideas of human freedom have been affected by marketing-mind. Under the marketing mind, “people feel that the whole society should be more intimately to the economic system, and wish to maintain unchanged”. However market-economy as a total system was gone and market-mentality is obsolete. Polanyi suggested that we need ideas of freedom and law very different from that which we inherited from market economy. He says: “In truth we will have just as much freedom as we will desire to create and to safeguard. There is no one determinant in human society. Institutional guarantees of personal freedom are compatible with any economic system. In market society alone did the economic mechanism lay down the law” (p.76).

¹⁰ See the following web sight: <http://montpelerin.org/aboutmps.html>. Also see chap.1 of Harvey[2005].

¹¹ Cangiani[2006] p.1.

¹² See Block and Somers[1994].

his work lay in the realm of social and political philosophy.

“The driving force behind his historical work was the conviction that this had not always been so; that it had been possible to produce and distribute the livelihood of man while maintaining the integrity of society, and that pre-market history offered many clues to the possibility of returning the mandate for man’s fate to the variegated social, political, and cultural institutions of society. Thus did he also challenge the liberal axiom that freedom and justice were inextricably tied to the market order” (L.M.pp.xxxvi)

The section2, deals with the assumptions and the logic of G.T.(1944); his main subjects and his approach appeared in G.T. The section3 and4 take up his ‘new’ challenges after G.T. The section3 deals with T.M.E (1957) and the section4 inquires L.M.(1977).

2. Assumptions and the Logic of G.T.(1944)

The main title of the first edition is “The Origins of Our Time”. Polanyi recognized his time was a historical process of the great transformation from “the 19th market-civilization” to another system. Polanyi analyses the causes of the collapse of the market system (the self-regulating market system) and the meaning of phenomenon of fascism and socialism in inter-war years. There seems to be four big assumptions that connect each other¹³.

- ① “In order to comprehend German fascism, we must revert to Ricardian England” (G.T.p.30).
- ② “The idea of a self-adjusting market implied a stark utopia” (ibid,p.3).
- ③ The self-regulating market system was introduced by the strong state intervention.
- ④ The market society have collapsed naturally because of the internal strains caused by the double movements.

As Polanyi implies, these assumptions constitute a different interpretation of the history of a market society from that of the economic liberal creed. Polanyi stresses that it was the state power in Ricardian England that removed traditional barriers, local customs, and inherited community right and right to live for creating the free market system including the fields of labour, land, and the money. He focuses on the poor law discussions as the tools of the invention and the introduction of “the commodity fiction”, which functioned as the core institution of the market society. Polanyi insists that “the discovery of economics” as the intellectual parents of the mechanical revolution, which transformed previous communities into the market society (ibid,p.119).

The market society was born when the political economists like Ricardo and Malthus

¹³ See Block[2001] and Polanyi-Levitt[2000].

formed their ideas on poverty. Polanyi argues that “the discovery of market society” led by the political economists was the intellectual invention of the market society¹⁴. Polanyi argues that “the origins of our time” was rooted in the age of the industrial revolution in England when discussions on pauperism which directed public opinion toward 1834 Poor Law reform. He says;

“The problem of poverty centred around two closely related subjects: pauperism and political economy”(ibid,p.103).

Polanyi deals with the political economists’ solution on pauperism as the decisive impact on modern consciousness of human society. Polanyi summarises the essence of political economist’s solution;

“No assessment of wages, no relief for able-bodied unemployed, but no minimum wages either, nor a safeguarding of the right to live. Labour should be dealt with as that it was a commodity which must find its price in the market. The laws of commerce were the laws of nature and consequently the laws of God. What else was this than an appeal from the weaker magistrate to stronger, from the justice of peace to all-powerful pangs of hunger? ... Let the market be given charge of the poor, and things will look after themselves” (ibid, p.117)¹⁵.

Thus, the commodity fiction was expected by the political economists to supply a vital organizing principle instead of the weaker appeals of political adjustment. According to it, no arrangement or behaviour should be allowed to exist that might prevent the actual functioning of the market mechanism on the lies of the commodity fiction (ibid, p.73).

However, it turned out to be that the commodity fiction could not exist for any length of time without annihilating the human and natural substance of society. Then social protection movements occurred naturally to control perils resulted by the market system. Therefore the self-regulating market system was never completed. On this basis he proposes his theory of the double movement. Polanyi shows that the “social history in the nineteenth century was the result of a double movement” (ibid,p.76).

“The extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand

14 Polanyi says;

“...the solution hit upon by the classical economists had the most far-reaching consequences for understanding of the nature of economic society. As gradually the laws governing a market economy were apprehended, these laws were put under the authority of Nature. The law of diminishing returns was a law of plant physiology. The Malthusian law of population reflected the relationship between the fertility of man and that of the soil” (p.125). “Essentially, economic society was founded on the grim realities of Nature...the laws of a competitive society were put under the sanction of the jungle. The true significance of the tormenting problem of poverty now stood revealed: economic society subjected to laws which were not human laws” (ip.125).

15 Poverty or unemployment as the result of the market, they consist of the unchangeable natural reality.

markets spread all over the face of globe and the amount of goods involved grew to unbelievable proportions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labour, land, and money (ibid,p.76).

As Baum suggest, Polanyi holds that the conflict between the self-regulating market and civil society is a permanent characteristics of the market society. Polanyi also maintains that the self-regulating market and democracy are in the long run irreconcilable. Either the free market economy will give way to more cooperative, social economy, or, if the market economy remains in force, it will increasingly depend on authoritarian or even fascist protective rule¹⁶.

The historical experience of the nineteenth-century England, Polanyi believes, repeated in other countries as they moved into the market society. Polanyi argues that the collapse of the market society means the transformation process towards another form of society. Fascism and socialism represent the alternatives to the market society. Fascism and socialism attempted to recover the human power, instead of the market power. Obeying to the 19th century dogma, only market mechanism should control and adjust the whole society. In the market society, market is not only the economic institution. It functions as the political institution, which results in disregarding human control and policy-making. Polanyi argues that fascism and socialism are the counter-movement to the 19th century dogma. And they also seek a kind of human communities based on the non-marketing ties which had destructed in the process of the introduction of the market society¹⁷.

3. Tools and Ideas in T.M.E.(1957): Economy in Relation to Society

T.M.E(1957) includes Polanyi's important articles including "Aristotle Discovers Economy" and "The Economy As Instituted Process"¹⁸.

Firstly Polanyi warns "the restrictive influence of marketing approach on the interpretation of trade and money institutions"(ibid,p.256).

"The restrictive influence of marketing approach on the interpretation of trade and money institutions is incisive: inevitably, the market appears as the locus of exchange, trade as the actual exchange, and money as the means of exchange. Since trade is directed by prices and prices are a function of the market, all trade is market trade, just as all money is exchange money. The market is generating institution of

¹⁶ Baum[1996] p.12.

¹⁷ Polanyi implies that the introduction of a market society was accompanied by the cultural dislocation of communities with human laws, functioning system of reciprocity and re-distribution. See chap.14.

¹⁸ Maucrant[2005], Rouillard and Jonnés eds.[2005], and Cangiani[2006] insist the importance of articles in T.M.E which show Polanyi's institutional methodology on economy.

which trade and money are the functions”(ibid, pp.257-258).

According to Polanyi, such notions are not true to the facts of anthropology and history. Polanyi criticizes and rejects “the catallactic definitions” of money, trade and market. He suggests his “substantive views” and “noncatallactic concepts of trade, money and markets”(forms of trade, money uses and market elements)¹⁹. Polanyi defines human economy as an instituted process with unity, stability and a definite function in society.

“The instituting of the economic process vents that process with unity and stability, it produces a structure with a definite function in society; it shifts the place of the process in society, thus adding significance to its history; it centers interest on values, motives and policy. Unity and stability, structure and function, history and policy operationally the content of ours assertion that human economy is an instituted process”(ibid,pp.249-250).

It seems to be summarized in three points which constitute his vision appered in T.M.E.

- ① The Embedded and the Disembedded Concept: For the Institutional Approach
- ② The Notions of Scarcity: “Scarcity-situations” which defines Economy²⁰
- ③ The Meaning of Community which defines Economy: The Substantive View of Economy

The conceptual tool with economies in transition from nameless to a separate existence is the distinction between the embedded and the disembedded condition of economy in relation to society.

“The disembedded economy of 19th century stood apart from the rest of society, more especially from the political and governmental system”(T.M.E p.68).

“In the nature of things the development from embedded to disembedded economies is a matter of degree. Nevertheless the distinction is fundamental to the understanding of modern society”(ibid,p.68)

Polanyi argues that in a market economy the production and distribution of material goods in principle is instituted as is carried on thorough a self-regulating system of price-making markets.

“ Under a market system men’s livelihood is secured by way of institutions, that are activated by economic motives, and governed by laws which are specially economic. The vast comprehensive intervention of human authority, state or government; no other motives than dread of destitution and desire for legitimate profit need be invoked; no juridical requirement is set than that of the protection of property and the enforcement of contract; given the distribution of resources, pf purchasing power as well as of the individual scales of preference the result will be an optimum of want satisfaction for all”(ibid,p.68).

¹⁹ See T.M.E p.269.

²⁰ See T.M.E. pp.288-292.

As community concerns, Polanyi refers to Aristotle and Toennies. Polanyi deals with Aristotle to compare the utterly different source of the meaning of scarcity from that which the economist would make us expect (ibid,p.78). Aristotle's three prizes of fortune were 1) honor and prestige, 2) security of life and limb and 3) wealth. Aristotle argues that utilitarian good, food and materials, accrue as a rule to the possessor of honor and security. In the philosophy of Aristotle, the "agatha" are highest prizes of life, that which is most desirable and also rarest(ibid, p.77).

"With him scarcity reflects either the niggardliness of nature or burden of labor that production entails. But the highest honors and rarest distinctions are few for neither of these two reasons. They are scarce for the obvious reason that there is no standing room at the top of the pyramid...they would not be what they are if they were attainable to many...Scarcity derives here from the noneconomic order things"(ibid,p.78).

Polanyi also explains Aristotle's concept of "the self-sufficiency" on human needs.

"The amount that the family or the city 'needs' is an objective requirement. The household is the smallest, the polis is the largest unit of consumption: in either case that which is 'necessary' is set by the standards of the community"(ibid,p.78).

Aristotle implies that the standards of community limit the amount of the necessities. Polanyi insists that a boundlessness of human wants and needs—the logical correlate of 'scarcity'—was a notion quite foreign to Aristotle's approach. In Aristotle's "rejection of the scarcity postulates", Polanyi finds "the sociological bent"(p.80).

"At every point the institutional reference is explicit...if scarcity springs 'from the demand side',...Aristotle attributes it to a misconceived notion of the good life as a desire for a great abundance of physical goods and enjoyments. The elixir of the good life—the elation of day-long theatre, the mass jury service, the holding in turn of offices, canvassing, electioneering, great festivals, even the thrill of battle and naval combat—can be either hoarded nor physically possessed"(ibid,p.81).

Thus Aristotle argues that the economy concerns directly the relation of the parsons who make up the natural institutions of the household, community.

"Given the right institutions in trade and the right understanding of the good life, Aristotle saw no room for the scarcity factor in the human community"(ibid,p.81-82).

Polanyi refers to Toennies with many sympathies as a contemporary.

"Toennies' policy ideal was the restoration of community, not, however, by returning to the pre-society stage of authority and paternalism, but by advancing to a higher form of community of a postsociety stage, which would follow upon our present civilization. He envisaged this community as a co-operative phase of human existence, which would retain the advantages of technological progress and individual freedom while restoring the wholeness of life"(ibid,pp.69-70).

While referring to Weber and Parsons²¹, Polanyi explains his approach on economy in relation to society. He started to inquire into the relationships between economy and society, or between economic activities and community. He relates the market society in human history by limiting the usage of “scarcity”²². Polanyi tries to focus on the dimensions of economic activities “socially defined”(ibid,295). He suggests “that the economic process is instituted through the integration of men’s patterned economic actions, which make up its social aspects, with their non-economic actions...”(ibid,302). According to Polanyi, the human economy is embedded and enmeshed in institutions, economic and noneconomic. He says that “the inclusion of noneconomic is vital”(ibid,p.250).

“For region or government may be as important for structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves that lighten the toil of labor”(ibid,p.250).

In T.M.E. Polanyi shows “the critical surveys of the catallactic definitions of trade, money and market [which] should make available a number of concepts which form the raw material of the social sciences in their economic aspects”(ibid,269). Polanyi shows his critical questions on the methodology of economics in transition which later became one of the main subjects of L.M. He says;

“The bearing of this recognition on questions of theory, policy, and outlook should be viewed in the light of the gradual institutional transformation that has been in progress since the first World War. Even in regard to market system itself, the market as the sole frame of reference is somewhat out of date. Yet, as should be more clearly realized than it sometimes has been in the past, the market cannot be superseded as a general frame of reference unless the social sciences succeed in developing a wider frame of reference to which the market itself is referable. This indeed is our main intellectual task today in the field of economic studies”(ibid,pp.269-270).

4. Ideas and Theses in L.M.

In the Editor’s Preface, Pearson explains the contents of L.M.

“It is presumptuous for anyone to edit and publish the unfinished works of another no longer to protest. ... Nonetheless, at Polanyi’s death there was the clear outline of a book to be entitled *The Livelihood of Man*. It had a table contents more than one vision of a preface, an introduction, and Chap.1 and 4 completed substantially as they appear

²¹ See T.M.E p.269,pp.274-276, 281,293,300.

²² According to Polanyi, as far as the “scarcity” defines the economy, it functions as an institutional notion of the market society. See chap.13 and Cangiani[2006].

in this book. Chapters 2, 3, and 8 also existed in different versions, which have been edited here to present the most complete statement on these questions from Polanyi's hand. In addition, there were several chapters on trade, money, and markets in ancient Greece (focusing mainly Athens), and those most relevant to Polanyi's thesis have been included here as he intended them to appear in the book" (L.M p.xxi) .

There seems to be three essential arguments appeared in L.M.

- ① Beyond the Economistic Fallacy and the Eclipse of Politics
- ② Toward the Substantive Economy
- ③ Market vs. Planning as a Universal Issue of Human Livelihood

1) Beyond the Economistic Fallacy and the Eclipse of Politics(①③)

In preface of L.M., Polanyi implied that the purport of L.M. was to contribute to gain a more realistic view of the place occupied by the economy in human society. Polanyi warns the effect of economistic fallacy on a philosophy of everyday life.

"This is to say no less than that the marketing mind contained the seeds of a whole culture...and the picture of inner man and society induced by life in a market economy necessarily followed from the essential structure of human community organized thorough the market"(ibid,p.10).

Polanyi points out the impact of economic fallacy and the central illusion of an age.

"To sum up the central illusion of an age in terms of a logical error...to be identical with a species with we happen to be familiar... In such terms, the error was in equating the human economy in general with its market form(a mistake that may have been facilitated by the basic ambiguity of the term *economic*).

He suggests that the contents of L.M. should have three levels.

"On theoretical level, an attempt is made to develop concepts of trade, money, and market institutions applicable to all types of societies. On historical level, case studies are intended to bring to life our generations, by way of parallel and contrast. On the policy level, history should be made to yield answers to some of the burning moral and operational problems of our own age"(ibid,p.xxxix).

Polanyi emphasizes that as "economic solipsism" originated prevailed in society, "the eclipse of political thinking" became the intellectual deficiency.

"Men would barter unless they were prohibited to do so, and markets would thus come into being unless something was done to prevent it. Trade would begin to flow...and would create pools of goods...unless governments conspired to stop the flow and drain the pool"(ibid,pp.14-15) .

Polanyi argues that such eclipse of political thinking destroyed any objective approach to economy itself, insofar as the economy possessed an institutional background other than a supply-demand- price mechanism (ibid,p.15). Polanyi also

criticizes “that the eclipse of politics had a most confusing effect on the moral aspects of the philosophy of history”(ibid,p.15).

“Economics stepped into the vacuum, and a hypercritical attitude toward the moral vindication of political actions set in”(ibid,p.15).

This result in fatally have warped Western man’s understanding of himself and his society in human history. For example, “most of early history now appeared as a jumble slogans about justice and law bandied about by pharaohs and god-kings for the sole purpose of misleading their helpless subject”(ibid,p.16). Polanyi insists that “the true condition of affairs is so different from what is congenial to the market mentality”(ibid,p.16). According to him justice and laws on economic activities were embodied in institutional structure of early societies and they made up the constitution of the ideal *police*.

“A man’s property , his revenue and income , the price of his wares were now ‘just’ only if they were formed in the market...The varied property institutions of the past and the substantive laws that made up the constitution of the ideal police had now no substance to work upon ”(ibid,p.16).

Polanyi suggests that justice and freedom and laws must have been recognized as varied ideals. Polanyi insists the kin relationship between substantive meaning of economy and state actions, which institute economic values.

“Actually, justice, law and freedom, as institutionalized values, first make their appearances in the economic sphere as a result of state action... At the same time, an enormous economic advance becomes possible, and is actually made, with the help of the state...But such a recognition of the early role of the state were barred by the economic solipsism”. Thus did the mentality of the market hold sway”(ibid,pp.16-17).

In L.M., Polanyi tries to focus on the historical samples that show those aspects which did the mentality of the market hold sway.

2) Toward the Substantive Economy: Theory, History and Policy (②③)

Polanyi’s first theoretical concern was with the very meaning of the term, “economic”. According to Polanyi, the economic fallacy itself is patent. As the physical aspect of man’s need is part of the human condition, no society can exist that does not possess some kind of substantive economy (ibid,p.6). Polanyi concerned with the confusion in social sciences resulting from compounding the economist’s definition (derived from the logic of economically rational action) with the more common sense notion of the economy as the “substantive” material means-providing sphere in society.

As Cangiani suggests, Polanyi argues on substantive of a market economy itself.

“Nineteenth-century society was organized in such a fashion as to make hunger or gain alone into effective motives for individual to participate in economic life”(ibid,p.12).

Polanyi called Menger as a “realistic thinker”. Confronted with historical and sociological criticisms, he decides to re-write the first edition of *Principles* ²³. However economist like Hayek, Knight and Robbins rejected the intellectual meaning of posthumous second version [1923]²⁴.

Polanyi argues that, as Menger noticed, so many evidences from history show that the competitive market system and its “economizing” cultural context had either been absent or had played a subordinate role thorough most of man’s history. “ Economic theory has invested that term with a time- bound connotation that renders it ineffective outside of the narrow confines of market-dominated societies...Terms like supply, demand, and price should be replaced by wider terms such as resources, requirements, and equivalences”(ibid,p.xl).

Economists in the liberal tradition tend to find factors of the market economy in all societies, and then all real economic activity everywhere would appear in the market-image. Polanyi’s basic solution was to return to the notion of the economy as a material-providing sphere and to examine the different institutional frameworks in which that sphere operated in different societies. Every society must somehow find the material means for its survival, and that the whole process will be organized differently in different societies, run on different motives, and use varying materials and technologies.

“In our market-organized economies, trade and market money appears as mere functions of the market, which, of course, up to a point they are. Yet such an appearance, if generalized, must falsify the facts of the past. Foreign trade and some money uses are old as mankind, while price-making markets are a comprehensively recent innovation”(ibid,p.xl).

Polanyi shows that how to make use of markets in community had been the crucial political issues throughout human livelihood. Because markets tend to induce people to seek their personal merit, this disembedding tendency had been perils for the unity of community. Polanyi says;

“What to our generation seem unique and fateful cross-road – freedom versus bureaucracy, planning versus market method – are then recognized as topical variants of recurrent human situation”(ibid,p.xli).

In terms of human livelihood “the great problems of the human race – freedom and centralization, initiative and planning – certainly bear more lasting feature than was believed to be possible”(ibid,p.xli).

²³See Cangiani[2006] ,Polanyi[1958-60], and L.M chap.2. In face with criticism Schumpeter’s choice seems to be opposite to Menger’s. In *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*, Schumpeter identified the essence of Economics with Pure economics. By doing so, Schumpeter tries to prevent Economics from criticism made by economic historians and anthologists. See Schumpeter[1908]part5,chap.1.

²⁴ Menger,C.[1923].

“To harmonize the personal initiative of the trader with governmental direction of trade was an aim pursued by Assyrian rulers as early as the beginning of the second millennium B.C. And not unsuccessfully either, judging by the ingenious devices by which their methods of colonial trading safeguarded the freedom of the individual trader... Similarly, ways were found to reconcile economic planning with the requirements of markets in communities as different as democratic Attica of the fifth century B.C. ...”(ibid,p.xli).

His historical samples show the ways and devices which harmonize or reconcile the conflicts between market and community²⁵. And it also suggests that the place of market in society reflects the substantive meaning of freedom and justice that society gives. Polanyi insists the man’s power of shaping his own history with institutional arrangements.

5. Concluding Remarks – Beyond the Dichotomy–

As we saw, his approach toward L.M. seems to be characterised as institutional, historical, political, and sociological and to be contrasted sharply to the pure-economistic approach²⁶. Because Polanyi feels difficulties to transform society into non-market one, he challenged the economistic view as a crucial obstacle. His approach named “the place of economy in societies” and “its shift”, of course, consists of the field of the economic anthropology. But it is beyond the scope of economic anthropology. He questioned the scope and methodology of economics as it concerned with other social sciences. The question of “the changing place of the economy in society” was the centre of Polanyi’s concern especially on the relationship between “economy and society” He pursues the question with a keen eye over the whole range of man’s history. His concern did not limit to early societies.

His research project toward L.M. is not finished. However we can understand his challenge the economic determinism. To solve the problem of livelihood and to survive in the age of the transformation, it is inevitable to mix both elements of freedom and control, market and planning. The problem of human livelihood could not be solved by the extreme dichotomy.

In 1963 Polanyi visited to his home town Budapest, and gave his the last lecture. He said to his audiences,

“...Socialism...today is in need precisely of that kind of widening of experiences and

²⁵ As Polanyi concerns with the Menger’s posthumous publication, his works relates with the methodology of economics, sociology and economic history. See Block and Somers[1994]. They points out the impact of the German Historical School in the formation of Polanyi’s vision. Shionoya[2005] deals with the methodology of Shmoller, Weber and Schumpeter.

²⁶ See Cangiani[2006]and L.M.chap.2. And also see Bugra and Agaran[2007]. The latter book has just published. It is a selected works based on the International Polanyi Conference held in Turkey in 2005.

perspective, which have a bearing on these areas where the frontiers of market-economy and market-less economy meet. Now, it would be capitalism seeing itself constrained to introduce elements of planning into its over-marketized realm, now, again, socialism would be considering enhancing its achievements in economic planning by introduction of certain market elements. In underdeveloped world, as well as among the new nations, market elements and non-market elements are contesting with each other” (ibid,p.xix).

Polanyi himself identified throughout his life as a socialist, but he had profound differences with economic determinism of all varieties, including mainstream Marxism. Polanyi suggests that there are different possibilities available at any historical moment, since markets can be embedded in many different ways. Polanyi puts forth his institutional ideas on the relationship between economic history and social philosophy—ideals of justice, law and freedom— in the very beginning of L.M.

“The history of mankind and the place of the economy in it, is not, as the evolutionists would have it, an account of the unconscious growth and organic continuity. Such an approach would necessarily obscure some aspects of economic development vital to men in the present phase of transition. For the dogma of organic continuity must, in the last resort, weaken man’s power of shaping his own history. Discounting the role of deliberate change in human institutions must enfeeble his reliance on the forces of the mind and spirit just as a mystic belief in the wisdom of unconscious growth must sap his confidence in his power to re-embodiment the ideals of justice, law, and freedom in his changing institutions”(ibid,p.liv).

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