Controversies on Karl Polanyi's The Great Transformation

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1 The Great Transformation: A Detailed Exploration of Karl Polanyi's Arguments

Karl Polanyi's The Great Transformation, published in 1944, is a seminal work that provides a comprehensive analysis of the profound changes that occurred in England with the rise of the market economy. Polanyi, a Hungarian political economist, presents a critical examination of how the market economy and the modern nation-state are interlinked, arguing that they should not be seen as separate entities but rather as components of a single social invention he refers to as the "Market Society."

1. The Concept of the "Market Society"

Polanyi posits that the emergence of the Market Society marked a significant shift in humanity's economic mentalities. Prior to this transformation, societies operated on principles of reciprocity and redistribution, grounded in personal and communal relationships. Economic interactions were embedded within social frameworks that prioritized social ties over market exchanges. These earlier economic systems were characterized by mutual aid and shared resources, fostering community cohesion and social solidarity.

With the advent of industrialization and increasing state influence, competitive markets began to take shape, undermining these established social norms. The shift to a Market Society introduced formal institutions designed to promote a self-regulating market economy. This transition involved not just changes in economic practices but also a fundamental alteration in human relationships, as economic activities became increasingly commodified and distanced from their social contexts.

2. The Role of State and Capitalism

Polanyi emphasizes that the expansion of capitalist institutions was not merely a natural evolution but rather a deliberate transformation facilitated by state intervention. He critiques the notion that markets are self-regulating and argues that such a belief is a myth perpetuated by proponents of free-market ideology. Instead, Polanyi contends that the modern economy is deeply intertwined with political forces, which shape economic outcomes and structures.

This relationship between the state and the market is pivotal in understanding the development of capitalism. As states exerted greater control over economic processes, they laid the groundwork for the institutions that would underpin the Market Society. In this context, Polanyi challenges the prevailing liberal economic thought that regards market forces as inherently beneficial, positing that such a view neglects the social ramifications of marketization.

3. Economic Liberalism and Human Nature

The book further explores how the rise of economic liberalism transformed societal values and perceptions of human nature. Polanyi argues that, prior to industrialization, markets played a marginal role in human affairs, and there was no widespread belief in the rationality of free trade as a human instinct. This belief emerged only after significant changes in economic structures and state involvement, which promoted the idea that individuals are naturally inclined to engage in self-interested, rational economic behavior.

Polanyi counters this notion by asserting that "man's economy, as a rule, is submerged in his social relationships." He highlights that economic activities cannot be disentangled from their social contexts; rather, they are shaped by cultural, historical, and social factors. This perspective gives rise to Polanyi's critique of "formalism," which emphasizes abstract economic models detached from reality, and his advocacy for "substantivism," an approach that considers the broader social and cultural dimensions of economic life.

4. Embeddedness of Markets

A central thesis of The Great Transformation is the idea that markets are embedded within social and political logics. Polanyi argues that to fully comprehend economic dynamics, analysts must recognize the interplay between economic activity and the political environment in which it occurs. He posits that economic systems cannot be understood in isolation from the social structures and power relations that inform them.

This embeddedness is crucial for understanding the complexities of economic behavior and the limitations of purely economic analysis. By acknowledging the social dimensions of markets, Polanyi's work invites a more holistic approach to political economy, integrating insights from sociology and anthropology.

5. The Consequences of Market Expansion

Polanyi discusses the consequences of expanding market mechanisms, particularly the social dislocation and upheaval that often accompany such changes. The transition to a Market Society has led to significant disruptions in traditional social structures, as individuals are increasingly subjected to the imperatives of market competition. This process, according to Polanyi, can create alienation and inequality, as market forces prioritize efficiency and profit over human welfare and social cohesion.

He argues that the disruption caused by market expansion necessitates social protection measures to counterbalance the adverse effects of economic liberalization. Polanyi warns that unregulated markets can lead to social instability and a backlash against the very systems that enabled their rise, illustrating the inherent tensions within a Market Society.

6. Political Economy Implications

The theoretical implications of The Great Transformation extend far beyond the context of early 20th-century England. Polanyi's insights remain relevant in contemporary discussions about globalization, economic inequality, and the role of the state in regulating markets. His work serves as a critical lens through which to examine the dynamics of political economy, emphasizing the need to consider the historical and social contexts that shape economic systems.

By challenging the idea that markets are self-regulating and promoting a nuanced understanding of their embeddedness in social relations, Polanyi contributes to an ongoing discourse about the balance between market forces and social welfare.

Conclusion

In summary, Karl Polanyi's The Great Transformation offers a profound critique of the rise of the market economy and its implications for society. By framing the Market Society as a product of historical and social processes, Polanyi invites readers to reconsider the relationship between economy and society. His arguments underscore the necessity of integrating social considerations into economic analysis and highlight the importance of protecting social relationships in an increasingly market-driven world. Through this lens, The Great Transformation remains a vital contribution to the fields of political economy and social theory.

2 Karl Polanyi's critique of market society in The Great Transformation extends deeply into the social, environmental, and cultural ramifications of unregulated capitalism. Below are detailed elaborations of his arguments, supplemented with historical and contemporary examples to illustrate the consequences of market expansion on human nature and natural contexts.

1. Destruction of Social Bonds

Detailed Explanation:

Polanyi argues that the shift from traditional economies based on reciprocity and communal relationships to a market economy fosters individualism at the expense of social bonds. In pre-market societies, economic transactions were embedded within social relations. People relied on kinship ties and community obligations, which created a safety net for individuals.

Example:

Consider the transformation in rural communities during the Industrial Revolution in England. Families and villages that had traditionally relied on collective agricultural practices faced dislocation as individuals migrated to cities for factory jobs. This migration resulted in the breakdown of communal support systems. As workers became more isolated in urban settings, the social fabric of their lives weakened, leading to increased alienation, mental health issues, and social unrest.

2. Disruption of Natural Resources

Detailed Explanation:

Polanyi highlights how market society prioritizes profit over ecological sustainability. The relentless pursuit of economic growth leads to the over-exploitation of natural resources without consideration for long-term consequences.

Example:

The deforestation of the Amazon rainforest serves as a poignant example. In the name of economic development, vast areas of the rainforest are cleared for agriculture, logging, and mining. This not only threatens biodiversity but also disrupts indigenous communities that rely on the forest for their livelihoods. The resulting environmental degradation contributes to climate change, illustrating how market-driven exploitation can have catastrophic effects on both the environment and human societies.

3. The Myth of Self-Regulating Markets

Detailed Explanation:

Polanyi critiques the neoliberal belief in self-regulating markets that claim market forces will naturally lead to equilibrium and optimal resource allocation. He contends that this belief is a dangerous oversimplification, leading to neglect of social and ecological contexts.

Example:

The 2008 financial crisis exemplifies the failures of the self-regulating market ideology. Deregulation of the banking sector allowed for reckless lending practices and the proliferation of complex financial instruments. When the housing bubble burst, the consequences rippled through the global economy, resulting in widespread unemployment, loss of homes, and financial instability. This crisis illustrated that without adequate oversight and regulation, markets can spiral out of control, causing widespread social and economic harm.

4. Cultural and Ethical Implications

Detailed Explanation:

Polanyi discusses how the commodification of labor and natural resources undermines the ethical and cultural foundations of society. By reducing everything to monetary value, market society diminishes the intrinsic worth of individuals and the environment.

Example:

In contemporary labor markets, gig economy platforms like Uber and TaskRabbit often treat workers as mere commodities, assigning value based solely on market demand rather than human dignity. Workers face instability, lack of benefits, and minimal protections. This commodification fosters a culture of precarity, where the value of individuals is tied to their immediate economic productivity, contributing to a societal mindset that prioritizes profit over people.

5. Historical Context and Lessons

Detailed Explanation:

Polanyi draws on historical precedents to show that societies have historically reacted to the disruptive effects of market expansion by seeking to reintegrate economic activity within social frameworks. He illustrates how social upheaval has often led to calls for regulation and reform.

Example:

The Labor Movement in the late 19th and early 20th centuries is an example of society's response to the excesses of market capitalism. In the United States, workers organized strikes and formed unions to demand better wages, working conditions, and job security. The success of these movements led to significant regulatory changes, such as the establishment of labor laws, minimum wage regulations, and workplace safety standards. This historical reaction highlights how the adverse effects of market society can prompt societal movements aimed at restoring balance between economic activities and social welfare.

Conclusion

Polanyi's insights in The Great Transformation emphasize that market society is not just an economic system; it profoundly alters social relations, cultural values, and environmental sustainability. His assertion that market expansion is unsustainable is backed by historical examples, from the disruptions of the Industrial Revolution to contemporary issues such as climate change and labor commodification. By advocating for an ethnographic approach to economics, Polanyi urges a reevaluation of the relationship between economic systems and the social contexts they inhabit, advocating for a more integrated approach that respects both human dignity and ecological integrity. This perspective remains crucial as societies continue to grapple with the consequences of neoliberal policies and the ongoing challenges posed by globalization.

2.1 In the introduction to Karl Polanyi's The Great Transformation, Joseph Stiglitz provides a comprehensive overview of Polanyi's critique of market economies and the social changes they engender. Here are the main ideas presented in the introduction, elaborated with greater detail and examples:

1. Historical Context of Economic Thought

Stiglitz emphasizes that Polanyi's work is situated within the broader historical evolution of economic systems. He points out that the economic paradigms we consider normative today—such as laissez-faire capitalism—did not always exist. Instead, societies historically operated under various systems of exchange and governance that integrated economic activity with social relationships. For example, in many indigenous societies, economies were based on principles of reciprocity and communal sharing rather than profit maximization.

2. Critique of Market Fundamentalism

Polanyi fundamentally challenges the idea that free markets operate independently of social structures. Stiglitz highlights that Polanyi argues against market fundamentalism, the belief that markets are self-regulating and that minimal government intervention is optimal. He posits that this ideology neglects the ways in which markets are embedded in social relations and cultural contexts. For instance, in the case of labor markets, wages and working conditions are not determined solely by supply and demand; they are also influenced by social norms, labor laws, and collective bargaining processes.

3. Impact of Industrialization

Stiglitz discusses how Polanyi links the emergence of market economies to the disruptive effects of industrialization. The transition from agrarian economies to industrial ones led to significant social upheaval. For example, the rise of factories and urbanization disrupted traditional family structures and community bonds. Workers who migrated to cities for factory jobs often faced harsh living and working conditions, leading to social tensions and movements advocating for workers' rights. This transition illustrates Polanyi's point that industrialization did not simply create new economic opportunities but also dismantled established social frameworks.

4. The Concept of the "Market Society"

Polanyi introduces the concept of the "Market Society," where economic relations are governed primarily by market principles rather than social norms. Stiglitz notes that in a Market Society, individual self-interest and profit maximization become dominant motivations, displacing earlier economic behaviors rooted in reciprocity and community. For instance, in contemporary society, the rise of consumer culture exemplifies this shift, where individuals prioritize personal consumption over communal values, often leading to social isolation and environmental degradation.

5. Government Intervention

Stiglitz highlights Polanyi's argument that government intervention is essential to balance the adverse effects of unregulated markets. Polanyi believed that unrestrained market forces could lead to social dislocation, inequality, and economic instability. For example, the Great Depression of the 1930s illustrated the dangers of market excesses, leading to widespread unemployment and social unrest. In response, governments implemented policies such as the New Deal in the United States, which aimed to stabilize the economy and provide social safety nets. Stiglitz argues that these interventions reflect Polanyi's assertion that markets need to be regulated to ensure social welfare.

6. Economic Mentalities

Stiglitz discusses Polanyi's examination of historical economic mentalities, arguing that the emergence of modern economic rationality—characterized by self-interest and utility maximization—was not an inherent aspect of human behavior but a product of specific historical developments. For example, in feudal societies, economic relationships were often based on obligations and loyalties rather than individual profit motives. Polanyi's work challenges the notion that humans are naturally inclined to behave as rational economic actors, suggesting instead that cultural and historical contexts shape economic behaviors.

7. Lessons for Contemporary Policy

Stiglitz emphasizes that Polanyi's insights are still relevant for contemporary economic policy debates. He argues that understanding the social foundations of economic behavior is crucial for addressing current challenges such as income inequality, environmental sustainability, and economic crises. For instance, in discussions about climate change, policymakers must consider the social and economic structures that incentivize unsustainable practices, rather than solely relying on market-based solutions. Stiglitz advocates for a holistic approach to policy that incorporates social dimensions, aligning with Polanyi's perspective that economics cannot be divorced from social contexts.

Conclusion

In summary, Stiglitz presents Polanyi's The Great Transformation as a foundational text that critiques the rise of market economies and their impact on social structures. By examining the historical context of economic thought, the nature of government intervention, and the implications of economic mentalities, Polanyi offers valuable insights into the interconnectedness of economy and society. Stiglitz underscores the need for contemporary economic analyses to consider these social dimensions, advocating for a more integrated approach to understanding and addressing the challenges of modern economies.

3 Ludwig von Mises and Friedrich Hayek, both prominent figures in the Austrian School of economics, fundamentally disagreed with Karl Polanyi's critiques of the market economy and his advocacy for a more regulated economic system. Here are the key reasons for their opposition, along with explanations of their viewpoints:

1. Belief in Market Efficiency

Mises and Hayek's View:

Mises and Hayek strongly believed in the efficiency of free markets. They argued that voluntary exchanges in a free market lead to optimal resource allocation and economic growth. According to them, the price mechanism is a powerful tool for coordinating economic activity, reflecting supply and demand, and guiding resources to where they are most valued.

Critique of Polanyi:

Polanyi's assertion that market society is destructive to human nature and social bonds runs counter to Mises and Hayek's belief that markets facilitate cooperation and mutual benefit. They viewed Polanyi's emphasis on the negative consequences of market expansion as an overgeneralization that overlooked the benefits of market dynamics, such as innovation, wealth creation, and improved living standards.

2. Skepticism of Government Intervention

Mises and Hayek's View:

Both economists were skeptical of government intervention in the economy. They argued that state planning and regulation disrupt the natural functioning of markets, leading to inefficiencies, misallocations of resources, and, ultimately, economic decline. Hayek famously warned against the "road to serfdom," suggesting that increased government control would lead to totalitarianism.

Critique of Polanyi:

Polanyi's calls for state regulation to mitigate the social dislocations caused by market forces were viewed by Mises and Hayek as misguided. They believed that interventions, even well-intentioned ones, would result in unintended consequences, creating more problems than they solved. For them, the solution to economic issues lay not in more government control but in removing existing interventions and allowing market forces to operate freely.

3. Role of Individual Freedom

Mises and Hayek's View:

Both Mises and Hayek placed a strong emphasis on individual liberty as a foundational principle of society. They argued that economic freedom is essential for political freedom, and that any infringement on economic liberty leads to a loss of personal freedoms.

Critique of Polanyi:

Polanyi's concept of a "market society" implied a need for greater control over economic life to protect social relationships, which Mises and Hayek saw as an infringement on individual rights. They believed that individuals should have the autonomy to make their own economic choices without the imposition of collectivist ideals or state oversight.

4. Understanding of Economic Relationships

Mises and Hayek's View:

Mises argued that human action is purposeful and that individuals act based on their subjective valuations, which drive economic decisions. Hayek expanded this to emphasize the role of dispersed knowledge in economic planning, asserting that no central authority could possess all the information necessary to make informed economic decisions.

Critique of Polanyi:

Polanyi's ethnographic approach, which suggested that economic activities are embedded in social and political contexts, was seen by Mises and Hayek as undermining the individual agency and the rational decision-making processes that characterize market behavior. They felt that Polanyi's views could lead to a deterministic understanding of economic relations that discounts personal choice and responsibility.

5. Historical and Empirical Evidence

Mises and Hayek's View:

Mises and Hayek pointed to historical examples where government intervention led to economic decline, such as the hyperinflation in Weimar Germany, as evidence supporting their critiques of planned economies. They highlighted the failures of socialist systems, including the Soviet Union, to provide for their citizens and manage resources effectively.

Critique of Polanyi:

Polanyi's historical analyses, which emphasized the disruptive impacts of capitalism on social structures, were viewed by Mises and Hayek as selective and lacking a comprehensive understanding of the benefits brought about by market economies. They argued that while capitalism might produce social upheavals, it also spurred innovation, economic growth, and improved living standards.

Conclusion

In summary, Mises and Hayek opposed Polanyi's views on the market economy due to their strong belief in market efficiency, skepticism of government intervention, commitment to individual freedom, differing understandings of economic relationships, and reliance on historical evidence. They viewed Polanyi's perspective as a misinterpretation of the role of markets in society and a potential pathway to increased government control, which they believed would ultimately undermine both economic prosperity and personal liberties.

4 Alex Nowrasteh: Matt Bruenig at Demos recently criticized libertarian support for free markets by arguing that a market oriented economy and modern economic mentalities are relatively recent inventions. He argues that prior to the eighteenth century economic mentalities like profit and utility maximization, or economic rationality, were absent from human societies. Instead, people were motivated by other goals. Libertarians, Bruenig asserts, are battling with history when they assume constant economic mentalities over the ages.

Bruenig uses "the insights of the famed" Karl Polanyi to demonstrate that libertarians are wrong to suppose that pre-modern humans had modern economic mentalities. Polanyi's claim that human economic mentalities were recently changed by government edict in the early eighteenth century, the beginning of the modern age, implies that those mentalities can be changed again by an additional edict. The only problem with Polanyi's thesis is that the specific historical evidence he musters does not withstand even mild historical and economic scrutiny.

Published in 1944, The Great Transformation used to be standard reading for economic historians. By the time I earned my MSc in Economic History from the London School of Economics, however, only 13 pages of Polanyi's work were included on the recommended reading list. The required reading list, however, was filled with journal articles tearing apart Polanyi's thesis with historical economic evidence.

Polanyi's theories are an example of a once-popular economic history that has been systematically dismantled by superior economic historians. In short, his theories are interesting because they are wrong. The Great Transformation is relegated to the role of a foil routinely slayed by economic historians to the great amusement of students. Polanyi's work does not offer a sound foundation upon which to criticize libertarian understandings of history.

Karl Polanyi

Polanyi's thesis is that modern economic mentalities like self-interest, utility maximization, and profit maximization are not natural to humans and are the recent creation of strong governments. Polanyi wrote, "[i]n 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" (Polanyi, 52). Polanyi continues by writing that Adam Smith's famous quote about mankind's "propensity to barter, truck, and exchange one thing for another ... yield[ed] 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" [Ibid].

According to Polanyi, pre-modern humans did not behave according to a profit-maximizing model and were very different from the later evolved homo economicus, who supposedly behaves as a rational utility maximizer in all economic circumstances. What were the economic mentalities of pre-modern humans identified by Polanyi? Reciprocity and redistribution--primarily through gifts intended to cement social, familial, and political relationships according to conservative norms of established tradition.

There are numerous historical examples of pre-modern humans who possess modern economic mentalities. Virtually all of the examples Polanyi uses are based on selective or poor historical evidence that, under careful examination, shows humans having consistent modern economic mentalities throughout recorded history. Any modern devotee of Karl Polanyi will have to present serious counter-evidence or concede that Polanyi was wrong.

Douglass North

Douglass North is a famed economic historian, Nobel laureate, left-winger, and proponent of Cliometrics. He has also criticized Polanyi's conclusions in The Journal of European Economic History. North's points were: First, Polanyi selectively chose historical events to support his thesis while ignoring others that offered counter-evidence. Second, all economies have elements of reciprocity, redistribution, and markets. To claim that private reciprocity and redistribution play no part in a market economy is simply incorrect. Third, "gifts" are a poor way to describe the economic exchanges detailed by Polanyi. "Bribe" is a more accurate term because they were designed to decrease transaction costs--something that economically rational humans do in the absence of courts and more developed institutions.

North implored his fellow economic historians to investigate Polanyi's claims and many heeded his call. The following is a small but representative sampling of the results.

Babylon and the Middle East

In The Livelihood of Man , Polanyi claimed that the ancient Middle East had an economy dominated by palaces and temples where prices were not regulated by supply and demand. In international trade, the state dominated through what was called "treaty trade," where prices were set in advance via treaties and trade was carried out through temple priests who had otherworldly, rather than material, motivations.

As Morris Silver points out in the Journal of Economic History, the ancient Middle East provides great examples of vast markets with variable prices based on supply and demand. Written documents from the period detail market transactions. In one such situation, the price of tin rose 20 percent in a short period--contradicting Polanyi's fixed-price theory of trade. Other texts in Babylonia from merchants to their agents order them to sell "according to the market"--odd texts in a regime of supposed fixed prices.

Polanyi also asserts that Babylon and other Middle-Eastern governments controlled the price of grain inside their economies as a form of redistribution. In fact, there is no evidence that governments at that time controlled the price of grain, but there is evidence of grain markets with prices changes based on--wait for it--supply and demand. Prices in a "good year" fall and prices in a "bad year" rise, according to the size of the harvest. That behavior is difficult to explain if prices are not determined through the interaction of profit-maximizing buyers and sellers.

Much agricultural land was privately owned, and Silver presents evidence that investments in land improvements were based on expected profits with considerations of opportunity cost and interest. During the dynasty in Ur from 2112-2004 B.C., land was likely owned and operated by organizations similar to firms or larger family units--not as quasi-collective farms as Polanyi implies. Prices for the renting and sale of land are also based on estimated productive capabilities, local interest rates, and the prices of agricultural commodities. Consequently, there is little discernible difference between Babylonian economic mentalities compared to people in other times. Silver provides even more numerous examples in his paper.

Inflation also occurred in the ancient Middle East. Phoenician importations of gold and silver from mines in Spain via tribute stimulated inflation in the Assyrian empire (Aubet 84), which does not make any sense unless traders are profit maximizing. If prices are set and maintained according to tradition, then by what mechanisms does an increase in the quantity of money affect prices? A sticky-price explanation doesn't explain this result; it might only explain the rate of change.

Wen-Amon's account of travelling from the Egyptian court to Phoenicia on a trading mission during the end of the Egyptian 20th or beginning of the 21st dynasty records 70 different trading vessels from different city-states or kingdoms owned by hbr (Semitic languages at that time didn't use vowels). According to etymologists of ancient Middle-Eastern languages, hbr has equivalents in Ugaritic and Hebrew that are translated to mean "syndicate, company, or trading partnership" (Aubet 114-115).

Hbr were a form of public-private partnership. Governments of the time would partner with merchants to gain revenue while the merchants sought government involvement in their enterprises as a means of insurance. Governments were large enough to absorb the risks of long-distance international trade. Before insurance developed, even the wealthiest merchants could be bankrupted by sea disasters, violence, or expropriation of property by states. Public-private partnerships spread the risk of those expeditions and simultaneously decreased the risk of expropriation due to violence.

If merchants in Kingdom X and Kingdom Y are engaged in public-private trading operations between each other then there is a much smaller chance that either Kingdom will expropriate the property of the other Kingdom's traders when in their port. If Kingdom X expropriates the property partly owned by Kingdom Y, the latter can just take the former's property next time they arrive in port. Since there are an indeterminately large number of transactions going forward, both sides default to the Folk Theorem and implicitly agree not to steal the other Kingdom's property. This is similar to how trade between Genoese and Venetian merchants led to the development of modern commercial contract enforcement.

Trading ships were owned by wealthy merchants who sought high profits that they shared with monarchs (Aubet 115-116). Wealthy merchants in Phoenician city-states sat on governing councils to provide a political counter-balance to monarchs, protect their property rights, and consider public-private profit opportunities. This is an example of government-supported cartels and rent-seeking, not laissez-faire capitalism, but profits were the goal and the economic mentalities of all parties involved do not differ from today although some institutional incentives are very different.

Use of money is not recorded in international trade annals back then, but most exchange was local. Money was likely used only in local markets at this time. Lydia is credited with having the first coinage in the 6th century B.C. but that is likely untrue (Aubet 141). There is much evidence of pre-Lydian coinage in Assyria, Babylon, as well as monetary experiments elsewhere (Aubet 141-142). That's why city-states like the Phoenicians that specialized in international trade adopted coinage later than their neighbors.

Prices in the ancient Middle-East shifted according to supply and demand while an increase in the quantity of money drove prices up over the centuries. Farmers and traders search for profit opportunities and changed their market behavior guided by economic mentalities indistinguishable from our own.

Dahomey

Polanyi wrote another book entitled Dahomey and the Slave Trade: An

Analysis of an Archaic Economy that attempted to apply his principles toward analyzing the economic system of the West-African states of Dahomey, Allada, and Whydah from the mid-seventeenth to the late-nineteenth centuries. Central to Polanyi's thesis was that the kings of Dahomey established fixed prices and exchange ranges into foreign currencies. Polanyi alleges that those prices controls and fixed exchange rates were stable substitutes for prices set by supply and demand. As the theory goes, the inhabitants of those kingdoms and the monarchs were more concerned with maintaining a traditional economy and traditional prices than maximizing profits.

The only problem with Polanyi's thesis is that it contradicts the historical price fluctuations for Dahomey--evidence that even existed when Polanyi wrote his book. Robin Law wrote in The Journal of African History details the price swings in goods and commodities. Seasonal price variations based around the harvest season--including price falls during gluts and price increases during poor harvests--are recorded and available to economic historians. The slave trade in Dahomey also produced price changes based on supply and demand, with large increases in the supply of slaves lowering the price, a dearth making it spike, and more European purchasers increasing the quantity demanded. In even this horrific market, the rules of supply, demand, and profit maximization seemed to hold.

Law also explained that kings of Dahomey did not enforce fixed exchange rates to maintain tradition--they used them as a source of revenue through debasement. At that time in West Africa, the local currency was a string with 40 cowry shells affixed. The king would take 3 or 6 shells off of the string as a tax, similar to how European monarchs in the Middle Ages debased coins by clipping their edges. Money contained fewer shells and less precious metal, spurring inflation. The price controls and exchange rates of Dahomey failed as Africans and Europeans raised their prices to cover the lower purchasing value of money caused by the debasement--just as rational profit maximizing humans do.

Bohemia

Polanyi was born in Vienna in 1886. Northwest of Polanyi's birthplace in the province of Bohemia, peasants behaved like the rational profit and utility maximizers they were. As Sheilagh Ogilvie of Cambridge details in The Economic History Review, historians of Polanyi's persuasion assumed that Eastern European peasants did not have modern economic mentalities and were instead naturally collectivists. According to evidence from peasant behavior on the Bohemian Estate of Frieldland between 1583 and 1692, peasants were highly individualistic, entrepreneurial, and as rational as people in the modern age. The peasants were, however, constrained by the feudal institutions of their day.

Peasant work habits depended upon their opportunity costs while investment and business opportunities changed their behavior in predictable ways. Written records show that peasants travelled long distances to take advantage of arbitrage opportunities, frequently dealt with three different currencies and shifting exchange rates, and understood the monetary value of time and acted to maximize their economic gain from it.

Government created monopolies resulted in laws that imprisoned peasants for illegal trading while government tolls, taxes, and expropriation of private property kept the peasants poor. Peasants reacted to these measures by engaging in illegal trading and shifting productive activity away from high tax activities into low-tax ones. Bohemian peasants behaved as we would expect modern economic actors to behave. The economic mentalities of the Bohemian peasants are recognizable to 21st century people.

Ancient Regime France

Prior to the evolution and adoption of capitalist institutions, creditors found ways to lend money to debtors in Ancient Regime France according to a paper by Phillip Hoffman and others in The American Historical Review. Lending and borrowing money is risky for both parties. For the borrower, the planned use for the borrowed funds may not produce enough extra revenue to pay the interest on the loan. For the creditor, the borrower may skip town with the money.

Rational lenders in Paris thus sought to minimize the risk of lending to dishonest borrowers. Their solution was to involve notaries who were able to match honest borrowers with honest creditors. Notaries were very busy at this time and had specialized knowledge of potential borrowers and creditors who were honest. Since notaries were able to link the two together, this lowered transaction costs, increased the return to savings and accumulating capital, and made loans available to many--mainly for mortgages and business expansion.

A credit market allowed businesses to expand with loans instead of relying upon accumulated profits, meaning the borrowers anticipated their future profits with the investment and compared them to the cost of borrowing. Creditors also compared various lending opportunities and changed interest rates based on the perceived riskiness and anticipated rate of return. In other words, modern economic mentalities were so alive and well in Ancient Regime France that creditors and borrowers helped create institutions to facilitate credit transactions.

Thailand

From 1800 to 1913, Thailand gradually opened its markets to the world economy. A rising standard of living was one good consequence of this policy shift but an even better one was the decline of slavery in Thailand. David Feeny's paper in The Journal of Economic History describes how reactions to international prices incentivized Thailand's population to rationally adjust to economic opportunities, injuring the slavery market in the process. Thailand's government then finally outlawed it.

Thailand was a major rice producer. After liberalization, high international prices drove an expansion in Thai rice exports. The economy shifted from an abundant land and scarce labor economy to a scarce land and abundant labor economy. The high rice prices made farm land more valuable, thus incentivizing the cultivation of new land to grow more rice. The scarcity of land increased relative to labor. The major constraint for increasing rice cultivation was land, not labor.

As a result of the shift in relative factor prices, the complexity of rules governing land ownership increased and the rules governing ownership of slaves decreased over the course of the nineteenth century. As ownership of slaves became less important for the growing rice industry, rules governing their ownership and exchange became less important and gradually simplified.

People make increasingly complex rules to govern the ownership and exchange of scarce goods and factors. Meanwhile, rules that regulate the ownership of abundant factors generally become less complex over time. If the factor is abundant and the price is low, disagreements over ownership are less likely to occur and less likely to lead to severe problems. For example, fewer people would care if a farmer scoops water out of the Mississippi to irrigate crops than if a farmer would take ground water in an arid Western state for the same purpose. Scarcer water means more complex rules that are more stringently enforced. The same process occurred for land and slaves in Thailand.

Thais reacted rationally to Thailand's changing economy. As Thailand's exports of rice increased under favorable terms of trade, workers left cities and actually moved to the countryside to work in agriculture, responding to rising rural incomes and the incentives of higher wages. The decline of slavery in the market, the private creation of rules regulating land, increased cultivation, the movement of workers to the country-side, and the decline of slavery were all rational economic reactions to a changing economy. Thais had the modern economic mentality.

A Note About Rationality in Economics

Behavioral economics has certainly shown that humans are not perfectly rational and we have persistent biases that cloud our reason. The works of Richard Thaler, Daniel Kahneman, and Amos Tversky have most influenced me. As Thaler wrote, human economic mentalities behave in a framework of bounded rationality, bounded will power, and bounded self-interest. Rational choice theory explains a lot of economic behavior but also leaves large gaps unexplained that are being plugged by behavioral economists and psychologists. Those caveats and exceptions aside, our modern economic mentalities explain quite a lot of human behavior today and in older civilizations.

Conclusion

The examples here and others not listed discredited Polanyi's work for the vast majority of economic historians regardless of political persuasion. His work actually lends itself to easy refutation because his thesis is so broad and all-encompassing—namely, that modern economic behavior was essentially invented in the last few centuries. Such a general statement is refuted by a single counterexample but I have instead provided many.

Mr. Bruenig can certainly do better than to cite a discredited work of economic history written in the first half of the twentieth century to argue his point. Libertarians are not the ones battling history. That dubious prize seems to belong to those who still look to The Great Transformation and the other works of Karl Polanyi as sources that accurately describes mankind's pre-modern economic mentalities.

Culture certainly impacts economics, mainly by creating institutions that incentivize or disincentivize certain types of behavior or create relative inelasticities of demand, but economics also changes cultures and norms of behavior--especially in business. British firms that lost out to better managed Indians firms during colonization is a classic example.

Polanyi likely confused different institutions that lower transaction costs, like the pre-modern credit markets in Paris and the so-called gift economics in primitive societies, or that serve as a substitute for insurance markets like the public-private partnerships of Phoenicia, with an entirely different form of human economic reasoning. Those eras and places developed different institutions that provided incentives to facilitate private profit and utility maximizing economic exchange. Underneath them, the same people with the same profit and utility seeking economic mentalities existed. The peculiar economic mentalities of people seem to be a constant throughout history rather than a result of a relatively recent government edict.

4.1 Summary of Matt Bruenig's Critique of Libertarian Views Using Karl Polanyi

In his critique of libertarian support for free markets, Matt Bruenig argues that the economic mentalities associated with modern capitalism, such as profit maximization and utility optimization, are not timeless human traits but rather recent developments resulting from historical changes. He claims that prior to the eighteenth century, human societies operated under different economic motivations, primarily based on reciprocity and redistribution, rather than the modern rational economic behaviors libertarians often assume were always present.

Bruenig draws on Karl Polanyi's insights to bolster his argument, stating that Polanyi believed that modern economic mentalities were created by strong government interventions in the early modern period, thus implying they could be altered again by similar actions. However, Bruenig criticizes Polanyi's historical evidence as insufficient and flawed, suggesting that it does not hold up to scrutiny. He highlights that by the time he pursued his MSc in Economic History, Polanyi's work had been largely relegated to the background, overshadowed by more robust historical analyses that challenge his thesis.

Key Arguments:

1. Polanyi's Thesis: Polanyi posits that modern economic mentalities like self-interest and profit maximization are not inherent to humanity but were developed through government intervention. He argues that before the rise of market economies, people engaged in economic activities rooted in social relationships and norms, rather than self-serving behaviors.

2. Critique of Historical Evidence: Bruenig asserts that Polanyi's claims are based on selective historical interpretations that fail to recognize the presence of profit-maximizing behaviors in pre-modern societies. He cites Douglass North and other economic historians who have systematically dismantled Polanyi's arguments by demonstrating that market exchanges, profit motives, and rational economic behaviors existed long before the advent of modern capitalism.

3. Counterexamples from History:

- Ancient Babylon: Contrary to Polanyi's claims about fixed prices and government control, historical records reveal vibrant markets in ancient Babylon where prices fluctuated based on supply and demand.
- Dahomey: Polanyi's analysis of the Dahomean economy is challenged by evidence showing that price controls were often used for revenue generation, contradicting his assertion of stable, tradition-based pricing.
- Bohemia and France: Studies of peasant behaviors in Bohemia indicate that pre-modern individuals engaged in rational, profit-driven decision-making. Similarly, in Ancient Regime France, the development of credit markets illustrates that economic rationality was at play long before the modern market economy was established.

4. Rejection of Polanyi's Framework: Bruenig suggests that Polanyi's framework oversimplifies complex economic behaviors and ignores the historical continuity of human economic motivations. The notion that modern economic mentalities were entirely constructed by governmental edicts is seen as a misunderstanding of the economic history that reflects the consistency of profit and utility-seeking behavior throughout various civilizations.

5. Cultural Impact on Economics: While acknowledging that culture influences economic behavior, Bruenig emphasizes that economics also shapes cultural norms. He points to historical examples, such as British firms failing against better-managed Indian firms during colonization, to illustrate how economic realities drive changes in societal behavior and institutions.

Conclusion

In summary, Bruenig's critique of libertarian thought, grounded in Polanyi's work, highlights the need for a nuanced understanding of economic mentalities throughout history. He argues that libertarians misunderstand the historical development of economic behaviors by failing to recognize the consistency of profit-oriented actions across different cultures and eras. Ultimately, he asserts that the reliance on Polanyi's discredited theories undermines the legitimacy of critiques against libertarian perspectives on economics and market society.

4.2 Matt Bruenig's response to critiques of Karl Polanyi's theory of historical transformation focuses on defending the concept of the "double movement," which he attributes to Polanyi, while distancing it from the entirety of Polanyi's ideas. Bruenig argues that the historical context of economic mentalities has shifted significantly, contending that before the eighteenth century, concepts such as profit maximization and economic rationality were largely absent from human societies. This claim positions Bruenig against libertarian interpretations that assume a constant economic mentality throughout history.

Key Points from Bruenig's Response:

1. Polanyi's Double Movement: Bruenig highlights Polanyi's assertion that the rise of economic liberalism was followed by a social backlash in response to its detrimental effects. He delineates three steps in this historical transformation:

• Step One: Economic liberalism did not exist initially.

• Step Two: The introduction of liberal economic institutions marked a significant shift.

• Step Three: A social movement arose to counteract the adverse social consequences of these institutions.

2. Misinterpretation of Polanyi: Bruenig contends that his interpretation of Polanyi's model is incomplete and fails to capture the essence of Polanyi's critique, particularly the fundamental changes in economic mentalities that accompanied the rise of liberalism.

3. Economic Mentalities: Polanyi argued that prior to the introduction of liberal economic institutions, markets played a minimal role in society and that economic behaviors were dictated by social relationships, emphasizing reciprocity and redistribution over profit maximization. Bruenig claims that premodern humans did not operate under the modern economic mentalities that emerged alongside the market economy.

4. Historical Evidence: The critique suggests that Bruenig's understanding of Polanyi's framework overlooks the historical evidence showing that elements of economic rationality and market behavior existed long before the rise of modern capitalism. For instance, practices of trade and private property ownership are cited as consistent features of pre-modern societies.

5. Rejection of Polanyi's Thesis: The response asserts that Polanyi's arguments about the transformation of economic mentalities lack robust historical backing. Bruenig asserts that the evidence contradicts Polanyi's claim that a fundamental shift in human economic behavior took place in the modern era.

6. Critique of Bruenig's Approach: The author argues that Bruenig's defense of Polanyi's double movement does not hold up because it relies on a mischaracterization of Polanyi's claims about economic mentalities. The critique suggests

that Bruenig can express his views without resorting to Polanyi, given that his theories have been widely discredited.

Conclusion:

In summary, Bruenig's defense of Polanyi's concept of the double movement highlights a perceived evolution in economic mentalities that shaped the historical transition to liberal economies. However, the response challenges the validity of Polanyi's claims, emphasizing that pre-modern societies exhibited rational economic behaviors similar to those seen today. The author urges Bruenig to reconsider his reliance on Polanyi's framework, advocating for a more historically grounded understanding of economic behavior that transcends Polanyi's discredited theories.