KARL POLANYI AND THE SOCIAL EMBEDDEDNESS OF ECONOMIC LIFE: A CRITIQUE OF THE RATIONALITY ASSUMPTION IN ECONOMICS

A thesis submitted in partial fulfilment of the degree of Master of Philosophical Foundations (Political Theory)

by

David Woods

Institute for Christian Studies
Toronto, Ontario, Canada
August 1987
"Each one should use whatever gifts he has received to serve others, faithfully administering God's grace in its various forms." (1 Peter 4)
ABSTRACT:

Economic rationality refers to the efficient use of resources so as to satisfy human ends as fully as possible. Rationality, taken in this sense, has been a consistent and important theme in the history of economic thought. Only in this century however has rationality been explicitly formulated as a basic assumption of individual behaviour in economic theory.

Karl Polanyi's economic framework rests on alternative foundations. Rather than starting with the attributes of individuals, his idea of the social embeddedness of economic life points to the different ways that the economy is instituted in various societies. Polanyi's critique of the rationality assumption focuses too on the social framework within which economic behaviour takes place. The traditional picture of rational economic man living in a state of scarcity makes sense only if we assume an isolated individual, standing outside of any social context, and able to use nature freely as a commodity. Such a picture only approximates to reality in market societies in which, in Polanyi's terms, the economy is disembodied from wider social relations. The individual in such a society has considerable economic freedom, and can use whatever is in his possession with no social or value constraints. Consequently, as a universal assumption of economic behaviour the rationality axiom is not a good one: it does
however broadly describe the position of individuals when economic relations have been organised along market lines.

The basic economic concepts of the individual, the commodity, means-end rationality and scarcity are closely linked because of their common roots in the Cartesian dualist model; this model sees the human subject as an individual mind, essentially disconnected from other people, and standing over against an objectified reality which he or she is attempting to control. The Cartesian paradigm cannot adequately recognise the social embeddedness of the economy because it does not do justice to the intersubjective character of human life and economic behaviour. Polanyi's critique of means-end rationality does not undermine the validity of the means-end relationship as such: it is rather a critique of the Cartesian subject-object framework within which the means-end relationship has traditionally been formulated, and thus also a critique of the socially disembedded nature of this reigning economic paradigm.
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INTRODUCTION

The idea that people are rational is one of the most basic assumptions of economics. Thus Frank Hahn talks about economic theory being rooted in "the twin axioms of private greed and private rationality". My concern in this thesis is to understand what sort of a vision of life (and particularly socioeconomic life) is assumed in and underlies such an assumption.

My intention is to outline the thought of Karl Polanyi, and especially the significance of his notion of the social embeddedness of economic life. Thereby, I hope, through comparing it to orthodox economics and seeing their different premises, to come to a better understanding of the rationality assumption.

My conclusions are, first, that the rationality assumption is seriously deficient in that it divorces economic life from its social context: things are not placed in a human context, and people's behaviour is assumed to be able to be understood through considering the position of the individual apart from society. By not seeing economics as intrinsically a relation between people - as intrinsically social - the rationality notion plays down and deemphasises the qualitative aspects of economic life by focusing on its quantitative characteristics.

Second, and more damaging, by believing that they can escape having to make explicitly any social assumptions,
economists actually implicitly assume and build into economic theory with the idea of abstract individuals and rational behaviour, all the basic characteristics of a market economy.

Philosophically, I think the problem with the rationality assumption is that it elevates the "man-nature" relationship (to use the categories of Louis Dumont) before people's relationships to each other. Thus not only (as already mentioned) are things not understood in a societal context, but even human labour is reduced to the status of a commodity (i.e. a thing).

Fundamentally the intersubjective character of economic life has not been fully recognised. But why is this important? Four important considerations spring to mind.

First, there is the question that interested Polanyi himself in the different styles of economic behaviour. His development of socioeconomic categories other than market exchange was led by the desire to recognise economic activity in non-capitalist societies, and even in institutions (such as families) within capitalist societies which are not usually recognised as economic.

Second I believe economics needs to recognise more the fundamentally cooperative character of economic activity. In almost all economic activity people either explicitly work together, or implicitly do so through specialisation. Consequently to downplay this social element and make it secondary (i.e. as derivative from something more basic such
as self-interest or rationality) is probably not a very helpful paradigm for solving economic problems in society, nor for finding creative new economic structures.

Another interest is in the question of value. Economic rationality, as I hope to show, implies ascribing value only to the goals of economic life, everything else having only instrumental value by virtue of being means to these ends. At a time of high unemployment, when people are more interested in finding meaning in their life and jobs, and there is concern about the environment and the preservation of natural resources, it makes scant sense - if ever it did - to ascribe value only to the products of economic life and to separate the way goods and services are produced from human values and normative judgments.

Finally, there is the negative view of economics and human nature implied. Instead of emphasising the enormous human economic potential, economic activity is seen as at root an interaction with niggardly nature, by people with limited time at their disposal, to squeeze as much out of it as much as possible. Instead of stressing the human potential for good in cooperation, specialisation, and our ability to use the creation to creatively satisfy each other's needs, the economic task becomes one of control and rational allocation of nature and human labour. Economic hope is seen to reside in economic rationality, which not only theoretically neglects other dimensions of our humanity relevant to economics, but in practice the attempt to
rationalise and control human labour actually negates and stifles such human potentials.

Polanyi does develop, as I hope to show, a more social and intersubjective understanding of economic activity, and thus for these purposes he provides an alternative and more useful paradigm. Nevertheless I shall suggest at the end that he even does not do full justice to the social, and thus intrinsically human, character of economic life.

Here then is the structure of the thesis. In chapter one I sketch what I see as the roots and history of the rationality assumption in economic theory since Adam Smith. In chapter two I present Karl Polanyi's alternative economic framework and outline the main components of his thought. Its relevance for a critique of the rationality assumption is then demonstrated in the third chapter. In my final chapter I discuss the rationality assumption further in the light of Polanyi's critique, and suggest that in order to develop a more socially embedded approach to economic life, orthodox economics needs to break with its Cartesian view of humanity and reality. Finally, I also suggest some changes in emphasis in Polanyi's own thought which I believe would allow him to do greater justice to his basic notion of the social embeddedness of economic life.
Endnotes:


2 See Godelier, Rationality and Irrationality in Economics p.xv.

3 See Dumont, From Mandeville to Marx.

4 Even such an individualist and realist as Adam Smith recognises this basic economic fact that "in civilized society he [man] stands at all times in need of the co-operation and assistance of great multitudes", and "has almost constant occasion for the help of his brethren". Smith, The Wealth of Nations p.15.

5 And by implication people's economic relationship to nature needs to be seen as being similarly mutual and reciprocal (rather than one of rational domination and control), so that people are viewed as respectfully working with nature. Use and care are then just two sides of the same coin, rather than being intrinsically at odds with each other. This is the sense that Christians have tried to capture with the idea of stewardship.

Chapter One: A SHORT HISTORY OF THE RATIONALITY ASSUMPTION IN ECONOMIC THOUGHT.

1.1 Introduction: Rationality in Economics

The word rationality is an important one for Westerners, like ourselves, who have traditionally given a high place to the rational dimension in our lives. The word however takes on a variety of different meanings depending on the context and the writer. For the purposes of this essay I take rationality as it is used in orthodox economics to refer to means-end rationality (i.e. using means as efficiently as possible to achieve given ends.) Thus, for instance, Maurice Godelier quotes Maurice Allais as giving what Godelier calls a "clear definition" of rational behaviour, "generally accepted by economists", which is that

... a man is considered rational when: (a) he pursues ends that are mutually coherent, and (b) he employs means that are appropriate to the ends pursued.1

This is in line with Lionel Robbins' famous definition of economics as

... the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.2

This kind of rationality can also be referred to as instrumental rationality. It refers to the using of things to achieve given goals, and so the means used can be said to have an instrumental character since they are not valued for
their own sake but only for their ability to satisfy an end.

Economic rationality, then, I take as referring to means-end rationality, the idea that means are being used as efficiently as possible to achieve certain ends. Taken in this sense I believe that rationality has been a common theme in the history of economic thought, meaning the goal-oriented, means-end way in which economic life has been understood. I aim to demonstrate this in the present chapter through an overview of some of the key figures and the general periods in the history of economic thought. Even though earlier writers did not talk about economic rationality, and may not necessarily have understood it in its modern sense, the different elements that make up the rationality assumption have always been there, albeit in different configurations.

However economists such as Edmond Malinvaud would disagree with my contention. They believe that modern economic theory makes no metaphysical or anthropological assumptions, and so for them there is a profound difference between modern economic theory, characterised by mathematical and logical rigour, and earlier economic thinking that had a more prosaic, sociological, and openly political approach. It did not hold back from making overt assumptions about human nature.

The discontinuities in the history of economic theory are certainly real (and extend as much to different thinkers as to broad periods of thought). But Anthony Cramp is right,
I believe, to stress that the mental apparatus of the modern economist "has developed by evolutionary rather than revolutionary change" from its Enlightenment origins.

Consequently both the continuities and discontinuities exist. For the purposes of this essay I choose to focus on the former, while others focus on the latter. I have two main reasons for doing this.

First, I believe that it is helpful. The means-end theme has been a fundamental, as well as a universal, one in the development of economic theory. It is closely tied to how economics has been defined. Understanding important themes such as this help us to grasp the common strands and continuities in the many changes that have occurred in economic thinking, and that make sense characterising a certain body of thought (such as economics since Adam Smith) as having some basic unity.

Second, Polanyi himself makes such a characterisation. He lumps orthodox economic theory together, saying that it takes a formalist approach to economics as evidenced in such words as "economizing" and "economical". Simplifying in this way makes it easier to understand what it is that distinguishes orthodox economics over against Polanyi's own substantivist and less market-oriented style of analysis.

I now turn to a brief overview of the history of economics, which I divide into three main periods. These are Adam Smith and the classical school, the neoclassical economists, and modern economics.
1.2 Adam Smith and Classical Economics:

For Adam Smith the wealth of a country, and thus the goal of economic life, consists in the production of more and more material goods relative to the number of people who consume them. The means to produce material goods consists in human labour, working on land and financed with capital. Consequently Smith writes that the way for a country to produce more wealth is either for it to have a larger percentage of the workforce engaged in producing saleable goods (rather than being employed in services, such as the army or servants), or for these workers to produce more efficiently. This latter depends largely on the progressive refinement of the division of labour.

Smith makes it clear that it is this latter option, the improvement in what he calls "the productive powers of labour", that leads to the greatest increases in wealth. Consequently he proceeds to analyse the process of increasing division of labour and specialisation in an industrial market society, since he believes that it is this which is primarily responsible for why a modern labourer is so much more productive than his counterpart in a peasant or tribal society.

In Smith, we might say, economic rationality consists in the increasing productivity of labour so that it can
produce more and more goods. It is, however, not so much a rationality of efficient allocation (as it became for the neoclassical school), but rather a more dynamic notion of how labour becomes more productive through a self-reinforcing process of increasing trade, expanding markets, capital formation, and a more complex division of labour.

Economic rationality is also the rationality of capital, that is it refers to the rational use of labour by capitalists. Capitalists buy human labour (more precisely, labour-time i.e. so many hours of labour) just like they would any other commodity and then put it to the most efficient use they can to produce saleable goods and thus generate profit. Labour is bought and sold and used just like any other commodity. In fact this is a very natural thing: Smith explains how whenever we see people who appear on the surface only to be exchanging goods with each other, they are at a deeper level really exchanging quantities of labour time.

Because for Smith wealth consists in the quantity of material goods produced, economic relationships have a purely instrumental character. It is not surprising then to read him write that "consumption is the sole end and purpose of all production." By this Smith appears to mean that the only value in human labour - economically at least - is the material goods which it produces. This leads him to distinguish between so-called "productive" and "unproductive" labour. Only labour that produces, or helps
to produce, a material good that can later be sold is actually productive, he informs us. Other kinds of labour are unproductive and create no (economic) value. Smith seems almost a little embarrassed by the conclusion he is forced into:

The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value. The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers.

The classical school after Smith continues to see material goods as the goal of economic life, and thus to give a very specific and concrete content and definition to economics. But economists such as John Stuart Mill begin to argue that services are also economically productive; they are productive of utility, at least, even if they do not yield durable wealth.

One further point that should be noted is the harmony between "is" and "ought" in *The Wealth of Nations*. For Smith a country's economic goal is to accumulate more and more economic goods, and this is paralleled by the behaviour of individuals who are driven by self-interest and a supposed universal desire to better their condition in material terms. There is in addition a natural harmony between the two since the behaviour of self-interested individuals guarantees the nation's expanding wealth. In fact Smith even writes that we can rely more on self-interested merchants to be actually benefitting their country, than on merchants who
profess to be working in the national interest. Smith's conclusion: people both are self-interested and should be.

This conflation of is and ought probably stems from Smith's deistic/naturalistic framework, which leads him to believe that however things are is also pretty much the way things ought to be. Thomas Campbell writes that:

Broadly speaking, the position he adopts is that, for the most part, whatever in the long term is, is right. Human choices may, to some extent and for some time, lead to changes and delays in the inevitable course of events, but the underlying, average and long-term tendencies are as inescapable as the movements of the planets, and their consequences are, on the whole, good. ...The concept which holds together the factual and the ideal world is that of 'nature'. Nature was, for Smith as for most eighteenth-century theorists, both an object to be studied and an ideal to be brought into existence.19

1.3 The Neoclassical Tradition:

Problems in the classical framework such as that (mentioned above) of defining the goals of economic life precipitate the paradigm shift of the 1870's. The so-called marginalist revolution leads to a more subjective understanding of economic value and welfare, so that the quantity of utility, rather than the number of material goods, provides the measure of economic welfare.

One of the central components of the neoclassical revolution is the extension of the principle of the margin
from simply the analysis of rent, where it was discovered and used by David Ricardo, to its becoming the central analytic principle in all areas of economics. Marginal analysis involves comparing the different benefits to be gained from the use of one more unit of a factor of production in various different activities, and leads to the rational use of economic means such that total utility is maximised. Consequently economic rationality, as implicit in the idea of utility maximisation and adjustments at the margin, begins to occupy a more central role in economics.

The style of analysis changes too from a more dynamic to a more static kind, with rationality now referring to a more static notion of the efficient allocation of factors. Smith's analysis of how labour becomes more productive is in the context of a growing economy, an expanding labour force, and capital accumulation. The neoclassical approach, by contrast, revolves around the efficient use of fixed inputs of factors of production, achieved via a process of allocating factors to their most productive uses in terms of generating utility.

Hence why the principle of the margin becomes so central in this static world of rational allocation. For the comparison of one more unit of capital (or labour or land) in different occupations, and employing extra units until the additional utility of one more unit of each factor (its "marginal utility") is the same in all occupations, ensures (given certain assumptions about utility and production
functions) that all factors are being used most productively and that total utility is being maximised.

At the same time as economic rationality becomes in the neoclassical tradition a more central notion in economic analysis, it also (because of the subjective definition of value as utility) begins to take a more formal and mathematical shape in the idea of utility maximisation. The goal of economic life is for people to maximise their utility and minimise their disutility, where utility and disutility refer to whatever gives them pleasure and pain (respectively). In their actual work, however, economists continue to assume some kind of material and concrete focus for their practical efforts, so that Alfred Marshall, for example, writes in the opening paragraph of his Principles that

Political Economy or Economics...examines that part of individual and social action which is most closely connected with the attainment and with the use of the material requisites of well being.22

As to the ambiguity between is and ought that I looked at in Smith, this is also a problem with the utilitarian philosophy. To see this we need only believe the words of its founder, Jeremy Bentham, that are quoted by Stanley Jevons with approval:

Nature has placed mankind under the governance of two sovereign masters, pain and pleasure. It is for them alone to point out what we ought to do, as well as to determine what we shall do. On the one hand the standard of right and wrong, on the other the chain of causes and effects, are fastened to their throne. [My emphasis]23
1.4 Lionel Robbins and Modern Economics:

Although the neoclassical revolution heralds the triumph of a more formal kind of economics, and thus also a more formal instantiation of the rationality assumption, Robbins still has to argue in his famous 1932 treatise on economic science against those who wish to limit economics to the study of (and define it in terms of) only how material needs are met.

Robbins sees the inconsistency of such a "materialist" definition of, and approach to, economics with the neoclassical method, and argues that there is no logical reason to give a privileged status to material ends within economics. If the heart of economics is the allocation of resources between different uses, why should economists restrict themselves to studying only how people's material ends are met, and not also look at the satisfaction of their non-material goals. After all, there will usually be a conflict of resources between the two kinds of end (at the very least in terms of the allocation of time), and the necessity of making choices in the use of resources is the key to whether an activity has economic relevance.

Robbins gives his own so-called "scarcity" framework for defining economics and for deciding whether an activity has economic relevance (in contrast to the "materialist" definition he criticises.) Three conditions must be satisfied for an economic dimension to be present. First,
there must be more than one end, these ends being arranged in an order of priority. Second, the means to satisfy these ends must be limited and not sufficient to satisfy them completely. Third, the means must be capable of alternative use. When all three conditions are met then an activity can be studied with economic tools, since for Robbins economics is

...the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.25

It is this economic use of scarce means by human subjects in order to satisfy their ends as fully as possible that I have called economic rationality, or rational economizing.

Robbins recognises that all three conditions may not always be satisfied. Air, for example, has in general no economic significance, since there is a comparative abundance of it compared to our need for it. But he concludes by asserting his belief that

...[s]carcity of means to satisfy ends of varying importance is an almost ubiquitous condition of human behaviour.26

Around the time of Robbins' book comes a second important shift in economic thinking, the Hicks/Allen discovery of indifference curve analysis. This heralds the beginning of what can be called modern economics, since economic analysis no longer has to rely explicitly on utilitarian philosophy but can formulate all its basic laws simply by assuming that individuals have preference orderings. Instead of having to assume that different things
give people quantifiable amounts of satisfaction (cardinal utility), and that people hedonistically both do and should prefer what yields them the most satisfaction, the indifference curve analysis is supposed to be both morally and philosophically neutral. It postulates only that people do in practice act as though they prefer certain bundles of goods to others (these "goods" being anything whatsoever that the individual is seen to choose) and that the map that can be theoretically constructed of their preferences (so-called ordinal utility) can be taken to be consistent and stable for short periods under analysis.

In such analyses rationality refers to the assumption of consistency in people's preference orderings. Amartya Sen writes that "in much of modern economic theory, 'rational choice' is seen as no more - and no less - than consistent choice". In consequence rationality is much more clearly to the fore in modern economics as one of the basic axioms assumed of "homo oeconomicus", rather than as in neoclassical economics being only implicitly present through the idea of utility maximisation.

There seems to be the belief in contemporary economics that by narrowing down rationality to the logical concepts of consistency and transitivity, (concepts that are also readily translatable into mathematical categories), that the rationality assumption (and thus economic thinking too) can become morally neutral and purely formal. Hahn argues as much when he writes in the introduction to Philosophy and
Economic Theory:

Economics probably made a mistake when it adopted the nomenclature of 'rational' when all it meant is correct calculations and an orderly personality. The term invites philosophers and others to invest the whole theory with too much significance.31

Now economic rationality is obviously closely connected to consistency in preference orderings, and we might say that consistency is a consequence and feature of means-end rationality in situations where other things can be taken as given ("ceteris paribus"). Hence rational people can also be characterised as being (in the short run) consistent. For persons with stable preferences, and who are using their resources as best they can to maximise satisfaction, will not in one situation prefer preference bundle A to B, and then later bundle B to A. Nor if they are seen to prefer bundle A to bundle B, and then also bundle B to bundle C, will they be found to prefer bundle C to bundle A (this latter is known as the transitivity of preference orderings).

Therefore I think the means-end definition of rationality is a broader and more inclusive one, and gets at dimensions of the notion of rationality that still are being implicitly assumed even where economists argue that rationality means only consistency. For example an interest in the consistent ordering of preferences only matters when these preferences can be taken to refer to the ends of individuals, these ends being assumed to be things that people desire to satisfy as fully as possible through using
as best they can the resources at their disposal.

Finally, the ambiguity already referred to as to whether economic agents being rational is a norm or a fact resurfaces in modern economics. Since economists are now not supposed to be making any value-judgments, the form this problematic takes changes. It is not so much a conflation of is and ought, but (as Martin Hollis and Edward Nell demonstrate) a confusion as to whether the assumption of rationality is — in the categories of logical positivism — analytic (i.e. a priori) or synthetic (i.e. empirical), whether, that is, it is true by definition or true by virtue of being seen to be a fact in practice.

1.6 Conclusion: Survey of Main Trends:
I have attempted to demonstrate in this brief survey of the history of economic thought since Adam Smith that means-end rationality has been a consistent theme from the beginning of modern economics at the end of the eighteenth century, even though it is only recently that it has been formulated and talked about as such, and that consequently the rationality assumption has been seen to be one of the central tenets of economic theory.

Nevertheless, although economic rationality has been a continuing theme in economic thought, it has taken different forms at different periods, and been more explicit at some junctures than at others. For Adam Smith it takes the form
of the productive powers of labour being increased so as to generate greater material prosperity (this latter being the ultimate goal of economic life). For the neoclassical economists it was assumed in the notion of utility maximisation, whereas for modern economics it is explicitly formulated as one of the basic axioms characterising economic agents.

In particular, the rationality assumption has become more explicit over time, as well as increasingly formal (to use Polanyi's phrase, see next chapter.) In Smith the rationality idea has a very specific content to it, in that the instrumentality of economic life means its submission to the goal of producing more and more material goods. But, as we have seen, this specific content was gradually eroded by the growing conviction that economics has no special relationship to material ends: thus today rationality means only that human labour and production are subject to goals external to them, these goals being anything at all that people desire, whether material or nonmaterial. The increasing formality of the rationality assumption is probably part of the reason for the growing confusion about the scope of economics.

The continuity of the rationality assumption can probably be better brought out and understood if we break it down into several constitutive elements that can be shown to be common features from our survey of the history of rationality.
The goal-orientation of economic life is clearly the central component of means-end rationality. However economic rationality implies more than this too, and what is important is the way that this goal-orientation is understood and formulated. Four major features of this wider framework can be distinguished.

First, the goals that are to be achieved are distinguished from the means used to achieve them. Means and ends refer to separate and distinct things. The ends of economic life have been seen at different times as either material goods or utility, whereas the means refer to factors of production such as labour, land, and capital.

Second, there is the common idea that the satisfaction of ends is to be maximised. For the classical economists the aim of economic life is to produce the greatest quantity of saleable goods, for the neoclassical school it is to maximise the amount of utility, whereas for modern economics there is the assumption that "more" is always preferred to "less".

Third, it should be noted that the ends of economic life refer to the ends of individuals. For Smith the reason that the growth of material production is the goal of economic life is because each individual desires to better their material condition. And for post-classical economists the individual is the cornerstone of their discipline because only individuals can know their own utility or preference functions.
Finally, there is the quantitative focus of rationality. Whether the goals to which economic life is subject take the form of material goods, or a broader definition of what people desire, the one basic characteristic about these goals is that they are quantifiable. The means to achieve them can be quantified too. The focus is on "how many", rather than on "what kind" and "how used". Being rational therefore consists in maximising the satisfaction of ends for the least expenditure of means.

A further point that has been noted several times is that in general there has been no clear distinction made in economics between rationality as a definition of economics, and rationality as how economic people in practice actually behave. It is not clear whether rationality is a logical truism or an empirical fact. In the categories of James Olthuis, we might say that there is confusion as to whether rationality is a "structure-of" or a "structure-for" economics.

The ambiguity between the two has almost certainly contributed to confusion about the rightful scope of economic science, and to the persistence of the rationality concept in economic thinking and its immunity from criticism. Thus, for instance, because we assume that economics is about rational action, we go to economic life looking for rationality - and we find it: and because we think we see so much rational conduct there (particularly in
our own Western capitalist societies) we are reinforced in our belief that being economic is about being rational.

Interestingly Polanyi's critique of rationality can be seen to be a critique at both these levels. However, before investigating precisely what his criticisms are (see chapter three), the next chapter is devoted to giving an outline of the basic ideas and themes in his thinking about economics.

Endnotes:


3 The word "rational" (even if not, as I am arguing, the concept) is of comparatively recent lineage in economics. The Austrian school has played an important role in its becoming more widely used.


7 With respect to the modern period in particular, where there is a much clearer distinction between micro- and macro-economics, it goes almost without saying that the orthodox economic theory that I refer to is orthodox micro-economic theory.

9 Smith, p.3.
10 Smith Book I, chapter one.
11 See Myint, Theories of Welfare Economics Part I, chapters one and four.
12 Smith, The Wealth of Nations pp.30-31. [I am reminded at this point of Morris Berman's observation that for the Enlightenment the "really" real is the abstract. Berman, The Reenchantment of the World p.40.]
13 Smith p.625.
14 Smith Book II, chapter three.
15 Smith p.315.
16 Mill, Principles of Political Economy Book I, chapter three.
18 Smith p.423.
19 Campbell, Adam Smith's Science of Morals p.53.
20 Ricardo, On The Principles of Political Economy and Taxation chapter two.
21 More accurately this sketch refers to the Continental marginal utility theorists, rather than to the English neoclassical school: see Myint, Theories of Welfare Economics Part II.
28 Layard & Walters, Microeconomic Theory p.126.
29 Layard & Walters p.124.


33 Hollis & Nell, Rational Economic Man chapters one and two.

34 Although Herbert Simon's contrast between substantive and procedural rationality might be seen as a similar kind of distinction. See Simon, "From Substantive to Procedural Rationality" in Hahn & Hollis (eds.) Economic Philosophy.

Chapter Two: KARL POLANYI'S ALTERNATIVE ECONOMIC FRAMEWORK.

2.1 Introduction:

The work of the famous anthropologist Bronislaw Malinowski among the Trobriand Islanders of the Western Pacific in the 1920's, led him to start questioning whether traditional economic models could cope with many of the economic practices of primitive peoples, practices such as those that he was himself uncovering.

In The Great Transformation (published in 1944) Karl Polanyi picked up on Malinowski's work while elaborating his own thesis that an economy is always embedded in the society in which it functions. The laissez-faire experiment in Europe (particularly Britain) in the nineteenth century had attempted for the first time to make the economy autonomous and self-regulating by transforming it into a system of markets. At the same time, land and labour became saleable commodities divorced from a broader social matrix. Polanyi wrote about the place of markets in economic life:

> [P]reviously 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.2
Consequently, viewed from the standpoint of world history Polanyi sees this process of divorcing the economy from wider social relationships, and attempting to make it self-regulating through a system of markets, as an aberration (what he means by the "Great Transformation"). It was thus ultimately doomed to failure.

Several of his important ideas and concepts are already present in this first book. But by 1957 and the publication of Trade and Market in the Early Empires (a collection of essays from a group project undertaken at Columbia University), he has a much better worked-out position and more theoretical categories. Polanyi's essay in this book, entitled "The Economy as Instituted Process", is the most succinct introduction to his theoretical thought.

2.2 The Social Embeddedness of the Economy:
Social embeddedness is a key concept in Polanyi's approach to economic anthropology. What exactly however does he mean though when he says that the economy is always socially embedded?

In one sense all economists recognise social embeddedness, in that they recognise that the economy is a process of interaction between people, not simply one of interaction between individual Robinson Crusoes and their natural environment (economics is a social science). Because of this social interaction, people depend upon one another,
and so economic life must be instituted in such a way that it integrates the many different economic acts so that they do not lead to anarchy, but instead work together to produce a cohesive economic system (see below, section 2.5, for Polanyi's analysis of the different forms of integration).

In this sense both orthodox economics and Polanyi are at one in emphasising the social character of economic life (even though their methodologies for making sense of social interaction differ profoundly, as will presently be seen.) However, as I now hope to show, Polanyi also means by social embeddedness more than this.

First, he means that economic life functions within institutions and social norms that are more than economic in nature. This is particularly evident in non-capitalist societies. Important economic functions may be performed within a religious ceremony or social event. Among the Huron Indians of Ontario, for example, every ten or twelve years the bodies of their dead were dug up, and a reburial ceremony occurred to give peace to the dead spirits, a ceremony at which a substantial redistribution of furs and wealth took place.

Even in advanced industrial societies where there are discernable economic institutions (such as business firms), separate from activities and institutions that we tend to think of as non-economic (such as families, schools, leisure activities), the economic institutions are themselves a configuration of many different elements - ecological,
technological and social. Thus businesses operate within and depend upon an amenable legal system and within cultural and social norms that prescribe behaviour, and are made up of individuals human beings with needs and gifts of their own that affect how the business can operate. Consequently we might say that businesses are at the same time identifiably economic institutions as well as being more than economic in character and make-up.

Second, Polanyi means by social embeddedness that the economy operates to meet social needs. People engage in economic activities to provide resources for all the non-economic functions that they perform. The production and circulation of goods has no justification purely in itself apart from society, its institutions and individual members for whom the goods are intended. In this sense social embeddedness has a partially normative tinge. This comes across in The Great Transformation where Polanyi argues that the nineteenth century attempt to divorce the economy from the wider society was necessarily doomed to failure. The economy is naturally embedded, one might say, in society and if it is not satisfactorily meeting the needs of society or respecting the humanity of its members, then there will tend to be social pressures to bring the economy more into line with social needs. This is indeed what happened in late nineteenth century Britain.

Finally, Polanyi means by social embeddedness that economic systems are socially instituted. The style of
economic interaction and individual behaviour is determined by how the economic system has been instituted within that society. Thus economic life has to be understood in terms of the institutional structures within which it functions. There is no natural or intrinsic kind of economic behaviour that characterises economic relationships at all times and in all places. Compare this with Adam Smith's contention that people have a universal "propensity to truck, barter, and exchange", or modern economics' idea of a ubiquitous homo oeconomicus characterised by the timeless axioms of private greed and rationality.

It seems as though there is a slight shift of emphasis in Polanyi's writings from the second to the third meanings of social embeddedness identified above. In The Great Transformation the focus is on how the economy is naturally embedded in society, and how consequently the nineteenth century laissez-faire experiment was historically unprecedented: it attempted for the first time to divorce the economy from society and make it self-regulating. Polanyi's emphasis is therefore on the radical difference between a market economy and non-market economies. Thirteen years later, by contrast, in the Trade and Market volume, he talks less about social embeddedness and more about the institutedness of the economy. The market is now seen as one way of socially instituting an economy, along with reciprocity and redistribution (see below, section 2.5).

I shall not say any more about this perceived change in
emphasis in this essay. The shift is minor and of little relevance for a critique of economic rationality. I shall therefore treat Polanyi's thought as basically unified, and at root a working out of his core conviction that the economy is socially embedded.

2.3 The Two Definitions of Economic:
Polanyi's awareness of the social embeddedness of the economy leads him to focus on how economic life is instituted within a particular society. There are different economic systems depending on the type of society and the culture within which they occur.

What is it then that gives some kind of common basis to different economic systems such that we can define each as an economic system? For modern economics in the Robbins tradition, it is the idea that in all systems people and institutions are using scarce resources as efficiently as possible to achieve certain ends. They are "economizing", that is. Polanyi calls this the formal definition of economic, and he has two problems with it.

First, it is ethnocentric in that it treats all economic systems as though they are peopled by Western capitalistic entrepreneurs. Even before Polanyi there were economic anthropologists, such as Malinowski, who were questioning the validity of extending the use of Western economic theory to primitive and ancient societies for
similar reasons.

Second, as a definition of economic it is far too broad even for analysing Western societies. In fact the formal definition of economics is really not a definition of economics at all. It is really only a definition of rational action which has been applied to economics. Polanyi writes:

The formal meaning of economic derives from the logical character of the means-end relationship, as apparent in such words as 'economical' or 'economizing' .... If we call the rules governing choice of means the logic of rational action, then we may denote this variant of logic, with an improvised term, as formal economics.7

As a definition of rational action the formal definition of economic can be applied to a whole gamut of situations ranging from chess to philosophy that have no conceivable link or connection with the economy.

Polanyi therefore looks to a more empirical way of defining economics, one that derives, as he puts it, from fact rather than from logic, and therefore more genuinely economic in the sense that we normally talk about it. He calls this the substantive meaning of economic:

The substantive meaning of economic derives from man's dependence for his living upon nature and his fellows. It refers to the interchange with his natural and social environment, in so far as this results in supplying him with the means of material want satisfaction.10

Polanyi contends that only such a substantive definition as his own can provide a meaning for economic that really gets
at the common basis for all economic systems, without at the same time prejudging the different forms they might take.

Polanyi's substantive definition emphasises the empirical nature of economic life by seeing it as the process that supplies our material needs. But we should beware of misinterpreting what he means by the materiality of economic life. He is not saying, for example, that the economy only satisfies people's material wants (as distinct from what might be called their non-material wants), which is the view against which Robbins takes issue in his famous essay on economic science. Polanyi writes that "[w]ant satisfaction is "material", if it involves the use of material means to satisfy ends."

The economic process supplies him [man] with the means of satisfying his material wants. This phrase should not be taken to signify that the wants to be satisfied are exclusively bodily needs, such as food and shelter, however essential these be for his survival, for such a restriction would absurdly restrict the realm of the economy. The means, not the wants, are material. Whether the useful objects are required to avert starvation or are needed for educational, military, or religious purposes is irrelevant. So long as the wants depend for their fulfilment on material objects, the reference is economic.[My emphasis]13

Talking about the economy as a process "suggests analysis in terms of motion", Polanyi continues.

The movements refer either to changes in location, or in appropriation, or both. In other words, the material elements may alter their position either by changing place or by changing "hands"; again, these otherwise very different shifts of position may go together or not.14
By "locational" movements Polanyi includes production (in which goods shift from a lower to a higher order in terms of their usefulness to the consumer), as well as the transportation of goods. "Appropriative" movements refer to the circulation and distribution of goods.

Between them, these two kinds of movements may be said to exhaust the possibilities comprised in the economic process as a natural and social phenomenon.15

...Social activities, insofar as they form part of the process, may be called economic; institutions are so called to the extent to which they contain a concentration of such activities; any components of the process may be regarded as economic elements.16

The following definition would seem to follow from this discussion: an activity is economic to the extent that it contributes to the production, supply or distribution of material resources. "Economic", Polanyi writes, denotes nothing else than "bearing reference to the process of satisfying material wants." Human labour that produces material goods is thus an obvious economic activity.

In addition we might say: an activity, or want-satisfaction, is economically relevant to the extent that it uses material goods or resources as part of it. The work of an orchestra violinist, for example, is of economic interest not because of what she "produces", nor (as Robbins argues) because her wages can be analysed using supply and demand tools, but because in her work she uses a musical instrument, sits on a chair, and performs in a concert hall.

This, however, brings us to the problem of economic
services, which I shall take up in the next section.

2.4 Economic Services:
The question of whether services are part of the economy is a thorny one for economists. In practice, economists working in market societies tend to treat services as economic if they are a paid-for human activity. Contradictions arise, for example, when an activity is taken out of the family and put into the market (e.g. people paying for day-care, or eating out more). Gross National Product is seen to rise, but can we say unambiguously that economic welfare has improved?

The problems multiply in cross-cultural studies. In non-market societies there is no simple way for the anthropologist to identify or define which services are economic and which are not. Whereas the judge dispensing justice in our own culture tends to be paid, the tribal chief doing so in a village society would probably not be - at least not directly. Should this be seen as an economic service then?

Polanyi seems to suggest that a service is economic to the extent that it contributes to the "movement" (in the broad sense in which he uses the term) of material resources. The focus is thus on what is happening to material goods.

By contrast, in orthodox economics services tend to be
treated metaphorically as though they are "things" that people give or exchange as they do material goods. In the same way that someone might exchange four apples for three pears, they might exchange a box of apples for a haircut.

But for Polanyi an activity or service is said to be economic not because the actual activity itself is economic, but because it contributes to the economic process of the production and distribution of material resources. The manufacture of artifacts is economic for this reason, and so too is a feast or ceremony at which goods change hands. But a performance by the orchestra violinist mentioned above is not, since her playing neither helps circulate goods nor does it itself produce anything. It does, nevertheless, have some economic relevance (as we saw above), in that she uses material means in her playing.

Consequently not all kinds of service or human labour are economic for Polanyi: only those which function as part of the economic process of the movement of material resources are. Conversely, many activities which would not generally be regarded as economic (such as feasts or ceremonies) become so for him, because they contribute to the movement of material goods.

2.5 The Three Forms of Integration:
Polanyi distinguishes three basic "forms of integration" for organising the economic process, which he calls reciprocity, redistribution, and (market) exchange. By a form of
integration he means a skeletal form describing the basic structure of the economic process. This structure organises economic life in a coherent way, such that both individual acts receive support from society and so make sense in terms of their intended purpose, while conversely, by fitting together with other economic activity, each act contributes to the maintenance and welfare of the system as a whole.

Reciprocity is about "movements between correlative points of symmetrical groupings", such as reciprocal exchanges of gifts on specified occasions or at particular ceremonies. Redistribution denotes the movement of goods towards a centre and out of it again, such as the payment of taxes to a centre of authority which then redistributes the money or goods to necessary projects and dependent groups of people, or uses it to pay its agents. Market exchange refers to "vice-versa movements" taking place as between buyers and sellers under a market system.

Though market exchange might appear in an abstract sense to be very similar to reciprocity in that they both involve the reciprocal movement of goods, there are some obvious differences. First, in a market the two parties are free to contract or not an exchange of goods, whereas the necessity for a reciprocal movement of goods in a gift exchange (ie. reciprocity) is usually predetermined by social norms and parameters (such as giving presents at Christmas). Closely connected to this freedom is the possibility of haggling in a market setting to
arrive at a competitive rate of exchange that is mutually acceptable to both parties, whereas gifts are usually exchanged on an approximate scale of equivalence that reflects a social consensus that both parties understand about what is appropriate. Finally, the two-way movements of goods in a market are clearly and closely connected to each other, whereas the reciprocal movement of goods under a system of reciprocity may be separated in time, and may not even be between the same two people.

Polanyi emphasises that the presence of reciprocity, redistribution, and market exchange as forms of integration, depend on certain institutional structures being present. Reciprocity assumes the presence of symmetrically arranged groups; redistribution depends on there being some measure of "centricity" in the group, for example an allocative centre: whereas market exchange presupposes a system of price-making markets.

If it were not for these structural parameters then individual acts of reciprocity, redistribution, or barter, might take place, but they could not genuinely integrate the economy in the sense of producing an economic system. For example, particular acts of barter may occur in primitive societies which are organised largely around reciprocity and redistribution, but unless a system of price-making markets exist then these acts of barter will remain just that, sporadic acts of barter. They will not tend to create an exchange economy. Similarly in our own society acts of
reciprocity often occur within families and voluntary organisations, but they will never tend to lead to an economy based on reciprocity since the necessary structures sociologically just do not exist.

From this discussion it is evident that although one of Polanyi's forms of integration is usually predominant in a society at a particular time, two or three of them may be at work simultaneously. Thus Western capitalist societies are still largely market based, but there is a large redistributive sphere that is operated by the government. Redistribution also occurs within companies, while families are organised both redistributively and reciprocally.

Critics of Polanyi, such as the Marxist Maurice Godelier, have suggested that his three forms of integration are distributional categories. His theory is therefore said to be focused around the process of distribution, rather than around production processes. While Polanyi's ideas have relevance for how production activities are organised, and his definition of the economic process certainly includes the production of material means, I think Godelier is right to the extent that Polanyi's three categories focus on the distributional aspects of whatever they are used to classify. They describe how things change hands between people, either before or after production, and so would be classified by Polanyi as "appropriative" rather than "locational" movements.

Thus for instance if a group of people organise to hunt
or produce something together, and then afterwards distribute the proceeds among themselves, redistribution seems to refer to the distributional aspect of their working together, rather than describing the actual productive activity itself. The distributional element is not unrelated to how production is organised, but the two are also essentially different: thus redistribution occurs in many contexts other than people working together in a productive enterprise.

2.6 Conclusion:

I have tried to show in the present chapter that the notion of social embeddedness is central to Karl Polanyi's thought, and to his approach to the analysis of economic life. It leads him to inquire how economic processes are instituted within societies, and enables him to recognise different styles of economic behaviour as characterising different societies.

One key reason that Polanyi is enabled to adopt such a pluralist approach is that he characterises economics in terms of its what might be called its external, objective and empirical qualities, rather than defining it as a specific kind of human behaviour. The need to produce and distribute material goods is taken to be the constant factor, and so the way people organise their social relationships to achieve this is, in such a framework, left
open to flexibility.

The other, more negative, consequence of his particular way of defining economics is that it can be said to betray a physicalist bias. The economy is characterised in terms of how material goods move, and this probably accounts for the distributional bias that some have seen in his categories of integration. It certainly accounts for the fact that many kinds of service labour are not seen as being economic, and thus are not a part of the process of economic integration.

I take some of these points up again in chapter four, where I also take another look at the notion of social embeddedness. For the moment, though, in the next chapter, I focus on the implications of what Polanyi is saying for a critique of economic rationality.

Endnotes:

1 Malinowski, Argonauts of the Western Pacific.
2 Polanyi, The Great Transformation p.43.
3 This is chapter thirteen in Polanyi et al (eds.) Trade and Market.
4 Trigger, The Huron Farmers of the North pp.106-112.
7 Polanyi, "The Economy as Instituted Process" [in

8 Polanyi, p.246.

9 Polanyi, p.243.

10 Polanyi, p.243.


12 Polanyi, "The Economy as Instituted Process" p.248.

13 Polanyi, The Livelihood of Man p.20. Note that Polanyi uses the word "means" (in the phrase "material means") in a different way than it is used in the rest of the thesis, where it is practically synonymous with factors of production. Polanyi talks about material means in the sense of inputs to various kinds of consumption activities, rather than as inputs to the process of production.

14 Polanyi, "The Economy as Instituted Process" p.248.

15 Polanyi, p.248.

16 Polanyi, p.249.

17 Polanyi, The Livelihood of Man p.20.


19 Leclair & Schneider (eds.), Economic Anthropology


21 Polanyi, p.250.

22 Polanyi, p.250.

23 Polanyi, p.251.

Chapter Three: POLANYI'S CRITIQUE OF ECONOMIC RATIONALITY

3.1 Introduction

Now that I have laid out the main features of Polanyi's thought I shall move on in this chapter to consider its implications for a critique of the rationality assumption.

Central to Polanyi's work is the idea of social embeddedness, and this leads him to adopt a methodology that starts with the institutedness of economic life. Such an approach, I argue in section 3.2, is diametrically at odds with the individualist orientation of mainstream economics. An illustration of this difference in methodologies is provided in section 3.3. An institutional approach to economic life, such as Polanyi adopts, challenges the usefulness of the so-called scarcity postulate that supposedly demonstrates the universality of economizing for rational individuals.

Even if rational action is not universal economic behaviour, it does nevertheless characterise certain societies. These, argues Polanyi (see section 3.4), are capitalistic societies economically organised by a system of price-making markets, and characterised by the disembeddedness of economic life.

I conclude (section 3.5) by stressing the connection Polanyi consistently makes between rationality and
individualism. The rationality assumption used in mainstream economics is predicated on individualist assumptions: while the actual presence in practice of rational economizing is in societies where the individual has been given a lot of freedom and autonomy (economically at least) with respect to nature and other people.

3.2 The Institutional Character of Economic Life: A Critique of the Individualist Orientation of Mainstream Economics

Since for Polanyi the economy is a process of interaction between people and their natural environment which results in supplying them with the means of material want satisfaction, the important question for him becomes that of the shape that this process takes. As this process of interaction is inherently social, the question is about how it is instituted within a particular society.

Methodologically, then, Polanyi starts with society before moving to individuals in seeking to place them within the societally instituted parameters that shape the way in which their economic life is structured. His approach is therefore diametrically at odds with the methodology of orthodox economics since Adam Smith, which looks first at the situation and behaviour of the isolated individual, before proceeding to work out how these individuals also interact socioeconomically among themselves.

Let us look, for example, at Smith for whom both
historically and analytically the workings of a market society must be understood by referring back to the actions of self-interested individuals. He talks about a "rude state of society", prior to the division of labour, in which exchanges are seldom made and in which "every man provides everything for himself" and looks completely after his own needs. Gradually, however, people are led out of a sense of their own self-interest to begin specialising in certain occupations that they are particularly skilled at, and to exchange what they produce above what they do not themselves need for goods that they are less talented at making.

**Historically,** then, a developed modern market society, characterised by a complex division of labour and large numbers of exchange transactions, is created not through anyone's intentional design, but purely through the ignorant yet self-interested actions of free individuals. **Analytically,** too, in the present the workings of such a complex and interdependent mechanism are seen by Smith as rooted in the actions and motivations of its constituent individuals who are moved to do things that benefit others, not out of a concern for their welfare, but only out of a desire to further their own advantage and gain.

Moving ahead one hundred and fifty years, Lionel Robbins talks about the phenomena of an exchange economy only being able to be made sense of analytically by

...going behind such relationships and invoking the operation of those laws of choice which are best seen when contemplating the behaviour of the
isolated individual. These laws of choice are, of course, that individuals with insatiable wants are rationally allocating limited means to satisfy their ends as fully as possible. This remains true when people enter into exchange relationships with each other, just as much as it holds for the isolated individual. For the goods and services which people put at each others' disposal are, like their natural endowments, similarly limited. And they involve too a choice between alternative uses, since something can be bought from another person only by relinquishing something else that is already owned.

There is certainly a strong prima facie case then that the predominant approach adopted to economic analysis by orthodox economics (represented here by two key figures in that tradition, Smith and Robbins) is individualistic. However, let us make a short detour at this point and explore in a little more detail exactly what individualism involves.

Steven Lukes, in his book on individualism of the same name, surveys the wide variety of meanings that the phenomenon has taken on in Western history, and investigates the basic ideas and different components of individualism. What I mean by the individualism of conventional economics, Lukes terms "methodological individualism". Methodological individualism does not deny that there exists in the world more than simply individuals (ie. social wholes, social relationships), but it firmly believes that any valid
explanation of what is happening in the social world must always be reduced to the actions and behaviour of its constituent individuals. Lukes writes:

Methodological individualism is a doctrine about explanation which asserts that all attempts to explain social (or individual) phenomena are to be rejected (or, according to a current, more sophisticated version, rejected as 'rock-bottom' explanations) unless they are couched wholly in terms of facts about individuals.

Methodological individualism gives primacy to the individual in explanation and, according to Lukes, usually "excludes explanations which appeal to social forces, structural features of society, institutional factors, and so on."

Lukes shows that the style of explanation given by methodological individualists depends on how exactly they conceive of the individual (in particular, how much of 'society' is build into the supposedly explanatory 'individuals'). If the explanatory individuals are assumed to have a social context, and their actions therefore have some kind of social reference, then explanations in terms of individual people may be quite compatible with analyses that bring in social forces and structural features of society. Analyses that sidetrack these sorts of explanation thus do not assume only a certain kind of methodology, but also tend to hold implicitly an abstract asocial conception of the individual person.

Consequently what emerges from this discussion is that individualism in the sense that I am applying it to traditional economic theory is not simply a doctrine about
methodology, it is equally importantly a conviction about anthropology. It assumes that the individual - wherever he or she comes in - is asocial. According to Louis Dumont, the Enlightenment achieved this by focusing on the individual's relationship to nature. In fact Dumont argues that historically the idea of "the Individual" was created at the time of the Enlightenment, and was only made possible when a person's identity was no longer seen in terms of their place in society, but began to be understood in terms of their relationship to nature. The individual person was taken out of his social context (in which up to that time he had always been understood) and placed in a privileged relationship with nature. The modern conception of the Individual is thus a product of the primacy given to the "man-nature" relationship in the modern world at the expense of people's relationships with each other (Dumont's "man-man" relationship). The latter are now only understood in the light of, and as derivative from, the former.

If we now finish this detour and return to our main line of thought, let us look again at the picture Smith and Robbins give us of the individual actors in their analyses. For Smith the predominant characteristic of the individual is that of being self-interested. It is clear from this context and others that by self-interest Smith means material self-interest, that is the desire for money and material goods. And Robbins sees economic agents as individuals with fixed and insatiable wants standing over
against a limited and miserly nature. Consequently, for both, their notion of the individual is of one who has a desire for more and more "goods" (though Robbins has a broader notion than Smith of what is a good), and whose destiny (for economic purposes at least) is consequently to be found through control and exploitation of the natural world to produce these goods.

Their picture of the individual is of one who uses and dominates nature, and so is closely tied in to the man-nature relationship. It is thus in a basic sense asocial. Therefore, as well as being methodological individualists, both Smith and Robbins are individualistic in the second (anthropological) sense that I identified a few paragraphs back. (And from now on whenever I talk about individualism I shall intend it to have this double meaning).

Polanyi's approach is, as I have already noted, methodologically at odds with this whole individualist tradition of modern economics in which society is understood by building up from the actions of autonomous individuals ("autonomous" in the sense that these individuals are somehow conceived of as being prior to society, and without thus any intrinsic human relationships.)

Thus Polanyi is quick to emphasise that his three categories of reciprocity, redistribution, and exchange do not merely represent aggregates of the specific behaviours in question by large numbers of individuals. Rather they depend on certain institutional arrangements being present
as prior conditions for the individual behaviour noticed, if the type of behaviour is to genuinely integrate the economy. Reciprocity assumes symmetrical groupings; redistribution the presence of a central point from out of which goods are allocated; while exchange assumes a system of price-making markets being present:

[I]nstitutional arrangements, such as symmetrical organizations, central points and market systems...seem to represent a mere aggregate of the same personal patterns the eventual effects of which they are supposed to condition. The significant fact is that mere aggregates of the personal behaviours in question do not by themselves produce such structures. Reciprocity behaviour between individuals integrates the economy only if symmetrically organized structures, such as a symmetrical system of kinship groups, are given. But a kinship system never arises as the result of mere reciprocating behaviour on the personal level.15

This is also why Scott Cook's critique, that Polanyi plays up and emphasises innate altruistic tendencies, is mistaken. To quote from David Kaplan's excellent article on the formalist-substantivist controversy:

Polanyi is not concerned with "innate" economic propensities, or for that matter with the behaviour of individuals qua individuals at all. What does concern him is institutionalized behaviour. He states explicitly that man, when considered in the aggregate, is much the same at all times and places, i.e., primitive peoples are not any more or less "innately" altruistic or self-seeking than persons in market-organized economies. However, patterns of economic motivation differ from society to society, and these reflect not the social interaction of rational, autonomous individuals but different institutional orders.17
Thus Polanyi is not primarily interested in individual motivations and propensities, but more in the societal structures from which they originate. It is only these latter that vest the economic process with integration and an all-round unity. Polanyi writes:

In the absence of any indication of societal conditions from which the motives of the individuals spring, there would be little, if anything, to sustain the interdependence of the movements and their recurrence on which the unity and the stability of the process depends.18

3.3 A Critique of the Scarcity Postulate: Rational Economizing as Historically Specific:

Turning now in particular to the assumption of rational economizing, we can see that Polanyi takes it to be a historically specific kind of economic behaviour rather than a near universal feature of all economic action (let alone a definition of what being economic means). Its presence in a particular society depends institutionally on there being a system of price-making markets.

Orthodox theory, by contrast, sees economic rationality as a universal characteristic of all economic behaviour. Its rationale for this, if we follow Robbins, is that the human economic situation is one of scarcity. Rational economizing is thus a necessary response by all rational individuals to the situation in which they find themselves.

Polanyi criticises the scarcity postulate by arguing that it makes two assumptions. It assumes, first, that means
are insufficient and, second, should they be insufficient, 20 that the insufficiency induces choice. "Insufficiency" simply refers to whether or not there is enough of a particular resource to go round, that is to meet people's needs for it at a certain time. This depends on how abundant the resource is, as well as on the level of wants that people have for a certain thing given the society which they live in. Thus for instance air and water are not generally commodities that we are short of, though water may be insufficient for people in certain areas, and clean air may be in short supply for modern city dwellers.

Moving to the second assumption, the presence of insufficiency has no behavioural implications by itself. Insufficiency only leads to economizing if choice can arise out of that insufficiency:

For the insufficiency to induce choice there must be given more than one use to the means, as well as graded ends, i.e., at least two ends ordered in sequence of preference. Both conditions are factual.21

A resource may only be able to be used in one fixed way because of the physical characteristics of a good (such as the Manna in Exodus which rotted after one day); because of the state of technology; or because society ordains that things must be done a certain way, or places constraints on the way that resources can be used. The cow, for instance, is a sacred animal in India and, even though the people are poor, it cannot be exploited like other animals. Or, again, where there is a strict division of labour, whether on the
basis of social position or sex, human labour cannot be freely allocated as it is in a modern capitalistic society.

The important point in all this is that whether scarcity (i.e. as defined by Polanyi, insufficiency leading to choice) exists in a certain situation is an empirical question rather than an a priori given:

[In some civilizations scarcity situations seem to be almost exceptional, in others they appear to be painfully general.]

What is important in understanding economic life is not how people would behave if they lived in some kind of Robinson Crusoe "state of nature", but rather how they do actually behave given the society that they live in, and the institutional economic parameters which it sets for them. Thus for scarcity to be a relevant economic variable, people actually have to experience their economic situation as one of scarcity. This happens in a capitalistic market society when scarcity becomes the cultural definition of people's economic situations, but also happens, argues Terence Hopkins in another essay in the Trade and Market volume, when scarcity is experienced as a critical shortage (such as a famine or flood) which directly affects the behaviour of people by causing a partial or complete breakdown of normal modes of living.

3.4 Market Economy and Market Society: Rationality as
Societal Disembeddedness

In The Great Transformation Polanyi writes that the great change with a market society is that for the first time markets were not just an adjunct to economic life, forming only a part of the socioeconomic organisation of society, but markets actually began to control completely the economic life of the society. The form of markets consequently changed so that instead of being closely regulated and centrally controlled by the local, city or national government, markets became self-regulating: that is, they were now only regulated by the impersonal forces of supply and demand mediated through the price mechanism. This was a necessary consequence of making markets universal, since markets now had to fulfil on their own the function of integrating the economy, a function which had previously been fulfilled by some combination of social mechanisms.

Polanyi talks about this process of making markets self-regulating and giving impersonal price signals the function of organising economic life, as the disembedding or separating of the economy from society. He emphasises that the separation of these two spheres is a peculiar departure in human history and not a universal feature of societies. "Normally", Polanyi writes, "the economic order is merely a function of the social, in which it is contained" with no separate specifically economic institutions existing.

In one sense a market economy divorces the economy from
society, but there is another sense Polanyi talks about in which a market economy turns society into an extension of the market. "A market economy", he writes, "can exist only in a market society". A market-organised economy necessitates that all economic elements are organised along market lines. Otherwise market forces have only partial authority and will be thwarted in their function of integrating the economy. Therefore a market economy necessarily calls forth what Polanyi terms the "commodity fiction", in which basic elements of society become part of the market mould by being reduced to commodities.

Polanyi defines commodities as "objects produced for sale on the market". Land, labour and money are obviously not things that are produced, but the market economy has to maintain the fiction that they are so that they can become an extension of the markets mechanism. However human beings, land and the liquidity necessary for the operation of a complex market economy cannot for long be treated as though they are merely commodities without disastrous consequences for society. It is with land, labour and money that the link between economy and society is most obvious, and the tension of attempting to divorce the former from the latter and make the economy self-regulating most apparent. For land, labour and money, as well as having important economic functions, are part of the most basic fabric of society. Polanyi writes:

[T]he alleged commodity "labour power"
cannot be shoved about, used indiscriminately, or even left unused, without affecting also the human individual who happens to be the bearer of this peculiar commodity. In disposing of a man's labour power the system would, incidentally, dispose of the physical, psychological, and moral entity "man" attached to that tag. Robbed of the protective covering of cultural institutions, human beings would perish from the effects of social exposure; they would die as the victims of acute social dislocation through vice, perversion, crime, and starvation. Nature would be reduced to its elements, neighbourhoods and landscapes defiled, rivers polluted, military safety jeopardized, the power to produce food and raw materials destroyed. Finally, the market administration of purchasing power would periodically liquidate business enterprise, for shortages and surfeits of money would prove as disastrous to business as floods and droughts in primitive society.28

Let us now look more closely at what Polanyi means by a commodity. He defines it as an object produced for sale on the market, recalling Marx's idea that a commodity is something that is produced for its exchange-value on the market, rather than for its direct and immediate use-value. Its value, that is, lies not in itself but solely in that to which it is a means.

To be a commodity, therefore, is to be an economic means in the sense of something divorced from any intrinsic human ends and values, and from all social norms. Commodities are connected to human values only indirectly through being means to certain consumption goals that people want; the relevant values are thus only external values and are mediated through the impersonal price mechanism. Thus when land and labour become commodities they become divorced from
the kinds of values relevant to land and labour as such. These latter values we might call "internal values", and would include such things as care for the environment, respect for human life and health, and the paying of a fair living wage to workers.

The market system both expresses this externality of value and also reinforces it. It expresses it by attaching an external standard of value to everything via its monetary price. Things are valued in terms of how much of other goods they can be exchanged for. It reinforces it because the competition of the market keeps everyone in line and ensures that those who do not treat land and labour purely as economic means will be forced out of business, or at least will make very little profit.

Relating this discussion back to economic rationality, it can be seen that when land and labour become commodities, and for the first time lie outside of social pressures and control, they become economic means, that is things to be bought and sold and used purely rationally - ie. solely according to quantitative monetary efficiency criteria.

In fact when a market system detaches economic life from its embeddedness in a wider societal and institutional context, all the elements of the economic process and all goods are reduced to commodities that market participants can use rationally for their own purposes. A commodity is both something that is divorced from any societal or moral context, as well as something that can be used rationally.
Rationality is thus the anthropological expression of societal disembeddedness, and of the (market) economic system that is the creator of this fragmentation.

Looking back at the discussion in the previous section, we can now see that another way of talking about what is at the heart of Polanyi's criticism of the scarcity postulate, is that it assumes that all goods are commodities, in the sense of being freely usable by self-seeking individuals. [The other half of his criticism, of course, is that it also assumes that means are always insufficient.]

And because, in a market economy, means do become commodities, the formal and substantive meanings of economic largely fit together under such a system. The elements of the economic process, being divorced from any kind of restrictive social norms, are able to be rationally used by individual agents in pursuit of their ends. And because the driving force of the system is that people are geared to maximising their monetary gains, the means available to each person do become de facto insufficient. Polanyi writes:

> Since acts of exchange, as practiced under such a system, involve the participants in choices induced by an insufficiency of means, the system could be reduced to a pattern that lent itself to the application of methods based on the formal meaning of "economic".30

In conclusion, we can say that Polanyi shows us how economic rationality characterises a market economy organised around the exchange of commodities. It is the anthropological expression of such an economic system,
rather than being (as it is often portrayed) a near universal anthropological axiom of economic behaviour. In addition, because rational behaviour assumes that individuals have unlimited economic freedom to do as they please, rationality is the anthropological correlate of individualism, and of the freedom of individuals from all societal norms and constraints.

3.5 A Summary of Polanyi's Critique: Rationality, Individuals, and Commodities:

Polanyi's discussion of economic rationality has been seen to lead to basic criticisms of rationality in both senses in which the concept is used that I identified in chapter one. Polanyi denies, first of all, that rationality is a good definition of economics (viz. the science of rational action), at least if a useful, empirically relevant definition for crosscultural studies is desired. And, second, he argues that although economic rationality does substantially characterise the market economic system that we Westerners find ourselves living in (which helps us understand why it has been possible to reduce such an economy theoretically to the science of rational action), it does not universally characterise socioeconomic systems. For example, reciprocity and redistribution are ways of organising economic processes other than by a system of price-making markets populated by rational individuals.
We should notice in particular how Polanyi's critique ties rationality to the individual and individualism. Thus those who argue for making rationality the definition of economic action usually do so by assuming a picture of a pre-social individual in a natural state of scarcity (see sections 3.3/3.4 above). While the actual historical presence of economic relationships dominated by rational exchangers is a reflection of a disembedded individualistic society (see section 3.4 above).

We should note too the connection between rationality and the idea that goods are commodities. Economic theory argues for the universality of rational behaviour by assuming that everything in nature, all human products, and all goods that the individual comes into contact with (including human labour) are commodities. Polanyi challenges this premise, and argues that a market economy turns everything, including land, labour and money, into commodities by divorcing them from their human context.

It is interesting how Polanyi turns around orthodox economics' anthropological and social assumptions, the ones which are supposed to demonstrate the ubiquity of markets and rational behaviour. Polanyi shows that they are neither universally true, nor do they lay bare the most basic facts about human action in society. They are not good assumptions, that is. They are nevertheless useful in showing what conditions have to be satisfied for a market society to exist, and what are consequently the
characteristics of such a society.

In this way Polanyi has reversed the order of reasoning from assumptions to conclusions. Individualistic assumptions about human nature do not prove the necessity of market-style behaviour. But, given that a market society exists, they show us what characteristics such a society has.

Endnotes:

2 Smith p.15.
3 Smith p.13.
6 Robbins pp.12-16.
7 Lukes, Individualism.
8 See Lukes, pp.110-122.
9 Lukes, p.110.
10 Lukes, p.122.
11 Lukes, p.118-122.
12 Dumont, From Mandeville to Marx chapter one.
16 Cook, "The Obsolete 'Anti-Market' Mentality: A Critique
of the Substantive Approach to Economic Anthropology" in Leclair & Schneider (eds.) Economic Anthropology p.213.


18 Polanyi, "The Economy as Instituted Process" p.249.


20 Polanyi, "The Economy as Instituted Process" p.246.

21 Polanyi p.246.

22 Polanyi p.247.


25 Polanyi p.71.

26 Polanyi p.71.

27 Polanyi p.72.

28 Polanyi p.73.

29 Marx, A Contribution to the Critique of Political Economy chapter one.

30 Polanyi, "The Economy as Instituted Process" p.244.
Chapter Four: THE SOCIAL EMBEDDEDNESS OF ECONOMIC LIFE

4.1 Introduction:
At the end of the previous chapter I concluded that Polanyi's critique of economic rationality from the perspective of his own paradigm which is centred around the idea of social embeddedness, points to the important connection of the rationality assumption with the two other concepts of the individual and the commodity. In this chapter I attempt to dig deeper and understand the anthropological roots underlying these three key concepts.

Thus in the first three sections the social embeddedness of economic life is investigated by looking at the core concepts (the individual, the commodity, means-end rationality, scarcity) that define its opposite, the individualistic paradigm of neoclassical economic theory. I suggest that the common basis of these core concepts is to be found in the Cartesian dualist model of the individual subject standing over against an objectified external world.

I therefore conclude that if economic life is to be seen as socially embedded, economics needs to define itself intersubjectively. This is precisely what Polanyi attempts to do, even though (see section 4.5) his particular notion
of economic life still manifests a lingering sense in which economics is seen as investigating the realm of things, rather than the interaction of people.

4.2 Rationality, Individuals, and Commodities (continued): The Cartesian Origins of Orthodox Economics:

I concluded my discussion of Polanyi’s critique of economic rationality in the previous chapter by arguing that rationality, the individual, and the commodity form a trio of interlocking concepts in one’s understanding of the market economy. Individuals are persons with certain individual goals and desires who can freely and rationally use (without regard to any social norms or values) anything that comes into their possession as means to these ends. Rationality describes how free individual agents use the things in their possession as means to their ends. And commodities describe the status of things that stand outside any social value-system and so are available to be rationally used as means by self-seeking individuals.

Rationality, the individual, and the commodity are also connected to a fourth concept, exchange, which describes how people economically relate to each other in a market society. The character and style of such exchange is predetermined by the three other concepts, for market exchange is a rational exchange of commodities between individuals.
This (theoretical) primacy of rationality before exchange makes perfect sense in terms of Dumont's analysis, for he argues that the concept of the Individual was created (at the time of the Enlightenment) when social thinkers began to elevate the man-nature relationship before that of man to man. And so too in economic theory it is because individuals are rationally controlling nature and using commodities for their own ends that they also enter into exchange relationships with each other to further advance their own interests.

Another way of saying what Dumont is getting at is that the three concepts of rationality, individualism and the commodity assume the primacy of subject-object relationships over subject-subject relationships. The distinguishing feature of individualism, I argued in the previous chapter, is that not that it denies the reality of social relationships, but that it understands them in terms of how the individual relates to objective reality ("nature" in Dumont's categories). The relationship of subjects to objects becomes the paradigm for understanding how people relate to each other in society.

Consequently in economics the basic problem is seen not as some socioeconomic norm (for example, how people can most effectively cooperative and work together in a world in which each has different gifts and different talents, and in which there is a division of labour and specialisation of tasks), but rather how, given the objective constraint of
scarcity, people can most effectively economize to meet their individual needs. Richard McKenzie writes:

Neoclassical economics is, in the main, wedded to "Robbinsian" maximising behaviour, which posits a fundamental distinction and conflict between the internal subjective world of the individual and the external objective world in which the individual pursues personal goals. Neoclassical economics presumes that the objective external world exists independently of the subjective.... The "economic problem" emerges when the individual pursues subjectively established interests by objective external means. "Economizing behaviour" is, almost by definition, the individual's natural response to the personal "problem" that emerges.2

There is a limit to how far individuals can satisfy their wants simply by economizing their own physical resources and labour. Consequently individuals enter into relationships (exchange relationships) with each other so that they can continue to economize with other people's products and labour. It is hoped that a mutually satisfactory outcome emerges, and much of the work of economists is investigating under what conditions this will actually occur.

McKenzie goes on later to say that neoclassical theorists

.... view the individual actor as standing astride the subjective and objective realms of the world. A presumed function of science - for descriptive completeness, if for no other reason - is to relate in some meaningful way the two realms, to tie the two realms together by some method because individual actions - outcomes - are a consequence of the interaction of the two realms.3

There is a sense too in which, in addition to "standing
astride" the two realms, the individual actor is also divided between the two realms. For the individual is at the same time both the bearer of subjective goals as well as the one who uses his objective qualities to do work. The economic individual stands astride the two realms, as McKenzie puts it, but not through work and labour: these belong firmly to the objective external world. It is only through rationality that he bridges the two realms, whereas the rest of his person is divided in terms of the subjective and objective, the internal and external, ends and means, goals and labour. This accounts for the curious anomaly that in traditional economics the same people who in their buying activities are assumed to be "sovereign" consumers, are in their paid work just another rationalizable "factor of production".

What we have at root here in this subject-object paradigm is the Cartesian picture of the world in which the individual subject is seen as an individual mind who stands over against, and attempts to control, the external objectifiable alien world of matter. This Cartesian worldview has been described by Morris Berman (among others) as the worldview that dominates the modern period, beginning in the seventeenth century. Berman describes how modern man views nature in distinction from the medieval world picture:

Things do not possess purpose, which is an anthropocentric notion, but only behaviour, which can (and must) be described in an atomistic, mechanical, and quantitative way. As a result, our relationship to nature is fundamentally altered. Unlike medieval man,
whose relationship with nature was seen as being reciprocal, modern man (existential man) sees himself as having the ability to control and dominate nature, to use it for his own purposes.6

A notable feature of economics that seems to stem from this Cartesian paradigm is its concentration on quantitative characteristics. (This is evident, for example, in the definition of the economic problem as that of scarcity: economics is thus about limited resources being used as efficiently as possible so as to produce the largest total of output and the highest satisfaction of ends.) As Berman shows, it is through measurement and quantification that the Cartesian worldview conceives the subject's ability to control nature through rationality. The relation of subject to object is a relation in which the subject perceives and uses the object by focusing on its quantifiable characteristics. And in economics the way individual agents rationally use economic means is by seeing what combination of factors produces the largest total of output for the least expenditure of means.

These means, it should be remembered, also include human labour, for as David Dickson argues there is a clear parallel between modern ways of dominating nature through science, and the capitalist control of the labour process through technology. Both are predicated on control through quantification. This should come as no surprise since I have stressed a few times the similar way in which capitalism (and its closest theoretical counterpart,
neoclassical economics) treat human labour and nature. Labour is viewed as a commodity, an economic means which is rationalizable like any other.

My argument then is that the way socioeconomic relationships are understood in orthodox economics is in terms of a Cartesian subject-object (Dumont's man-nature) formulation: the individual, rationality, and the commodity become the paradigm for modelling economic relationships. This is connected in turn to the focus on quantitative characteristics in economics, a subject that I shall return to in section 4.4. In the next section, however, I shall go on to investigate how this subject-object paradigm has affected the means-end relationship in economics.

4.3 The Means-End Relationship and the Rationality Assumption:

The means-end relationship is obviously closely connected to economic rationality, and up to this point I have tended to use the two concepts almost interchangeably, without making any distinction between them. However the rationality assumption is a composite of two elements, the means-end relationship and an efficiency criterion. Thus Robbins assumes in his idea of economics that not just are means being related to ends, but that the two are being related in a way that enables the ends to be satisfied as fully as
If we now isolate the means-end component of the rationality assumption, we notice that the word "means" is being used by economists in an unusual way when they talk about "scarce means" or "the means of production". In general the word "means" is a way of referring to an activity that is related to a goal or end, whereas the economist uses it to refer to the things that are being used in that activity. These things (the means) are then related to the specific ends that people seek to achieve through the task of being rationally economic. We might say that something is a means for the economist, (even though there are no specific ends to which as yet it is being related), rather than something becomes a means.

The task of cooking, for example, might be referred to as a means of satisfying one's nutritional needs, whereas the economist would talk about the inputs of food, energy, human labour, and the capital equipment of knives, pans and a stove (which are being combined to produce the output of a meal) as the means. In the first sense, a means is a way of referring to a human activity, a way of satisfying one's own and other people's needs (and thus a subject-subject relationship), whereas in the latter the means are the objectified inputs which are being rationally related to humans ends (a subject-object relationship).

My contention is that the means-end relationship describes just that, and only that - the simple fact that
humans relate what they do to ends or goals. We need not assume that this is being done in an efficient way. Nor need we assume the specific way in which the means-end relationship is characterised/delineated in economics, in terms (once again) of the individual and the commodity. For it is individuals (with their ends) who use commodities (including human labour) as means to achieve them. Means therefore refer to commodities, whereas the ends refer to the ends of individual subjects, and so the relationship of means to ends becomes understood in a subject-object fashion, as shown in the previous paragraph.

This formulation of the means-end relationship as equivalent to the relation of objects to subjects, and of commodities to individuals, also accounts for the strict separation of ends and means in economic theory. Charles Wilber and Roland Hoksbergen, in a recent article on the role of ethical values in economic theory, talk about the assumption that "means and ends should be bifurcated into two mutually exclusive categories" as one of the basic value judgments that make the neoclassical worldview operational. By the bifurcation of means and ends they do not mean that means and ends are not always logically distinguishable categories. Rather, they are talking about the assumption made by economists that means and ends refer to things and activities that we can in practice clearly distinguish.

According to the economist something is either a means
or an end: it cannot be a bit of both. Human activities are either leisure/consumption activities (ends), or work (means). We cannot say that, for example, work is at the same time both a means to the end of producing some good or service, and also has some desirable and enjoyable qualities in its own right. If the economic theorist took this seriously then labour would no longer be a commodity. For the separation of means and ends referred to by Wilber and Hoksbergen is none other than the idea that there are things called commodities, themselves assumed to be separate from human subjectivity and values, but that humans use in order to meet their wants. Commodities have instrumental rather than intrinsic value.

Consequently it is not the means-end relationship which is at risk in Polanyi's critique of economic rationality, but the particular subject-object, individualistic way in which the means-end relationship has been formulated in economics. The means-end relationship itself I see as a universal dimension of human experience, and so compatible with all three of Polanyi's forms of integration. Take, for example, a hunting or fishing expedition organised by the tribespeople of a village, who cooperate together and then redistribute the food among themselves. It can be said that the expedition is a means to the end of gathering food to feed themselves, without assuming (with Adam Smith) that the hunt is undertaken by self-interested individuals who work on their own and then trade and barter with each other,
nor in any way implying that the hunt is organised as rationally efficient as it would be in a Western capitalist society. The means-end relationship is compatible with redistributive activity, and does not by itself imply the existence of rational individuals and market exchange.

Once the means-end relationship is disentangled from a subject/object, internal/external, individual/commodity formulation, it becomes easier to see how flexible a distinction it can be. Thus the same activity can from different standpoints be both a means and an end. A house, for example, tends to appear as consumption and consequently as an end to the people who build it, but from the perspective of the family who live in it it can equally validly be seen as a means to the end of a good family life. Or again, a tool or piece of machinery may appear as the goal or end of its own production process, but in another process it will be one of the means for making something else.

For life (here particularly economic life) is an interdependent ongoing process, and to freeze this process at a particular point (as orthodox economics does) and to say that such and such (whether material goods or utility) is the goal and the end of the economic process makes little sense. The economic process is circular and while it is true that we work in order to eat, it is also equally true from an overall perspective that people eat so that they can do another day's work.
A recognition of the circularity and interdependence of the economic process implies that ends do not signify absolute ends (i.e. the end of the process), but refer to ends in a more relative sense (i.e. from a particular standpoint, in a given situation, for these people, at this time, this is an end). Seen this way there then appears to be no a priori justification for divorcing certain parts of the economic process from human values. Judgments are made as much about what means to use (and how they should be used) as about what ends should be chosen. For example, we eat in order to nourish our bodies (and so food is a means), but we also prefer to eat nice looking, pleasant tasting food.

From this discussion of the means-end relationship the importance of the Cartesian model has once again been seen. In mainstream economics means and ends are not seen as simply different ways of talking about any activity, but are used instead to refer to different kinds of things. The separation of ends and means that Wilber and Hoksbergen draw attention to is the equivalent of the Cartesian split between mind and matter, subject and object. Ends therefore refer to the predicates of individual values, whereas the means refer to the things that can be used to achieve those values. The separation of ends and means implies the fragmentation of human life (and even human beings) into those things that have value, and those things which as such have no value and so are purely instruments for creating
4.4 The Social Character of Economic Life and the Scarcity Assumption:

In comparison to the individualistic framework of conventional economics, Polanyi has a more social or relational paradigm in that he emphasises that our relationship to things always takes place in a social context of one kind or another. We relate to land, material objects, and our own and other people's labour within a socioeconomic organisation that determines how they are to be used. Consequently, Polanyi's argument against the scarcity assumption is precisely this: that society may not necessarily allow insufficient resources to have alternative uses, and thus to be fully scarce according to the Robbins' definition.

This critique of the scarcity assumption is certainly good, but it still betrays something of the view in which the individual is seen as standing over against nature (even though within a social context). But does not a recognition of the integrally co-human, "I-Thou" character of economic relationships lead us to say that what the individual stands over against and works together with is not just - or even primarily - things, but other people. And can people be said to be scarce? Can we say that the human spirit is limited as though it were so many units of coal?
People cannot be characterised as only limited, unless we objectify them. To say that something is limited is to talk about it in terms of its objective, measurable qualities. For example we might say that we have twelve feet of wood, two machines and seven drums of fuel, and that consequently our resources are limited. The same approach can be adopted to some extent with human labour; limited resources might refer to there being only three days worth of labour available. By this stage, however, the limitations of such an approach are more obvious. To talk about human qualities solely in terms of those that are measurable, is to talk about human qualities in an extremely reduced way. For the factors that affect people's ability to produce useful goods and meet human needs are such things as skill, management, work commitment, design, and creativity, factors which reach far beyond simply the number of hours of labour available.

Consequently the intersubjectivity of economic life points to a deeper level of criticism of the scarcity postulate than Polanyi makes, and one that certain "New Age" writers have begun to emphasise. Intersubjectivity reminds us that economic life is a relationship between human needs, on the one hand, and human abilities and other resources, on the other; as a human relationship, it is therefore as much a qualitative relationship - in which creativity, imagination, technical skill, communication and empathy all play a vital role - as a purely quantitative one. Orthodox
economics betrays a quantitative reductionism when it says that the economic problem is that of scarcity, and avoids the qualitative - and more obviously human - dimensions of the economic problem by the ingenious device of taking tastes, technology, the kinds of goods produced, and skills as given (they are all included in the infamous ceteris paribus assumption). By this device economic life reduces to a simple quantitative relationship between inputs and outputs, means and ends.

I have now investigated the main features of orthodox economics - the individual, the commodity, means-end rationality, the scarcity postulate - in terms of their common Cartesian subject-object formulation, and therefore pointed to the need for a recognition of the social (subject-subject) character of economic life. This is precisely what Polanyi's work does. However, having said this about Polanyi's paradigm, I think there is also a sense in which he does not do full justice to the social character of economic life. By characterising economic life as the process of the movement of material goods, he appears to leave economics still as the realm of things, even though (unlike mainstream economics) people's relationship to these things has a social rather than purely individual referent. This argument will be pursued in the next section with reference to Polanyi's notion of economic integration.
4.5 Polanyi and Economic Integration:

At the end of the second chapter I referred to what I called the physicalist bias in Polanyi's thought. He characterises the economic process in terms of its external qualities, by seeing it as the process that describes the social mechanisms by which material goods move. It seems as though for Polanyi the economic process circumscribes only the production and distribution of material goods. The use of these goods, though having economic implications, is itself not a strictly economic consideration. Thus the material good, as a material good, is assumed capable of being separated (from the economic standpoint at least) from its subjective usage.

This prevents Polanyi from recognising the important integrating function that the economy fulfills, not only in terms of the interdependent movement of material goods, but also in integrating material goods with people's needs, and consequently also in integrating people's labour with human needs. (The material goods that move not only have to do so in an interconnected way, but also have to be the right ones for the people that they move to.) Economic integration refers as much to the integration of human activities, and thus to the context in which goods are used, as to simply the interdependent movement of material goods.

Economies can be organised in different ways to ensure what I shall call this "subjective integration function". To
some extent the same social structures that integrate the movement of material goods also perform this other function. For example in a capitalist economy, market forces, at the same time as ensuring the two-way exchange of goods, also help to allocate and bring together resources and labour in ways that cause human needs to be met.

However this is not the whole story, as critics of the market economy have been reminding us for years. Thus what is produced, and the way it is produced, depend also on the cultural environment and social forces (witness the growth of health-food products in recent years), and may be influenced by the external authority of the government in terms of design and product standards, minimum wages and statutory work conditions. In addition, the ability of markets to satisfy human needs depends on those with needs having enough purchasing power to make them effective on the market, a consideration which again depends as much on broader social factors as on narrowly market forces. Consequently the institutional mechanisms identified by Polanyi as responsible for how material goods move describe only part of the whole process of the economic integration of human activities.

By talking about subjective integration I do not mean to imply that this is a wholly different kind of integration that occurs in another realm from the integration of the movement of goods. Subjective integration does not happen apart from the movement of material goods, though it cannot
be reduced to the bare bones of this process either. It describes a broader process in which people's talents and their capacity to work are integrated with human needs: the movement of material goods is simply the most obvious external manifestation of this process, but by itself does not capture its fulness.

A greater emphasis on economic life as integrating human activities would probably help to counteract the bias towards distribution in Polanyi's categories of which (as we saw earlier) some have accused him. For production is more obviously a human activity in its very core, whereas distribution can more easily be characterised in terms of its external features (i.e. the movement of goods). It would also help to make services more genuinely part of the economic process.

Even though a greater emphasis on the subjective integration of economic life would, to my mind, have these benefits, there is probably a good reason why we do not find it in Polanyi. Polanyi places great weight on finding an empirical and operational way of defining economics, because of what he sees as the extreme subjectivism of traditional (neoclassical and modern) economics. This ends up almost abstracting from economic life itself by tying its definition of economics so closely to the mental phenomenon of rationality. It is thus natural that Polanyi, in his desire to escape this trap, tends to emphasise the more concrete and objective features of economic life, at the
expense of its subjective dimensions.

4.6 Conclusion:
In the first volume of *Capital* Karl Marx describes what he calls the "commodity fetishism" of a capitalist economy, by which he means the mysterious way that under capitalism social relations between people assume in their eyes "the fantastic form of a relation between things."

Traditional economics is unable to reveal this fetishism, and actually further encourages mystification, because of its Cartesian framework. It sees humans as individual minds, essentially disconnected from each other, but relating through the realm of things. People are individual subjects standing over against an objectified nature in which resides their common humanity. Within this subject-object framework the central notions of neoclassical economics - the individual, the commodity, means-end rationality, and scarcity - neatly fit.

Polanyi, by contrast, does penetrate below the appearance of thing-relationships by understanding the social framework within which they have been instituted. His idea of the social embeddedness of economic life recaptures the social context within which people relate to things. People are thus essentially, rather than
derivatively, in relationships with each other (economic or otherwise).

Despite this, I suggest that there is in Polanyi's work the idea that the economic circumscribes the realm of things, and so there is a lingering sense that economics itself is concerned particularly with thing-relationships. For Polanyi, however, these thing-relationships are embedded in, proceed from, and must necessarily be understood as part of social relationships. Nevertheless this conception affects his account of economic integration, which limits itself to the interdependent movement of material resources within and between social activities. A broadening of the notion of economic integration beyond its focus on things to emphasise the co-human character of economic life in relating resources and human abilities to needs, would do more justice to the intersubjective character of economic life, and thus to Polanyi's idea of its social embeddedness.

Endnotes:
1 Dumont, From Mandeville to Marx
3 McKenzie p.44.
4 Hence the archetypal economic man is, within the firm, not the worker but the entrepreneur.
5 Other writers who stress the Cartesian origins of
economics include Piero Mini [Philosophy and Economics], and David Bramhall [see his chapter three "Economics and Cartesian Science" in Helburn & Bramhall (eds.) Marx, Schumpeter and Keynes].


7 Berman pp.44-45.

8 Dickson, "Science and Political Hegemony in the 17th Century" in Radical Science Journal (1979). See also Erich Fromm who speaks about the process of "quantification" and "abstractification" as fundamental economic features of capitalism: Fromm, The Sane Society pp.103-111.


11 Hendrik Hart (who works with the Dooyeweerdian idea that human activities, relationships, things and events have various different modal levels at which they function), associates the means-end relationship with what he calls the "technical" or "formative" mode of functioning. See Hart, Understanding Our World, p.195.


13 See Goudzwaard, "Towards Reformation in Economics" p.20.


15 Herbert Marcuse links the divorcing of nature from any intrinsic values with the quantification that (as alluded to earlier) is at the heart of the modern scientific worldview and of Cartesian consciousness. He writes: "The quantification of nature, which led to its explication in terms of mathematical structures, separated reality from all inherent ends and, consequently, separated the true from the good, science from ethics." Marcuse, One-Dimensional Man p.146.

16 see Buber, I and Thou.

17 See, for instance, Satin New Age Politics p.144.

18 Of course any kind of quantification implies also qualitative judgments so that, for example, to say that there are three red balls in a box implies a
quality decision about what constitutes red. [see Marshall, "Mathematics and Politics" in Philosophia Reformata p.115.]

Nevertheless my argument that means-end rationality assumes a quantitative (rather than qualitative relationship) between means and ends still holds, since the operational variables in economics are quantitative rather than qualitative ones. Thus means-end rationality implies, for example, that with given resources the maximum number of balls are produced, rather than that some qualitative norm be achieved, such as that the balls produced are as red as possible.

19 This subjectivism actually ironically eliminates human subjectivity, leaving people as little more than logical operators. The subjective processes of individuals are seen as being so unique that they are not amenable to any kind of scientific study, and so lie outside the realm of economics. All we know about individuals' choices is the logical form of their preference functions (ie. these functions exhibit consistency).

20 Howard & King (eds.) The Economics of Marx p.99.
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