4. Fred Block, "Introduction," in *The Great Transformation: The Political and Economic Origins of Our Time*, Karl Polanyi (Boston: Beacon Press, 2001), xxix.
5. See, in particular, Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness," *American Journal of Sociology* 91 (1985): 481–510. This article reintroduced an evolved definition of the concept of the embeddedness of markets into the economic sociology paradigm. It is discussed in brief in the introduction to this volume.

Karl Polanyi, *The Great Transformation* (1944)*

I. Satanic Mill

Chapter 3: *"Habitation versus Improvement"*

At the heart of the Industrial Revolution of the eighteenth century there was an almost miraculous improvement in the tools of production, which was accompanied by a catastrophic dislocation of the lives of the common people.

We will attempt to disentangle the factors that determined the forms of this dislocation, as it appeared at its worst in England about a century ago. What "satanic mill" ground men into masses? How much was caused by the new physical conditions? How much by the economic dependencies, operating under the new conditions? And what was the mechanism through which the old social tissue was destroyed and a new integration of man and nature so unsuccessfully attempted?

Nowhere has liberal philosophy failed so conspicuously as in its understanding of the problem of change. Fired by an emotional faith in spontaneity, the common-sense attitude toward change was discarded in favor of a mystical readiness to accept the social consequences of economic improvement, whatever they might be. The elementary truths of political science and statecraft were first discredited, then forgotten. It should need no elaboration that a process of undirected change, the pace of which is deemed too fast, should be slowed down, if possible, so as to safeguard the welfare of the community. Such household truths of traditional statesmanship, often merely reflecting the teachings of a social philosophy inherited from the ancients, were in the nineteenth century erased from the thoughts of the educated by the corrosive of a crude utilitarianism combined with an uncritical reliance on the alleged self-healing virtues of unconscious growth.

Economic liberalism misread the history of the Industrial Revolution because it insisted on judging social events from the economic viewpoint. For an illustration of this we shall turn to what may at first seem a remote subject: to enclosures of open fields and conversions of arable land to pasture during the earlier Tudor period in England, when fields and commons were hedged by the lords, and whole counties were threatened by depopulation. Our purpose in thus evoking the plight of the people brought about by enclosures and conversions will be on the one hand to demonstrate

* From: *The Great Transformation: The Political and Economic Origins of Our Time*, Karl Polanyi, Boston, Mass.: Beacon Press, 2001. (pp. 35–80)

the parallel between the devastations caused by the ultimately beneficial enclosures and those resulting from the Industrial Revolution, and on the other hand—and more broadly—to clarify the alternatives facing a community which is in the throes of unregulated economic improvement.

Enclosures were an obvious improvement *if* no conversion to pasture took place. Enclosed land was worth double and treble the unenclosed. Where tillage was maintained, employment did not fall off, and the food supply markedly increased. The yield of the land manifestly increased, especially where the land was let.

But even conversion of arable land to sheep runs was not altogether detrimental to the neighborhood in spite of the destruction of habitations and the restriction of employment it involved. Cottage industry was spreading by the second half of the fifteenth century, and a century later it began to be a feature of the countryside. The wool produced on the sheep farm gave employment to the small tenants and landless cottagers forced out of tillage, and the new centers of the woolen industry secured an income to a number of craftsmen.

But—this is the point—only in a market economy can such compensating effects be taken for granted. In the absence of such an economy the highly profitable occupation of raising sheep and selling their wool might ruin the country. The sheep which "turned sand into gold" could well have turned the gold into sand as happened ultimately to the wealth of seventeenth century Spain whose eroded soil never recovered from the overexpansion of sheep farming.

An official document of 1607, prepared for the use of the Lords of the Realm, set out the problem of change in one powerful phrase: "The poor man shall be satisfied in his end: Habitation; and the gentleman not hindered in his desire: Improvement." This formula appears to take for granted the essence of purely economic progress, which is to achieve improvement at the price of social dislocation. But it also hints at the tragic necessity by which the poor man clings to his hovel, doomed by the rich man's desire for a public improvement which profits him privately.

Enclosures have appropriately been called a revolution of the rich against the poor. The lords and nobles were upsetting the social order, breaking down ancient law and custom, sometimes by means of violence, often by pressure and intimidation. They were literally robbing the poor of their share in the common, tearing down the houses which, by the hitherto unbreakable force of custom, the poor had long regarded as theirs and their heirs'. The fabric of society was being disrupted; desolate villages and the ruins of human dwellings testified to the fierceness with which the revolution raged, endangering the defenses of the country, wasting its towns, decimating its population, turning its overburdened soil into dust, harassing its people and turning them from decent husbandmen into a mob of beggars and thieves. Though this happened only in patches, the black spots threatened to melt into a uniform catastrophe.[1] The King and his Council, the Chancellors, and the Bishops were defending the welfare of the community and, indeed, the human and natural substance of society against this scourge. With hardly any intermittence, for a century and a half—from the 1490's, at the latest, to the 1640's—they struggled against depopulation. Lord Protector Somerset lost his life at the hands of the counterrevolution which wiped the enclosure laws from the statute book and established the dictatorship of the grazier lords, after Kett's Rebellion was defeated with several thousand peasants slaughtered in the process. Somerset was accused, and not without truth, of having given encouragement to the rebellious peasants by his staunch denunciation of enclosures.

It was almost a hundred years later when a second trial of strength came between the same opponents, but by that time the enclosers were much more frequently wealthy country gentlemen and merchants rather than lords and nobles. High politics, lay and ecclesiastical, were now involved in the Crown's deliberate use of its prerogative to prevent enclosures and in its no less deliberate use of the enclosure issue to strengthen its position against the gentry in a constitutional struggle, which brought death to Strafford and Laud at the hands of Parliament. But their policy was not only industrially but politically reactionary; furthermore, enclosures were now much more often than before intended for tillage, and not for pasture. Presently the tide of the Civil War engulfed Tudor and early Stuart public policy forever.

Nineteenth century historians were unanimous in condemning Tudor and early Stuart policy as demagogic, if not as outright reactionary. Their sympathies lay, naturally, with Parliament and that body had been on the side of the enclosers. H. de B. Gibbins, though an ardent friend of the common people, wrote: "Such protective enactments were, however, as protective enactments generally be, utterly vain."[2] Innes was even more definite: "The usual remedies of punishing vagabondage and attempting to force industry into unsuited fields and to drive capital into less lucrative investments in order to provide employment failed—as usual."[3] Gairdner had no hesitation in appealing to free trade notions as "economic law": "Economic laws were, of course, not understood," he wrote, "and attempts were made by legislation to prevent husbandmen's dwellings from being thrown down by landlords, who found it profitable to devote arable land to pasture to increase the growth of wool. The frequent repetition of these Acts only show how ineffective they were in practice."[4] Recently an economist like Heckscher emphasizes his conviction that mercantilism should, in the main, be explained by an insufficient understanding of the complexities of economic phenomena, a subject which the human mind obviously needed another few centuries to master.[5] In effect, anti-enclosure legislation never seemed to have stopped the course of the enclosure movement, nor even to have obstructed it seriously. John Hales, second to none in his fervor for the principles of the Commonwealth men, admitted that it proved impossible to collect evidence against the enclosers, who often had their servants sworn upon the juries, and such was the number "of their retainers and hangers-on that no jury could be made without them." Sometimes the simple expedient of driving a single furrow across the field would save the offending lord from a penalty.

Such an easy prevailing of private interests over justice is often regarded as a certain sign of the ineffectiveness of legislation, and the victory of the vainly obstructed trend is subsequently adduced as conclusive evidence of the alleged futility of "a reactionary interventionism." Yet such a view seems to miss the point altogether. Why should the ultimate victory of a trend be taken as a proof of the ineffectiveness of the efforts to slow down its progress? And why should the purpose of these measures not be seen precisely in that which they achieved, *i.e.*, in the slowing down of the rate of change? That which is ineffectual in stopping a line of development altogether is not, on that account, altogether ineffectual. The rate of change is often of no less importance than the direction of the change itself; but while the latter frequently does not depend upon our volition, it is the rate at which we allow change to take place which well may depend upon us.

A belief in spontaneous progress must make us blind to the role of government in economic life. This role consists often in altering the rate of change, speeding it up or slowing it down as the case may be; if we believe that rate to be unalterable—or even worse, if we deem it a sacrilege to interfere with it—then, of course, no room is left for intervention. Enclosures offer an example. In retrospect nothing could be clearer than the Western European trend of economic progress which aimed at eliminating an artificially maintained uniformity of agricultural technique, intermixed strips, and the primitive institution of the common. As to England, it is certain that the development of the woolen industry was an asset to the country, leading, as it did, to the establishment of the cotton industry—that vehicle of the Industrial Revolution. Furthermore, it is clear that the increase of domestic weaving depended upon the increase of a home supply of wool. These facts suffice to identify the change from arable land to pasture and the accompanying enclosure movement as the trend of economic progress. Yet, but for the consistently maintained policy of the Tudor and early Stuart statesmen, the rate of that progress might have been ruinous, and have turned the process itself into a degenerative instead of a constructive event. For upon this rate, mainly, depended whether the dispossessed could adjust themselves to changed conditions without fatally damaging their substance, human and economic, physical and moral; whether they would find new employment in the fields of opportunity indirectly connected with the change; and whether the effects of increased imports induced by increased exports would enable those who lost their employment through the change to find new sources of sustenance.

The answer depended in every case on the relative rates of change and adjustment. The usual "long-run" considerations of economic theory are inadmissible; they would prejudge the issue by assuming that the event took place in a market economy. However natural it may appear to us to make that assumption, it is unjustified: market economy is an institutional structure which, as we all too easily forget, has been present at no time except our own, and even then it was only partially present. Yet apart from this assumption "long-run" considerations are meaningless. If the immediate effect of a change is deleterious, then, until proof to the contrary, the final effect is deleterious. If conversion of arable land to pasture involves the destruction of a definite number of houses, the scrapping of a definite amount of employment, and the diminution of the supplies of locally available food provisions, then these effects must be regarded as final, until evidence to the contrary is produced. This does not exclude the consideration of the possible effects of increased exports on the income of the landowners; of the possible chances of employment created by an eventual increase in the local wool supply; or of the uses to which the land-owners might put their increased incomes, whether in the way of further investments or of luxury expenditure. The time-rate of change compared with the time-rate of adjustment will decide what is to be regarded as the net effect of the change. But in no case can we assume the functioning of market laws unless a self-regulating market is shown to exist. Only in the institutional setting of market economy are market laws relevant; it was not the statesmen of Tudor England who strayed from the facts, but the modern economists, whose strictures upon them implied the prior existence of a market system.

England withstood without grave damage the calamity of the enclosures only because the Tudors and the early Stuarts used the power of the Crown to slow down the process of economic improvement until it became socially bearable—employing the power of the central government to relieve the victims of the transformation, and attempting to canalize the process of change so as to make its course less devastating. Their chancelleries and courts of prerogative were anything but conservative in outlook; they represented the scientific spirit of the new statecraft, favoring the immigration of foreign craftsmen, eagerly implanting new techniques, adopting statistical methods and precise habits of reporting, flouting custom and tradition, opposing prescriptive rights, curtailing ecclesiastical prerogatives, ignoring Common Law. If innovation makes the revolutionary, they were the revolutionaries of the age. Their commitment was to the welfare of the commonalty, glorified in the power and grandeur of the sovereign; yet the future belonged to constitutionalism and Parliament. The government of the Crown gave place to government by a class—the class which led in industrial and commercial progress. The great principle of constitutionalism became wedded to the political revolution that dispossessed the Crown, which by that time had shed almost all its creative faculties, while its protective function was no longer vital to a country that had weathered the storm of transition. The financial policy of the Crown now restricted the power of the country unduly, and began to constrain its trade; in order to maintain its prerogatives the Crown abused them more and more, and thereby harmed the resources of the nation. Its brilliant administration of labor and industry, its circumspect control of the enclosure movement, remained its last achievement. But it was the more easily forgotten as the capitalists and employers of the rising middle class were the chief victims of its protective activities. Not till another two centuries had passed did England enjoy again a social administration as effective and well ordered as that which the Commonwealth destroyed. Admittedly, an administration of this paternalistic kind was now less needed. But in one respect the break wrought infinite harm, for it helped to obliterate from the memory of the nation the horrors of the enclosure period and the achievements of government in overcoming the peril of depopulation. Perhaps this helps to explain why the real nature of the crisis was not realized when, some 150 years later, a similar catastrophe in the shape of the Industrial Revolution threatened the life and well-being of the country.

This time also the event was peculiar to England; this time also sea-borne trade was the source of a movement which affected the country as a whole; and this time again it was improvement on the grandest scale which wrought unprecedented havoc with the habitation of the common people. Before the process had advanced very far, the laboring people had been crowded together in new places of desolation, the so-called industrial towns of England; the country folk had been dehumanized into slum dwellers; the family was on the road to perdition; and large parts of the country were rapidly disappearing under the slack and scrap heaps vomited forth from the "satanic mills." Writers of all views and parties, conservatives and liberals, capitalists and socialists invariably referred to social conditions under the Industrial Revolution as a veritable abyss of human degradation.

No quite satisfactory explanation of the event has yet been put forward. Contemporaries imagined they had discovered the key to damnation in the iron regularities governing wealth and poverty, which they called the law of wages and the law of population; they have been disproved. Exploitation was put forth as another explanation both of wealth and of poverty; but this was unable to account for the fact that wages in the industrial slums were higher than those in any other areas and on the whole continued to rise for another century. More often a convolute of causes was adduced, which again was hardly satisfactory.

Our own solution is anything but simple; it actually fills the better part of this book. We submit that an avalanche of social dislocation, surpassing by far that of the enclosure period, came down upon England; that this catastrophe was the accompaniment of a vast movement of economic improvement; that an entirely new institutional mechanism was starting to act on Western society; that its dangers, which cut to the quick when they first appeared, were never really overcome; and that the history of nineteenth century civilization consisted largely in attempts to protect society against the ravages of such a mechanism. The Industrial Revolution was merely the beginning of a revolution as extreme and radical as ever inflamed the minds of sectarians, but the new creed was utterly materialistic and believed that all human problems could be resolved given an unlimited amount of material commodities.

The story has been told innumerable times: how the expansion of markets, the presence of coal and iron as well as a humid climate favorable to the cotton industry, the multitude of people dispossessed by the new eighteenth century enclosures, the existence of free institutions, the invention of the machines, and other causes interacted in such a manner as to bring about the Industrial Revolution. It has been shown conclusively that no one single cause deserves to be lifted out of the chain and set apart as *the* cause of that sudden and unexpected event.

But how shall this Revolution itself be defined? What was its basic characteristic? Was it the rise of the factory towns, the emergence of slums, the long working hours of children, the low wages of certain categories of workers, the rise in the rate of population increase, or the concentration of industries? We submit that all these were merely incidental to one basic change, the establishment of market economy, and that the nature of this institution cannot be fully grasped unless the impact of the machine on a commercial society is realized. We do not intend to assert that the machine caused that which happened, but we insist that once elaborate machines and plant were used for production in a commercial society, the idea of a self-regulating market was bound to take shape.

The use of specialized machines in an agrarian and commercial society must produce typical effects. Such a society consists of agriculturalists and of merchants who buy and sell the produce of the land. Production with the help of specialized, elaborate, expensive tools and plants can be fitted into such a society only by making it incidental to buying and selling. The merchant is the only person available for the undertaking of this, and he is fitted to do so as long as this activity will not involve him in a loss. He will sell the goods in the same manner in which he would otherwise sell goods to those who demand them; but he will procure them in a different way, namely, not by buying them ready-made, but by purchasing the necessary labor and raw material. The two put together according to the merchant's instructions, plus some waiting which he might have to undertake, amount to the new product. This is not a description of domestic industry or "putting out" only, but of any kind of industrial capitalism, including that of our own time. Important consequences for the social system follow.

Since elaborate machines are expensive, they do not pay unless large amounts of goods are produced.[6] They can be worked without a loss only if the vent of the goods is reasonably assured and if production need not be interrupted for want of the primary goods necessary to feed the machines. For the merchant this means that all factors involved must be on sale, that is, they must be available in the needed quantities to anybody who is prepared to pay for them. Unless this condition is fulfilled, production with the help of specialized machines is too risky to be undertaken both from the point of view of the merchant who stakes his money and of the community as a whole which comes to depend upon continuous production for incomes, employment, and provisions.

Now, in an agricultural society such conditions would not naturally be given; they would have to be created. That they would be created gradually in no way affects the startling nature of the changes involved. The transformation implies a change in the motive of action on the part of the members of society: for the motive of subsistence that of gain must be substituted. All transactions are turned into money transactions, and these in turn require that a medium of exchange be introduced into every articulation of industrial life. All incomes must derive from the sale of something or other, and whatever the actual source of a person's income, it must be regarded as resulting from sale. No less is implied in the simple term "market system," by which we designate the institutional pattern described. But the most startling peculiarity of the system lies in the fact that, once it is established, it must be allowed to function without outside interference. Profits are not any more guaranteed, and the merchant must make his profits on the market. Prices must be allowed to regulate themselves. Such a self-regulating system of markets is what we mean by a market economy.

The transformation to this system from the earlier economy is so complete that it resembles more the metamorphosis of the caterpillar than any alteration that can be expressed in terms of continuous growth and development. Contrast, for example, the merchant-producer's selling activities with his buying activities; his sales concern only artifacts; whether he succeeds or not in finding purchasers, the fabric of society need not be affected. But what he *buys* is raw materials and labor—nature and man. Machine production in a commercial society involves, in effect, no less a transformation than that of the natural and human substance of society into commodities. The conclusion, though weird, is inevitable; nothing less will serve the purpose: obviously, the dislocation caused by such devices must disjoint man's relationships and threaten his natural habitat with annihilation.

Such a danger was, in fact, imminent. We shall perceive its true character if we examine the laws which govern the mechanism of a self-regulating market.

Chapter 4: Societies and Economic Systems

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

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

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

We have good reason to insist on this point with all the emphasis at our command. No less a thinker than Adam Smith suggested that the division of labor in society was dependent upon the existence of markets, or, as he put it, upon man's "propensity to barter, truck and exchange one thing for another." This phrase was later to yield the concept of the Economic Man. In retrospect it can be said that no misreading of the past ever proved more prophetic of the future. For while up to Adam Smith's time that propensity had hardly shown up on a considerable scale in the life of any observed community, and had remained, at best, a subordinate feature of economic life, a hundred years later an industrial system was in full swing over the major part of the planet which, practically and theoretically, implied that the human race was swayed in all its economic activities, if not also in its political, intellectual, and spiritual pursuits, by that one particular propensity. Herbert Spencer, in the second half of the nineteenth century, could, without more than a cursory acquaintance with economics, equate the principle of the division of labor with barter and exchange, and another fifty years later, Ludwig von Mises and Walter Lippmann could repeat this same fallacy. By that time there was no need for argument. A host of writers on political economy, social history, political philosophy, and general sociology had followed in Smith's wake and established his paradigm of the bartering savage as an axiom of their respective sciences. In point of fact, Adam Smith's suggestions about the economic psychology of early man were as false as Rousseau's were on the political psychology of the savage. Division of labor, a phenomenon as old as society, springs from differences inherent in the facts of sex, geography, and individual endowment; and the alleged propensity of man to barter, truck, and exchange is almost entirely apocryphal. While history and ethnography know of various kinds of economies, most of them comprising the institution of markets, they know of no economy prior to our own, even approximately controlled and regulated by markets. This will become abundantly clear from a bird's-eye view of the history of economic systems and of markets, presented separately. The role played by markets in the internal economy of the various countries, it will appear, was insignificant up to recent times, and the change-over to an economy dominated by the market pattern will stand out all the more clearly.

To start with, we must discard some nineteenth century prejudices that underlay Adam Smith's hypothesis about primitive man's alleged predilection for gainful occupations. Since his axiom was much more relevant to the immediate future than to the dim past, it induced in his followers a strange attitude toward man's early history. On

the face of it, the evidence seemed to indicate that primitive man, far from having a capitalistic psychology, had, in effect, a communistic one (later this also proved to be mistaken). Consequently, economic historians tended to confine their interest to that comparatively recent period of history in which truck and exchange were found on any considerable scale, and primitive economics was relegated to prehistory. Unconsciously, this led to a weighting of the scales in favor of a marketing psychology, for within the relatively short period of the last few centuries everything might be taken to tend towards the establishment of that which was eventually established, *i.e.*, a market system, irrespective of other tendencies which were temporarily submerged. The corrective of such a "short-run" perspective would obviously have been the linking up of economic history with social anthropology, a course which was consistently avoided.

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

Such an attitude of subjectivism in regard to earlier civilizations should make no appeal to the scientific mind. The differences existing between civilized and "uncivilized" peoples have been vastly exaggerated, especially in the economic sphere. According to the historians, the forms of industrial life in agricultural Europe were, until recently, not much different from what they had been several thousand years earlier. Ever since the introduction of the plow—essentially a large hoe drawn by animals—the methods of agriculture remained substantially unaltered over the major part of Western and Central Europe until the beginning of the modern age. Indeed, the progress of civilization was, in these regions, mainly political, intellectual, and spiritual; in respect to material conditions, the Western Europe of 1100 A.D. had hardly caught up with the Roman world of a thousand years before. Even later, change flowed more easily in the channels of statecraft, literature, and the arts, but particularly in those of religion and learning, than in those of industry. In its economics, medieval Europe was largely on a level with ancient Persia, India, or China, and certainly could not rival in riches and culture the New Kingdom of Egypt, two thousand years before. Max Weber was the first among modern economic historians to protest against the brushing aside of primitive economics as irrelevant to the question of the motives and mechanisms of civilized societies. The subsequent work of social anthropology proved him emphatically right. For, if one conclusion stands out more clearly than another from the recent study of early societies it is the changelessness of man as a social being. His natural endowments reappear with a remarkable constancy in societies of all times and places; and the necessary preconditions of the survival of human society appear to be immutably the same.

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

The explanation, in terms of survival, is simple. Take the case of a tribal society. The individual's economic interest is rarely paramount, for the community keeps all its members from starving unless it is itself borne down by catastrophe, in which case interests are again threatened collectively, not individually. The maintenance of social ties, on the other hand, is crucial. First, because by disregarding the accepted code of honor, or generosity, the individual cuts himself off from the community and becomes an outcast; second, because, in the long run, all social obligations are reciprocal, and their fulfillment serves also the individual's give-and-take interests best. Such a situation must exert a continuous pressure on the individual to eliminate economic self-interest from his consciousness to the point of making him unable, in many cases (but by no means in all), even to comprehend the implications of his own actions in terms of such an interest. This attitude is reinforced by the frequency of communal activities such as partaking of food from the common catch or sharing in the results of some far-flung and dangerous tribal expedition. The premium set on generosity is so great when measured in terms of social prestige as to make any other behavior than that of utter self-forgetfulness simply not pay. Personal character has little to do with the matter. Man can be as good or evil, as social or asocial, jealous or generous, in respect to one set of values as in respect to another. Not to allow anybody reason for jealousy is, indeed, an accepted principle of ceremonial distribution, just as publicly bestowed praise is the due of the industrious, skillful, or otherwise successful gardener (unless he be *too* successful, in which case he may deservedly be allowed to wither away under the delusion of being the victim of black magic). The human passions, good or bad, are merely directed towards noneconomic ends. Ceremonial display serves to spur emulation to the utmost and the custom of communal labor tends to screw up both quantitative and qualitative standards to the highest pitch. The performance of all acts of exchange as free gifts that are expected to be reciprocated though not necessarily by the same individuals—a procedure minutely articulated and perfectly safeguarded by elaborate methods of publicity, by magic rites, and by the establishment of "dualities" in which groups are linked in mutual obligations—should in itself explain the absence of the notion of gain or even of wealth other than that consisting of objects traditionally enhancing social prestige.

In this sketch of the general traits characteristic of a Western Melanesian community we took no account of its sexual and territorial organization, in reference to which custom, law, magic, and religion exert their influence, as we only intended to show the manner in which so-called economic motives spring from the context of social life. For it is on this one negative point that modern ethnographers agree: the absence of the motive of gain; the absence of the principle of laboring for remuneration; the absence of the principle of least effort; and, especially, the absence of any separate and distinct institution based on economic motives. But how, then, is order in production and distribution ensured?

The answer is provided in the main by two principles of behavior not primarily associated with economics: *reciprocity* and *redistribution*.[7] With the Trobriand Islanders of Western Melanesia, who serve as an illustration of this type of economy, reciprocity works mainly in regard to the sexual organization of society, that is, family and kinship; redistribution is mainly effective in respect to all those who are under a common chief and is, therefore, of a territorial character. Let us take these principles separately.

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

The principle of redistribution is no less effective. A substantial part of all the produce of the island is delivered by the village headmen to the chief who keeps it in storage. But as all communal activity centers around the feasts, dances, and other occasions when the islanders entertain one another as well as their neighbors from other islands (at which the results of long distance trading are handed out, gifts are given and reciprocated according to the rules of etiquette, and the chief distributes the customary presents to all), the overwhelming importance of the storage system becomes apparent. Economically, it is an essential part of the existing system of division of labor, of foreign trading, of taxation for public purposes, of defense provisions. But these functions of an economic system proper are completely absorbed by the intensely vivid experiences which offer superabundant noneconomic motivation for every act performed in the frame of the social system as a whole.

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

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

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

Symmetry and centricity will meet halfway the needs of reciprocity and redistribution; institutional patterns and principles of behavior are mutually adjusted. As long as social organization runs in its ruts, no individual economic motives need come into play; no shirking of personal effort need be feared; division of labor will automatically be ensured; economic obligations will be duly discharged; and, above all, the material means for an exuberant display of abundance at all public festivals will be provided. In such a community the idea of profit is barred; higgling and haggling is decried; giving freely is acclaimed as a virtue; the supposed propensity to barter, truck, and exchange does not appear. The economic system is, in effect, a mere function of social organization.

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

The Trobriand Islands belong to an archipelago forming roughly a circle, and an important part of the population of this archipelago spends a considerable proportion of its time in activities of the Kula trade. We describe it as trade though no profit is involved, either in money or in kind; no goods are hoarded or even possessed permanently; the goods received are enjoyed by giving them away; no higgling and haggling, no truck, barter, or exchange enters; and the whole proceedings are entirely regulated by etiquette and magic. Still, it is trade, and large expeditions are undertaken periodically by natives of this approximately ring-shaped archipelago in order to carry one kind of valuable object to peoples living on distant islands situated clockwise, while other expeditions are arranged carrying another kind of valuable object to the islands of the archipelago lying counterclockwise. In the long run, both sets of objects—white-shell armbands and red-shell necklaces of traditional make—will move round the archipelago, a traject which may take them up to ten years to complete. Moreover, there are, as a rule, individual partners in Kula who reciprocate one another's Kula gift with equally valuable armbands and necklaces, preferably such that have previously belonged to distinguished persons. Now, a systematic and organized give-and-take of valuable objects transported over long distances is justly described as trade. Yet this complex whole is exclusively run on the lines of reciprocity. An intricate time-space-person system covering hundreds of miles and several decades, linking many hundreds of people in respect to thousands of strictly individual objects, is being handled here without any records or administration, but also without any motive of gain or truck. Not the propensity to barter, but reciprocity in social behavior dominates. Nevertheless, the result is a stupendous organizational achievement in the economic field. Indeed, it would be interesting to consider whether even the most advanced modern market organization, based on exact accountancy, would be able to cope with such a task, should it care to undertake it. It is to be feared that the unfortunate dealers, faced with innumerable monopolists buying and selling individual objects with extravagant restrictions attached to each transaction, would fail to make a standard profit and might prefer to go out of business.

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

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

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

Under feudal conditions also this principle held. In the ethnically stratified societies of Africa it sometimes happens that the superior strata consist of herdsmen settled among agriculturalists who are still using the digging stick or the hoe. The gifts collected by the herdsmen are mainly agricultural—such as cereals and beer—while the gifts distributed by them may be animals, especially sheep or goats. In these cases there is division of labor, though usually an unequal one, between the various strata of society: distribution may often cover up a measure of exploitation, while at the same time the symbiosis benefits the standards of both strata owing to the advantages of an improved division of labor. Politically, such societies live under a regime of feudalism, whether cattle or land be the privileged value. There are "regular cattle fiefs in East Africa." Thurnwald, whom we follow closely on the subject of redistribution, could therefore say that feudalism implied everywhere a system of redistribution. Only under very advanced conditions and exceptional circumstances does this system become predominantly political as happened in Western Europe, where the change arose out of the vassal's need for protection, and gifts were converted into feudal tributes.

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

We deliberately disregarded in this presentation the vital distinction between homogeneous and stratified societies, *i.e.*, societies which are on the whole socially unified, and such as are split into rulers and ruled. Though the relative status of slaves and masters may be worlds apart from that of the free and equal members of some hunting tribes, and, consequently, motives in the two societies will differ widely,

the organization of the economic system may still be based on the same principles, though accompanied by very different culture traits, according to the very different human relations with which the economic system is intertwined.

The third principle, which was destined to play a big role in history and which we will call the principle of *householding*, consists in production for one's own use. The Greeks called it *oeconomia*, the etymon of the word "economy." As far as ethnographical records are concerned, we should not assume that production for a person's or group's own sake is more ancient than reciprocity or redistribution. On the contrary, orthodox tradition as well as some more recent theories on the subject have been emphatically disproved. The individualistic savage collecting food and hunting on his own or for his family has never existed. Indeed, the practice of catering for the needs of one's household becomes a feature of economic life only on a more advanced level of agriculture; however, even then it has nothing in common either with the motive of gain or with the institution of markets. Its pattern is the closed group. Whether the very different entities of the family or the settlement or the manor formed the self-sufficient unit, the principle was invariably the same, namely, that of producing and storing for the satisfaction of the wants of the members of the group. The principle is as broad in its application as either reciprocity or redistribution. The nature of the institutional nucleus is indifferent: it may be sex as with the patriarchal family, locality as with the village settlement, or political power as with the seigneurial manor. Nor does the internal organization of the group matter. It may be as despotic as the Roman *familia* or as democratic as the South Slav *zadruga;* as large as the great domains of the Carolingian magnates or as small as the average peasant holding of Western Europe. The need for trade or markets is no greater than in the case of reciprocity or redistribution.

It is such a condition of affairs which Aristotle tried to establish as a norm more than two thousand years ago. Looking back from the rapidly declining heights of a world-wide market economy we must concede that his famous distinction of householding proper and money-making, in the introductory chapter of his *Politics*, was probably the most prophetic pointer ever made in the realm of the social sciences; it is certainly still the best analysis of the subject we possess. Aristotle insists on production for use as against production for gain as the essence of householding proper; yet accessory production for the market need not, he argues, destroy the self-sufficiency of the household as long as the cash crop would also otherwise be raised on the farm for sustenance, as cattle or grain; the sale of the surpluses need not destroy the basis of householding. Only a genius of common sense could have maintained, as he did, that gain was a motive peculiar to production for the market, and that the money factor introduced a new element into the situation, yet nevertheless, as long as markets and money were mere accessories to an otherwise self-sufficient household, the principle of production for use could operate. Undoubtedly, in this he was right, though he failed to see how impracticable it was to ignore the existence of markets at a time when Greek economy had made itself dependent upon wholesale trading and loaned capital. For this was the century when Delos and Rhodes were developing into emporia of freight insurance, sea-loans, and giro-banking, compared with which the Western Europe of a thousand years later was the very picture of primitivity. Yet Jowett, Master of Balliol, was grievously mistaken when he took it for granted that his Victorian England had a fairer grasp than Aristotle of the nature of the difference between householding and money-making. He excused Aristotle by conceding that the "subjects of knowledge that are concerned with man run into one another; and in the age of Aristotle were not easily distinguished." Aristotle, it is true, did not recognize clearly the implications of the division of labor and its connection with markets and money; nor did he realize the uses of money as credit and capital. So far Jowett's strictures were justified. But it was the Master of Balliol, not Aristotle, who was impervious to the human implications of money-making. He failed to see that the distinction between the principle of use and that of gain was the key to the utterly different civilization the outlines of which Aristotle accurately forecast two thousand years before its advent out of the bare rudiments of a market economy available to him, while Jowett, with the full-blown specimen before him, overlooked its existence. In denouncing the principle of production for gain "as not natural to man," as boundless and limitless, Aristotle was, in effect, aiming at the crucial point, namely the divorcedness of a separate economic motive from the social relations in which these limitations inhered.

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

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

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

Chapter 5: Evolution of the Market Pattern

The dominating part played by markets in capitalist economy together with the basic significance of the principle of barter or exchange in this economy calls for a careful

inquiry into the nature and origin of markets, if the economic superstitions of the nineteenth century are to be discarded.[8]

Barter, truck, and exchange is a principle of economic behavior dependent for its effectiveness upon the market pattern. A market is a meeting place for the purpose of barter or buying and selling. Unless such a pattern is present, at least in patches, the propensity to barter will find but insufficient scope: it cannot produce prices.[9] For just as reciprocity is aided by a symmetrical pattern of organization, as redistribution is made easier by some measure of centralization, and householding must be based on autarchy, so also the principle of barter depends for its effectiveness on the market pattern. But in the same manner in which either reciprocity, redistribution, or householding may occur in a society without being prevalent in it, the principle of barter also may take a subordinate place in a society in which other principles are in the ascendant.

However, in some other respects the principle of barter is not on a strict parity with the three other principles. The market pattern, with which it is associated, is more specific than either symmetry, centricity, or autarchy—which, in contrast to the market pattern, are mere "traits," and do not create institutions designed for one function only. Symmetry is no more than a sociological arrangement, which gives rise to no separate institutions, but merely patterns out existing ones (whether a tribe or a village is symmetrically patterned or not involves no distinctive institution). Centricity, though frequently creating distinctive institutions, implies no motive that would single out the resulting institution for a single specific function (the headman of a village or another central official might assume, for instance, a variety of political, military, religious, or economic functions, indiscriminately). Economic autarchy, finally, is only an accessory trait of an existing closed group.

The market pattern, on the other hand, being related to a peculiar motive of its own, the motive of truck or barter, is capable of creating a specific institution, namely, the market. Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society.

The step which makes isolated markets into a market economy, regulated markets into a self-regulating market, is indeed crucial. The nineteenth century—whether hailing the fact as the apex of civilization or deploring it as a cancerous growth—naïvely imagined that such a development was the natural outcome of the spreading of markets. It was not realized that the gearing of markets into a self-regulating system of tremendous power was not the result of any inherent tendency of markets towards excrescence, but rather the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine. The limited and unexpansive nature of the market pattern, as such, was not recognized; and yet it is this fact which emerges with convincing clarity from modern research.

"Markets are not found everywhere; their absence, while indicating a certain isolation and a tendency to seclusion, is not associated with any particular development any more than can be inferred from their presence." This colorless sentence from Thurnwald's *Economics in Primitive Communities* sums up the significant results of modern research on the subject. Another author repeats in respect to money what Thurnwald says of markets: "The mere fact, that a tribe used money differentiated it very little economically from other tribes on the same cultural level, who did not." We need hardly do more than point to some of the more startling implications of these statements.

The presence or absence of markets or money does not necessarily affect the economic system of a primitive society—this refutes the nineteenth century myth that money was an invention the appearance of which inevitably transformed a society by creating markets, forcing the pace of the division of labor, and releasing man's natural propensity to barter, truck, and exchange. Orthodox economic history, in effect, was based on an immensely exaggerated view of the significance of markets as such. A "certain isolation," or, perhaps, a "tendency to seclusion" is the only economic trait that can be correctly inferred from their absence; in respect to the internal organization of an economy, their presence or absence need make no difference.

The reasons are simple. Markets are not institutions functioning mainly within an economy, but without. They are meeting places of long-distance trade. Local markets proper are of little consequence. Moreover, neither long-distance nor local markets are essentially competitive, and consequently there is, in either case, but little pressure to create territorial trade, a so-called internal or national market. Every one of these assertions strikes at some axiomatically held assumption of the classical economists, yet they follow closely from the facts as they appear in the light of modern research.

The logic of the case is, indeed, almost the opposite of that underlying the classical doctrine. The orthodox teaching started from the individual's propensity to barter; deduced from it the necessity of local markets, as well as of division of labor; and inferred, finally, the necessity of trade, eventually of foreign trade, including even long-distance trade. In the light of our present knowledge we should almost reverse the sequence of the argument: the true starting point is long distance trade, a result of the geographical location of goods, and of the "division of labor" given by location. Long-distance trade often engenders markets, an institution which involves acts of barter, and, if money is used, of buying and selling, thus, eventually, but by no means necessarily, offering to some individuals an occasion to indulge in their alleged propensity for bargaining and haggling.

The dominating feature of this doctrine is the origin of trade in an external sphere unrelated to the internal organization of economy: "The application of the principles observed in hunting to the obtaining of goods found *outside the limits of the district*, led to certain forms of exchange which appear to us later as trade."[10] In looking for the origins of trade, our starting point should be the obtaining of goods from a distance, as in a hunt. "The Central Australian Dieri every year, in July or August, make an expedition to the south to obtain the red ochre used by them for painting their bodies. ... Their neighbors, the Yantruwunta, organize similar enterprises for fetching red ochre and sandstone slabs, for crushing grass seed, from the Flinders Hills, 800 kilometers distant. In both cases it might be necessary to fight for the articles wanted, if the local people offer resistance to their removal." This kind of requisitioning or treasure hunting is clearly as much akin to robbery and piracy as to what we are used to regard as trade; basically, it is a one-sided affair. It becomes two-sided, *i.e.*, "a certain form of exchange" often only through blackmail practiced by the powers on the site; or through reciprocity arrangements, as in the Kula ring, as with visiting parties of the Pengwe of West Africa, or with the Kpelle, where the chief monopolizes foreign trade by insisting on entertaining all the guests. True, such visits are not accidental, but—in our terms, not theirs—genuine trading journeys; the exchange of goods, however, is always conducted under the guise of reciprocal presents and usually by way of return visits.

We reach the conclusion that while human communities never seem to have foregone external trade entirely, such trade did not necessarily involve markets. External trade is, originally, more in the nature of adventure, exploration, hunting, piracy and war than of barter. It may as little imply peace as two-sidedness, and even when it implies both it is usually organized on the principle of reciprocity, not on that of barter.

The transition to peaceful barter can be traced in two directions, *viz.*, in that of barter and in that of peace. A tribal expedition may have to comply, as indicated above, with the conditions set by the powers on the spot, who may exact some kind of counterpart from the strangers; this type of relationship, though not entirely peaceful, may give rise to barter—one-sided carrying will be transformed into two-sided carrying. The other line of development is that of "silent trading" as in the African bush, where the risk of combat is avoided through an organized truce, and the element of peace, trust, and confidence is, with due circumspection, introduced into trade.

At a later stage, as we all know, markets become predominant in the organization of external trade. But from the economic point of view external markets are an entirely different matter from either local markets or internal markets. They differ not only in size; they are institutions of different function and origin. External trade is carrying; the point is the absence of some types of goods in that region; the exchange of English woolens against Portuguese wine was an instance. Local trade is limited to the goods of that region, which do *not* bear carrying because they are too heavy, bulky, or perishable. Thus both external trade and local trade are relative to geographical distance, the one being confined to the goods which cannot overcome it, the other to such only as can. Trade of this type is rightly described as complementary. Local exchange between town and countryside, foreign trade between different climatic zones are based on this principle. Such trade need not imply competition, and if competition would tend to disorganize trade, there is no contradiction in eliminating it. In contrast to both external and local trade, internal trade, on the other hand essentially competitive; apart from complementary exchanges it includes a very much larger number of exchanges in which similar goods from different sources are offered in competition with one another. Accordingly, only with the emergence of internal or national trade does competition tend to be accepted as a general principle of trading.

These three types of trade which differ sharply in their economic function are also distinct in their origin. We have dealt with the beginnings of external trade.

Markets developed naturally out of it where the carriers had to halt as at fords, seaports, riverheads, or where the routes of two land expeditions met. "Ports" developed at the places of transshipment.[11] The short flowering of the famous fairs of Europe was another instance where long-distance trade produced a definite type of market; England's staples were another example. But while fairs and staples disappeared again with an abruptness disconcerting to the dogmatic evolutionist, the *portus* was destined to play an enormous role in the settling of Western Europe with towns. Yet even where the towns were founded on the sites of external markets, the local markets often remained separate in respect not only to function but also to organization. Neither the port, nor the fair, nor the staple was the parent of internal or national markets. Where, then, should we seek for their origin?

It might seem natural to assume that, given individual acts of barter, these would in the course of time lead to the development of local markets, and that such markets, once in existence, would just as naturally lead to the establishment of internal or national markets. However, neither the one nor the other is the case. Individual acts of barter for exchange—this is the bare fact—do not, as a rule, lead to the establishment of markets in societies where other principles of economic behavior prevail. Such acts are common in almost all types of primitive society, but they are considered as incidental since they do not provide for the necessaries of life. In the vast ancient systems of redistribution, acts of barter as well as local markets were a usual, but no more than a subordinate trait. The same is true where reciprocity rules: acts of barter are here usually embedded in long-range relations implying trust and confidence, a situation which tends to obliterate the bilateral character of the transaction. The limiting factors arise from all points of the sociological compass: custom and law, religion and magic equally contribute to the result, which is to restrict acts of exchange in respect to persons and objects, time and occasion. As a rule, he who barters merely enters into a ready-made type of transaction in which both the objects and their equivalent amounts are given. *Utu* in the language of the Tikopia[12] denotes such a traditional equivalent as part of reciprocal exchange. That which appeared as the essential feature of exchange to eighteenth century thought, the voluntaristic element of bargain, and the higgling so expressive of the assumed motive of truck, finds but little scope in the actual transaction; in so far as this motive underlies the procedure, it is seldom allowed to rise to the surface.

The customary way to behave is, rather, to give vent to the opposite motivation. The giver may simply drop the object on the ground and the receiver will pretend to pick it up accidentally, or even leave it to one of his hangers-on to do so for him. Nothing could be more contrary to accepted behavior than to have a good look at the counterpart received. As we have every reason to believe that this sophisticated attitude is not the outcome of a genuine lack of interest in the material side of the transaction, we might describe the etiquette of barter as a counteracting development designed to limit the scope of the trait.

Indeed, on the evidence available it would be rash to assert that local markets ever developed from individual acts of barter. Obscure as the beginnings of local markets are, this much can be asserted: that from the start this institution was surrounded by a number of safeguards designed to protect the prevailing economic organization of society from interference on the part of market practices. The peace of the market

was secured at the price of rituals and ceremonies which restricted its scope while ensuring its ability to function within the given narrow limits. The most significant result of markets—the birth of towns and urban civilization—was, in effect, the outcome of a paradoxical development. Because the towns, the offspring of the markets, were not only their protectors, but also the means of preventing them from expanding into the countryside and thus encroaching on the prevailing economic organization of society. The two meanings of the word "contain" express perhaps best this double function of the towns, in respect to the markets which they both enveloped and prevented from developing.

If barter was surrounded by taboos devised to keep this type of human relationship from abusing the functions of the economic organization proper, the discipline of the market was even stricter. Here is an example from the Chaga country: "The market must be regularly visited on market days. If any occurrence should prevent the holding of the market on one or more days, business cannot be resumed until the market-place has been purified. ... Every injury occurring on the market-place and involving the shedding of blood necessitated immediate expiation. From that moment no woman was allowed to leave the market-place and no goods might be touched; they had to be cleansed before they could be carried away and used for food. At the very least a goat had to be sacrificed at once. A more expensive and more serious expiation was necessary if a woman bore a child or had a miscarriage on the market-place. In that case a milch animal was necessary. In addition to this, the homestead of the chief had to be purified by means of sacrificial blood of a milch-cow. All the women in the country were thus sprinkled, district by district."[13] Rules such as these would not make the spreading of markets easier.

The typical local market at which housewives procure some of their daily needs, and growers of grain or vegetables as well as local craftsmen offer their wares for sale, shows an amazing indifference to time and place. Gatherings of this kind are not only fairly general in primitive societies, but remain almost unchanged right up to the middle of the eighteenth century in the most advanced countries of Western Europe. They are an adjunct of local existence and differ but little whether they form part of Central African tribal life, or a *cité* of Merovingian France, or a Scottish village of Adam Smith's time. But what is true of the village is also true of the town. Local markets are, essentially, neighborhood markets, and, though important to the life of the community, they nowhere showed any sign of reducing the prevailing economic system to their pattern. They were not starting points of internal or national trade.

Internal trade in Western Europe was actually created by the intervention of the state. Right up to the time of the Commercial Revolution what may appear to us as national trade was not national, but municipal. The Hanse were not German merchants; they were a corporation of trading oligarchs, hailing from a number of North Sea and Baltic towns. Far from "nationalizing" German economic life, the Hanse deliberately cut off the hinterland from trade. The trade of Antwerp or Hamburg, Venice or Lyons, was in no way Dutch or German, Italian or French. London was no exception: it was as little "English" as Luebeck was "German." The trade map of Europe in this period should rightly show only towns, and leave blank the countryside—it might as well have not existed as far as organized trade was concerned. So-called nations were merely political units, and very loose ones at that, consisting economically of innumerable smaller and bigger self-sufficing households and insignificant local markets in the villages. Trade was limited to organized townships which carried it on either locally as neighborhood trade or as long-distance trade—the two were strictly separated, and neither was allowed to infiltrate the countryside indiscriminately.

Such a permanent severance of local trade and long-distance trade within the organization of the town must come as another shock to the evolutionist, with whom things always seem so easily to grow into one another. And yet this peculiar fact forms the key to the social history of urban life in Western Europe. It strongly tends to support our assertion in respect to the origin of markets which we inferred from conditions in primitive economies. The sharp distinction drawn between local and long-distance trade might have seemed too rigid, especially as it led us to the somewhat surprising conclusion that neither long-distance trade nor local trade was the parent of the internal trade of modern times—thus apparently leaving no alternative but to turn for an explanation to the *deus ex machina* of state intervention. We will see presently that in this respect also recent investigations bear out our conclusions. But let us first give a bare outline of the history of urban civilization as it was shaped by the peculiar severance of local and long-distance trade within the confines of the medieval town.

This severance was, indeed, at the heart of the institution of medieval urban centers.[14] The town was an organization of the burgesses. They alone had right of citizenship and on the distinction between the burgess and the non-burgess the system rested. Neither the peasants of the countryside nor the merchants from other towns were, naturally, burgesses. But while the military and political influence of the town made it possible to deal with the peasants of the surroundings, in respect to the foreign merchant such authority could not be exerted. Consequently, the burgesses found themselves in an entirely different position in respect to local trade and long-distance trade.

As to food supplies, regulation involved the application of such methods as enforced publicity of transactions and exclusion of middlemen, in order to control trade and provide against high prices. But such regulation was effective only in respect to trade carried on between the town and its immediate surroundings. In respect to long-distance trade the position was entirely different. Spices, salted fish, or wine had to be transported from a long distance and were thus the domain of the foreign merchant and his capitalistic wholesale trade methods. This type of trade escaped local regulation and all that could be done was to exclude it as far as possible from the local market. The complete prohibition of retail sale by foreign merchants was designed to achieve this end. The more the volume of capitalistic wholesale trade grew, the more strictly was its exclusion from the local markets enforced as far as imports were concerned.

In respect to industrial wares, the separation of local and long-distance trade cut even deeper, as in this case the whole organization of production for export was affected. The reason for this lay in the very nature of craft gilds, in which industrial production was organized. On the local market, production was regulated according to the needs of the producers, thus restricting production to a remunerative level. This principle would naturally not apply to exports, where the interests of the producers set no limits to production. Consequently, while local trade was strictly regulated, production for export was only formally controlled by corporations of crafts.

The dominating export industry of the age, the cloth trade, was actually organized on the capitalistic basis of wage labor.

An increasingly strict separation of local trade from export trade was the reaction of urban life to the threat of mobile capital to disintegrate the institutions of the town. The typical medieval town did not try to avoid the danger by bridging the gap between the controllable local market and the vagaries of an uncontrollable long-distance trade, but, on the contrary, met the peril squarely by enforcing with the utmost rigor that policy of exclusion and protection which was the *rationale* of its existence.

In practice this meant that the towns raised every possible obstacle to the formation of that national or internal market for which the capitalist wholesaler was pressing. By maintaining the principle of a non-competitive local trade and an equally noncompetitive long-distance trade carried on from town to town, the burgesses hampered by all means at their disposal the inclusion of the countryside into the compass of trade and the opening up of indiscriminate trade between the towns of the country. It was this development which forced the territorial state to the fore as the instrument of the "nationalization" of the market and the creator of internal commerce.

Deliberate action of the state in the fifteenth and sixteenth centuries foisted the mercantile system on the fiercely protectionist towns and principalities. Mercantilism destroyed the outworn particularism of local and intermunicipal trading by breaking down the barriers separating these two types of noncompetitive commerce and thus clearing the way for a national market which increasingly ignored the distinction between town and countryside as well as that between the various towns and provinces.

The mercantile system was, in effect, a response to many challenges. Politically, the centralized state was a new creation called forth by the Commercial Revolution which had shifted the center of gravity of the Western world from the Mediterranean to the Atlantic seaboard and thus compelled the backward peoples of larger agrarian countries to organize for commerce and trade. In external politics, the setting up of sovereign power was the need of the day; accordingly, mercantilist statecraft involved the marshaling of the resources of the whole national territory to the purposes of power in foreign affairs. In internal politics, unification of the countries fragmented by feudal and municipal particularism was the necessary by-product of such an endeavor. Economically, the instrument of unification was capital, *i.e.*, private resources available in form of money hoards and thus peculiarly suitable for the development of commerce. Finally the administrative technique underlying the economic policy of the central government was supplied by the extension of the traditional municipal system to the larger territory of the state. In France, where the craft gilds tended to become state organs, the gild system was simply extended over the whole territory of the country; in England, where the decay of the walled towns had weakened that system fatally, the countryside was industrialized without the supervision of the gilds, while in both countries trade and commerce spread over the whole territory of the nation and became the dominating form of economic activity. In this situation lie the origins of the internal trade policy of mercantilism.

State intervention, which had freed trade from the confines of the privileged town, was now called to deal with two closely connected dangers which the town had successfully met, namely, monopoly and competition. That competition must ultimately lead to monopoly was a truth well understood at the time, while monopoly was feared even more than later as it often concerned the necessaries of life and thus easily waxed into a peril to the community. All-round regulation of economic life, only this time on a national, no more on a merely municipal, scale was the given remedy. What to the modern mind may easily appear as a shortsighted exclusion of competition was in reality the means of safeguarding the functioning of markets under the given conditions. For any temporary intrusion of buyers or sellers in the market must destroy the balance and disappoint regular buyers or sellers, with the result that the market will cease to function. The former purveyors will cease to offer their goods as they cannot be sure that their goods will fetch a price, and the market left without sufficient supply will become a prey to the monopolist. To a lesser degree, the same dangers were present on the demand side, where a rapid falling off might be followed by a monopoly of demand. With every step that the state took to rid the market of particularist restrictions, of tolls and prohibitions, it imperiled the organized system of production and distribution which was now threatened by unregulated competition and the intrusion of the interloper who "scooped" the market but offered no guarantee of permanency. Thus it came that although the new national markets were, inevitably, to some degree competitive, it was the traditional feature of regulation, not the new element of competition, which prevailed.[15] The self-sufficing household of the peasant laboring for his subsistence remained the broad basis of the economic system, which was being integrated into large national units through the formation of the internal market. This national market now took its place alongside, and partly overlapping, the local and foreign markets. Agriculture was now being supplemented by internal commerce—a system of relatively isolated markets, which was entirely compatible with the principle of householding still dominant in the countryside.

This concludes our synopsis of the history of the market up to the time of the Industrial Revolution. The next stage in mankind's history brought, as we know, an attempt to set up one big self-regulating market. There was nothing in mercantilism, this distinctive policy of the Western nation-state, to presage such a unique development. The "freeing" of trade performed by mercantilism merely liberated trade from particularism, but at the same time extended the scope of regulation. The economic system was submerged in general social relations; markets were merely an accessory feature of an institutional setting controlled and regulated more than ever by social authority.

Chapter 6: The Self-Regulating Market and the Fictitious Commodities: Labor, Land, and Money

This cursory outline of the economic system and markets, taken separately, shows that never before our own time were markets more than accessories of economic life. As a rule, the economic system was absorbed in the social system, and whatever principle of behavior predominated in the economy, the presence of the market pattern was found to be compatible with it. The principle of barter or exchange, which underlies this pattern, revealed no tendency to expand at the expense of the rest. Where markets were most highly developed, as under the mercantile system, they throve under the control of a centralized administration which fostered autarchy both in

the households of the peasantry and in respect to national life. Regulation and markets, in effect, grew up together. The self-regulating market was unknown; indeed the emergence of the idea of self-regulation was a complete reversal of the trend of development. It is in the light of these facts that the extraordinary assumptions underlying a market economy can alone be fully comprehended.

A market economy is an economic system controlled, regulated, and directed by markets alone; order in the production and distribution of goods is entrusted to this self-regulating mechanism. An economy of this kind derives from the expectation that human beings behave in such a way as to achieve maximum money gains. It assumes markets in which the supply of goods (including services) available at a definite price will equal the demand at that price. It assumes the presence of money, which functions as purchasing power in the hands of its owners. Production will then be controlled by prices, for the profits of those who direct production will depend upon them; the distribution of the goods also will depend upon prices, for prices form incomes, and it is with the help of these incomes that the goods produced are distributed amongst the members of society. Under these assumptions order in the production and distribution of goods is ensured by prices alone.

Self-regulation implies that all production is for sale on the market and that all incomes derive from such sales. Accordingly, there are markets for all elements of industry, not only for goods (always including services) but also for labor, land, and money their prices being called respectively commodity prices, wages, rent, and interest. The very terms indicate that prices form incomes: interest is the price for the use of money and forms the income of those who are in the position to provide it; rent is the price for the use of land and forms the income of those who supply it; wages are the price for the use of labor power, and form the income of those who sell it; commodity prices, finally, contribute to the incomes of those who sell their entrepreneurial services, the income called profit being actually the difference between two sets of prices, the price of the goods produced and their costs, *i.e.*, the price of the goods necessary to produce them. If these conditions are fulfilled, all incomes will derive from sales on the market, and incomes will be just sufficient to buy all the goods produced.

A further group of assumptions follows in respect to the state and its policy. Nothing must be allowed to inhibit the formation of markets, nor must incomes be permitted to be formed otherwise than through sales. Neither must there be any interference with the adjustment of prices to changed market conditions—whether the prices are those of goods, labor, land, or money. Hence there must not only be markets for all elements of industry,[16] but no measure or policy must be countenanced that would influence the action of these markets. Neither price, nor supply, nor demand must be fixed or regulated; only such policies and measures are in order which help to ensure the self-regulation of the market by creating conditions which make the market the only organizing power in the economic sphere.

To realize fully what this means, let us return for a moment to the mercantile system and the national markets which it did so much to develop. Under feudalism and the gild system land and labor formed part of the social organization itself (money had yet hardly developed into a major element of industry). Land, the pivotal element in the feudal order, was the basis of the military, judicial, administrative, and political system; its status and function were determined by legal and customary rules. Whether its possession was transferable or not, and if so, to whom and under what restrictions; what the rights of property entailed; to what uses some types of land might be put—all these questions were removed from the organization of buying and selling, and subjected to an entirely different set of institutional regulations.

The same was true of the organization of labor. Under the gild system, as under every other economic system in previous history, the motives and circumstances of productive activities were embedded in the general organization of society. The relations of master, journeyman, and apprentice; the terms of the craft; the number of apprentices; the wages of the workers were all regulated by the custom and rule of the gild and the town. What the mercantile system did was merely to unify these conditions either through statute as in England, or through the "nationalization" of the gilds as in France. As to land, its feudal status was abolished only in so far as it was linked with provincial privileges; for the rest, land remained *extra commercium*, in England as in France. Up to the time of the Great Revolution of 1789, landed estate remained the source of social privilege in France, and even after that time in England Common Law on land was essentially medieval. Mercantilism, with all its tendency towards commercialization, never attacked the safeguards which protected these two basic elements of production—labor and land—from becoming the objects of commerce. In England the "nationalization" of labor legislation through the Statute of Artificers (1563) and the Poor Law (1601), removed labor from the danger zone, and the anti-enclosure policy of the Tudors and early Stuarts was one consistent protest against the principle of the gainful use of landed property.

That mercantilism, however emphatically it insisted on commercialization as a national policy, thought of markets in a way exactly contrary to market economy, is best shown by its vast extension of state intervention in industry. On this point there was no difference between mercantilists and feudalists, between crowned planners and vested interests, between centralizing bureaucrats and conservative particularists. They disagreed only on the methods of regulation: gilds, towns, and provinces appealed to the force of custom and tradition, while the new state authority favored statute and ordinance. But they were all equally averse to the idea of commercializing labor and land—the precondition of market economy. Craft gilds and feudal privileges were abolished in France only in 1790; in England the Statute of Artificers was repealed only in 1813–14, the Elizabethan Poor Law in 1834. Not before the last decade of the eighteenth century was, in either country, the establishment of a free labor market even discussed; and the idea of the self-regulation of economic life was utterly beyond the horizon of the age. The mercantilist was concerned with, the development of the resources of the country, including full employment, through trade and commerce; the traditional organization of land and labor he took for granted. He was in this respect as far removed from modem concepts as he was in the realm of politics, where his belief in the absolute powers of an enlightened despot was tempered by no intimations of democracy. And just as the transition to a democratic system and representative politics involved a complete reversal of the trend of the age, the change from regulated to self-regulating markets at the end of the eighteenth century represented a complete transformation in the structure of society.

A self-regulating market demands nothing less than the institutional separation of society into an economic and political sphere. Such a dichotomy is, in effect, merely the restatement, from the point of view of society as a whole, of the existence of a self-regulating market. It might be argued that the separateness of the two spheres obtains in every type of society at all times. Such an inference, however, would be based on a fallacy. True, no society can exist without a system of some kind which ensures order in the production and distribution of goods. But that does not imply the existence of separate economic institutions; normally, the economic order is merely a function of the social, in which it is contained. Neither under tribal, nor feudal, nor mercantile conditions was there, as we have shown, a separate economic system in society. Nineteenth century society, in which economic activity was isolated and imputed to a distinctive economic motive, was, indeed, a singular departure.

Such an institutional pattern could not function unless society was somehow subordinated to its requirements. A market economy can exist only in a market society. We reached this conclusion on general grounds in our analysis of the market pattern. We can now specify the reasons for this assertion. A market economy must comprise all elements of industry, including labor, land, and money. (In a market economy the last also is an essential element of industrial life and its inclusion in the market mechanism has, as we will see, far-reaching institutional consequences.) But labor and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists. To include them in the market mechanism means to subordinate the substance of society itself to the laws of the market.

We are now in the position to develop in a more concrete form the institutional nature of a market economy, and the perils to society which it involves. We will, first, describe the methods by which the market mechanism is enabled to control and direct the actual elements of industrial life; second, we will try to gauge the nature of the effects of such a mechanism on the society which is subjected to its action.

It is with the help of the commodity concept that the mechanism of the market is geared to the various elements of industrial life. Commodities are here empirically defined as objects produced for sale on the market; markets, again, are empirically defined as actual contacts between buyers and sellers. Accordingly, every element of industry is regarded as having been produced for sale, as then and then only will it be subject to the supply-and-demand mechanism interacting with price. In practice this means that there must be markets for every element of industry; that in these markets each of these elements is organized into a supply and a demand group; and that each element has a price which interacts with demand and supply. These markets—and they are numberless—are interconnected and form One Big Market.[17]

The crucial point is this: labor, land, and money are essential elements of industry; they also must be organized in markets; in fact, these markets form an absolutely vital part of the economic system. But labor, land, and money are obviously *not* commodities; the postulate that anything that is bought and sold must have been produced for sale is emphatically untrue in regard to them. In other words, according to the empirical definition of a commodity they are not commodities. Labor is only another name for a human activity which goes with life itself, which in its turn is not produced for sale but for entirely different reasons, nor can that activity be detached from the rest of life, be stored or mobilized; land is only another name for nature, which is not produced by man; actual money, finally, is merely a token of purchasing power which, as a rule, is not produced at all, but comes into being through the mechanism of banking or state finance. None of them is produced for sale. The commodity description of labor, land, and money is entirely fictitious.

Nevertheless, it is with the help of this fiction that the actual markets for labor, land, and money are organized;[18] they are being actually bought and sold on the market; their demand and supply are real magnitudes; and any measures or policies that would inhibit the formation of such markets would *ipso facto* endanger the self-regulation of the system. The commodity fiction, therefore, supplies a vital organizing principle in regard to the whole of society affecting almost all its institutions in the most varied way, namely, the principle according to which no arrangement or behavior should be allowed to exist that might prevent the actual functioning of the market mechanism on the lines of the commodity fiction.

Now, in regard to labor, land, and money such a postulate cannot be upheld. To allow the market mechanism to be sole director of the fate of human beings and their natural environment, indeed, even of the amount and use of purchasing power, would result in the demolition of society. For the alleged commodity "labor 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 labor 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, neighborhoods 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. Undoubtedly, labor, land, and money markets *are* essential to a market economy. But no society could stand the effects of such a system of crude fictions even for the shortest stretch of time unless its human and natural substance as well as its business organization was protected against the ravages of this satanic mill.

The extreme artificiality of market economy is rooted in the fact that the process of production itself is here organized in the form of buying and selling.[19] No other way of organizing production for the market is possible in a commercial society. During the late Middle Ages industrial production for export was organized by wealthy burgesses, and carried on under their direct supervision in the home town. Later, in the mercantile society, production was organized by merchants and was not restricted any more to the towns; this was the age of "putting out" when domestic industry was provided with raw materials by the merchant capitalist, who controlled the process of production as a purely commercial enterprise. It was then that industrial production was definitely and on a large scale put under the organizing leadership of the merchant. He knew the market, the volume as well as the quality of the demand; and he could vouch also for the supplies which, incidentally, consisted merely of wool, woad, and, sometimes, the looms or the knitting frames used by the cottage industry. If

supplies failed it was the cottager who was worst hit, for his employment was gone for the time; but no expensive plant was involved and the merchant incurred no serious risk in shouldering the responsibility for production. For centuries this system grew in power and scope until in a country like England the wool industry, the national staple, covered large sectors of the country where production was organized by the clothier. He who bought and sold, incidentally, provided for production—no separate motive was required. The creation of goods involved neither the reciprocating attitudes of mutual aid; nor the concern of the householder for those whose needs are left to his care; nor the craftsman's pride in the exercise of his trade; nor the satisfaction of public praise—nothing but the plain motive of gain so familiar to the man whose profession is buying and selling. Up to the end of the eighteenth century, industrial production in Western Europe was a mere accessory to commerce.

As long as the machine was an inexpensive and unspecific tool there was no change in this position. The mere fact that the cottager could produce larger amounts than before within the same time might induce him to use machines to increase earnings, but this fact in itself did not necessarily affect the organization of production. Whether the cheap machinery was owned by the worker or by the merchant made some difference in the social position of the parties and almost certainly made a difference in the earnings of the worker, who was better off as long as he owned his tools; but it did not force the merchant to become an industrial capitalist, or to restrict himself to lending his money to such persons as were. The vent of goods rarely gave out; the greater difficulty continued to be on the side of supply of raw materials, which was sometimes unavoidably interrupted. But, even in such cases, the loss to the merchant who owned the machines was not substantial. It was not the coming of the machine as such but the invention of elaborate and therefore specific machinery and plant which completely changed the relationship of the merchant to production. Although the new productive organization was introduced by the merchant—a fact which determined the whole course of the transformation—the use of elaborate machinery and plant involved the development of the factory system and therewith a decisive shift in the relative importance of commerce and industry in favor of the latter. Industrial production ceased to be an accessory of commerce organized by the merchant as a buying and selling proposition; it now involved long-term investment with corresponding risks. Unless the continuance of production was reasonably assured, such a risk was not bearable.

But the more complicated industrial production became, the more numerous were the elements of industry the supply of which had to be safeguarded. Three of these, of course, were of outstanding importance: labor, land, and money. In a commercial society their supply could be organized in one way only: by being made available for purchase. Hence, they would have to be organized for sale on the market—in other words, as commodities. The extension of the market mechanism to the elements of industry—labor, land, and money—was the inevitable consequence of the introduction of the factory system in a commercial society. The elements of industry had to be on sale.

This was synonymous with the demand for a market system. We know that profits are ensured under such a system only if self-regulation is safeguarded through interdependent competitive markets. As the development of the factory system had been organized as part of a process of buying and selling, therefore labor, land, and money had to be transformed into commodities in order to keep production going. They could, of course, not be really transformed into commodities, as actually they were not produced for sale on the market. But the fiction of their being so produced became the organizing principle of society. Of the three, one stands out: labor is the technical term used for human beings, in so far as they are not employers but employed; it follows that henceforth the organization of labor would change concurrently with the organization of the market system. But as the organization of labor is only another word for the forms of life of the common people, this means that the development of the market system would be accompanied by a change in the organization of society itself. All along the line, human society had become an accessory of the economic system.

We recall our parallel between the ravages of the enclosures in English history and the social catastrophe which followed the Industrial Revolution. Improvements, we said, are, as a rule, bought at the price of social dislocation. If the rate of dislocation is too great, the community must succumb in the process. The Tudors and early Stuarts saved England from the fate of Spain by regulating the course of change so that it became bearable and its effects could be canalized into less destructive avenues. But nothing saved the common people of England from the impact of the Industrial Revolution. A blind faith in spontaneous progress had taken hold of people's minds, and with the fanaticism of sectarians the most enlightened pressed forward for boundless and unregulated change in society. The effects on the lives of the people were awful beyond description. Indeed, human society would have been annihilated but for protective, countermoves which blunted the action of this self-destructive mechanism.

Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. While on the one hand markets spread all over the face of the globe and the amount of goods involved grew to unbelievable proportions, on the other hand a network of measures and policies was integrated into powerful institutions designed to check the action of the market relative to labor land, and money. While the organization of world commodity markets, world capital markets, and world currency markets under the aegis of the gold standard gave an unparalleled momentum to the mechanism of markets, a deep-seated movement sprang into being to resist the pernicious effects of a market controlled economy. Society protected itself against the perils inherent in a self-regulating market system—this was the one comprehensive feature in the history of the age.

Notes

1. Tawney, R.H., *The Agrarian Problem in the 16th Century*, 1912.
2. Gibbins, H. de B., *The Industrial History of England*, 1895.
3. Innes, A.D., *England under the Tudors*, 1932.
4. Gairdner, J., "Henry VIII," *Cambridge Modern History*, Vol. II, 1918.
5. Heckscher, E.F., *Mercantilism*, 1935, p. 104.
6. Clapham, J.H., *Economic History of Modern Britain*, Vol. III.

7. See Karl Polanyi, *The Great Transformation*, Beacon Press, 2001 ed.: pp. 276–280, "Notes on Sources: 6. Selected References to "Societies and Economic Systems."
8. See Karl Polanyi, *The Great Transformation*, Beacon Press, 2001 ed.: pp. 280–285, "Notes on Sources: 7. Selected References to "Evolution of the Market Pattern."
9. Hawtrey, G.R., *The Economic Problem*, 1925, p. 13. "The practical application of the principle of individualism is entirely dependent on the practice of exchange." Hawtrey, however, was mistaken in assuming that the existence of markets simply followed from the practice of exchange.
10. Thurnwald, R.C, *Economics in Primitive Communities*, 1932, p. 147.
11. Pirenne, H., *Medieval Cities*, 1925, p. 148 (footnote 12).
12. Firth, R., *Primitive Polynesian Economics*, 1939, p. 347.
13. Thurnwald, R.C., *op. cit.*, p. 162–164.
14. Our presentation follows H. Pirenne's well-known works.
15. Montesquieu, *L'Esprit del lois*, 1748. "The English constrain the merchant, but it is in favor of commerce."
16. Henderson, H.D., *Supply and Demand*, 1922. The practice of the market is twofold: the apportionment of factors between different uses, and the organizing of the forces influencing aggregate supplies of factors.
17. Hawtrey, G.R., *op. cit.* Its function is seen by Hawtrey in making "the relative market values of all commodities mutually consistent."
18. Marx's assertion of the fetish character of the value of commodities refers to the exchange value of genuine commodities and has nothing in common with the fictitious commodities mentioned in the text.
19. Cunningham, W., "Economic Change," *Cambridge Modern History*, Vol. I.