*Markets and Other Allocation Systems in History: The Challenge of Karl Polanyi**

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Karl Polanyi's challenge is straightforward. Polanyi contends that markets have only dominated resource allocation for a brief span in history centering on the nineteenth-century Western World. Before that time — and increasingly in the twentieth century — other allocative systems have characterized economic organization and these other systems are not grounded in economizing behaviour. Accordingly, the theoretical apparatus of economists, both neo-classical and Marxian, is useful to explain only a minute portion of the five millennia of history. It is inappropriate for past societies and increasingly irrelevant for the twentieth century as well. Polanyi has lots of company.

Anthropologists, sociologist, and historians have long challenged the relevance of economic theory to the analysis of past societies. The distinguished classical scholar, Moses Finley in his Sather lectures at Berkeley (subsequently published as *The Ancient Economy*), begins by rejecting the concepts and approach of economic theory. It would be accurate to say that there are few historically oriented scholars from other disciplines who would differ from Finley. In general they stress that the wealth-maximizing behavourial postulate of economists is inappropriate to such societies and

* Polanyi's principal works are *The Great Transformation* (New York: Rinehart & Co. 1944), *Trade and Markets in the Early Empires,* edited with Conrad Arensberg and Harri Pearson (New York: The Free Press, 1957), *Dahomey and the Slave Trade* (Seattle: University of Washington Press, 1966). His essays have been collected by George Dalton, ed. in *Primitive, Archaic and Modern Economics* (Boston: Beacon Press, 1971).

their economic structure and performance cannot be usefully analysed with the economist's tools.

The widespread scepticism of scholars in other fields has not had much impact on economic historians who use neo-classical economics in history — the new economic historians. They may give a bow in the direction of the dissenters — usually in the direction of Georgescu-Roegen's entropy law before continuing on their merry way of applying neo-classical theory to an ever-widening scope of what is included in economic history. They know (as most scholars in other disciplines do not appear to know), that one cannot directly test behavioral postulates, and the proof of the pudding is in the eating. The increasing popularity of the new economic history suggests that the tools of economics provided gourmet fare.

Karl Polanyi cannot be so lightly dismissed, and if his spirit does not haunt the new economic historians, it is only because they problably are not even aware that the ghost exists. What gives Karl Polanyi's challenge a force not found in other scholar's criticism of the economist's tools is that he offers an alternative analytical framework to account for past and present institutional organization. Polanyi maintains that reciprocity and redistribution were the dominant "transactional modes" in past societies and, increasingly, characterize economies in this century as well. These allocative systems were not based on economizing behavior, but can only be understood in terms of in-depth studies which are cultural, social, and psychological.

Polanyi takes issue with both neo-classical and Marxian economics maintaining that they both emerged in the very specialized and unique context of the Industrial Revolution. George Dalton in his introduction to Polanyi's essays summarizes his position as follows:

> It is not with the success or failure of conventional or Marxian economic theory to analyze industrial capitalism that Polanyi takes issue, but rather with these analytical systems; ideas that have become fossilized, as it were, permanent and general truths. The pursuit of material gain compelled by laissez-faire market rules is still not seen as behavior forced on people as the only way to earn livelihood in a market system, but as an expression of their inner being; individualism is regarded as a norm, and society remains invisible as a cluster of individual persons who happen to live together without responsibility for anyone other than kin; economic improvement is assumed to be more important than any social dislocations that accompany it; man is seen as utilitarian atom having an innate propensity to truck, barter, and exchange; material maximization and the primary of material self-interest are assumed to be constants in all human societies.[1]

Polanyi's conceptual framework of reciprocity, redistribution, administered trade, gift trade, special purpose money, ports of trade is grounded in

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[1] GEORGE DALTON, *Primitive and Modern Economics: Essays of Karl Polanyi*, George Dalton (Ed.) Boston: The Beacon Press, 1971, p. XIV.

social as well as economic necessity. In our economy market exchange is the dominant "transactional mode".

> Not all transactions in capitalist economy are market exchanges. Let us, following Polanyi, call those payments to, and disbursements by, central political authority "redistributive" transactions. Immediately a social dimension appears that is absent in market exchange transaction. Redistributive payments to government are an expression of politically defined obligation and redistributive disbursements by government are determined by political decision. A third transactional mode is what Polanyi calls "reciprocity", a general category of socially obligatory gift-giving. Perhaps it is correct to say that in welfare-state, capitalist economies of the present day, reciprocal and redistributive transactions are in some degree socially "integrative". Gift-giving is simply a material expression of those socially cohesive relationships that we call friendship and kinship. With us, however, the quantitative importance of gift-giving is small, and our prime sources of livelihood are not connected with gift receipts.[2]

If economic motives in production and distribution are absent, how does an economic system operate?

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

2 DALTON, p. XXXV.

> to all), the overwhelming importance of the storage system becomes apparent. Economically, it is an essential part of the existing system of division of labor, of foreign trading, of taxation for public purposes, of defense provisions. But these functions of an economic system proper are completely absorbed by the intensely vivid experiences which offer superabundant non-economic motivation for every act performed in the frame of the social system as a whole.[3]

Polanyi stresses that reciprocity and redistribution make possible the operation of a complex economic system without the help of written records and elaborate administration.

> 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.[4]

By and large Polanyi has been ignored by economists and economic historians alike — even though he enjoys a substantial reputation amongst historians and scholars of other social sciences.

The stubborn fact of the matter is that Polanyi was correct in his major contention that the nineteenth century was a unique era in which markets played a more important role than at any other time in history. Polanyi, not only argued convincingly that economic historians have overplayed the role of markets in ancient economies, but argued with equal force that the market was a declining "transactional mode" of the twentieth century as well. To the extent that economic theory was confined to the analysis of markets, the tools of the economist were not only irrelevant to an understanding of the ancient world, but were increasingly less useful to explain the evolving economies of the twentieth century as well. Moreover, Polanyi's concepts of reciprocity and redistribution, however imprecisely specified, clearly have characterized and continue to characterize a great deal of resource allocation. Economic historians have not even begun to account for such non-market allocative systems, and until they do, they can say very little about societies in which markets had very limited allocative effects.

Even more embarrassing is the failure of economic historians to explain a major phenomenon of the past century — the shift away from the market as the key decision-making unit of economic systems. The ad hoc explanation

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[3] POLANYI in DALTON, pp. 9-10.
[4] POLANYI in DALTON, pp. 11-12.

of economic historians in no way meets the challenge. Joseph Schumpeter alone stands out as a towering exception to this indictment, and he too neither sired a school to follow him, nor induced economic historians to follow in his footsteps.

It is easy to find fault with Polanyi's analytical framework. There are numerous parts of his analysis that show a failure to grasp elementary economic principles. The evidence he makes use of from the ancient world is highly selective and regardless of our definition of markets he clearly understates their use throughout history. Moreover, it is hard to see how one could generate refutable tests of his hypotheses, but his challenge will never be confronted by such criticism. The only way to meet it is by developing an analytical framework that can explain past and present institutional structures and is amenable to testing. Karl Polanyi's challenge must be met head on if economic history is to provide us with improved insights about our economic past. I leave to my high-powered colleagues the task of explaining the last 100 years, and trust that Joseph Schumpeter's spirit will look kindly on their efforts. I should like to turn my attention to the ancient world and attempt to account for the structure of economies in that bygone era. Obviously, however, if the framework of analysis is to be successful in accounting for these structures, it should be equally amenable to accounting for other institutional structures in other times and places as well. Indeed, it is necessary to explore the degree to which other allocation systems persisted even in the nineteenth-century world in order to begin to come to terms with the issues.

II

Let me begin by specifying the nature of the challenge precisely. What is there to explain? Exactly what were the characteristics of a redistribution system or a reciprocal system?

For Polanyi a market system of exchange was acquisitively oriented, but the other two "transactional modes" reciprocity (obligatory gift giving between kin and friends), and redistribution (obligatory payments to central political or religious authority which used the receipts for its own maintenance to provide community services, and as an emergency stock in case of individual or community disaster) were based in the first instance on kinship, friendship, status or hierarchy; and in the second instance, on political or religious affiliation.[5] The other organizing principle of economic activity which Polanyi believes characterized "All economic systems known to us up to the end of feudalism in Western Europe"[6] was that of "householding" as character-

[5] DALTON, ed. 1968, p. XIV.

[6] K. POLANYI, *Societies and Economic Systems,* in Dalton (Ed.), p. 18.

ized by Aristotle in *Politics* in which production for use is set in opposition to production for gain. The latter was peculiar to markets and a monetary system; the former characterized the Greek household and was the dominant form of organization.

The key to Polanyi's system is the view that economic organization is embodied in society "in the sense of having no separate existence apart from its controlling social integument" transactional dispositions of natural resources, labor, produce, and services are expressions of socially defined obligation and relationships".[7] One can state the issue succintly. The kinship, status, hierarchy and political or religious affiliations which underlie these economic structures are not explicable in terms of economizing behaviour — one can only understand them and therefore the functioning of the economy — by in "depth" studies which are social, cultural, and psychological in origin. In order to sustain this position, Polanyi must make explicit that exchange and trade does not necessarily imply economic motivation. Thus, he describes the Kula trade of Trobriand Islanders "as trade though no profit is involved...".[8] In describing marketless trading in Hammurabi's time in Babylonia, Polanyi says:

> However, the chief difference between administrative or treaty trade on the one hand and market trade on the other lies in the trader's activities themselves. In contrast to market trade, those activities are here risk free, both in regard to price expectation and debtors' insolvency.
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> Price risk is excluded by the absence of price-making markets with their fluctuating prices, and the general organization of trade which does not depend for profit on price differentials, but rather on turnover. Hence that relative lack of concern with prices, absence of the mention of profits in the business in hand and even more important, mention of losses. In effect, participation in business is participation in profits. This has far-reaching consequences for the forms of trade partnership, which cannot be understood at all unless no prices, as a general rule, is kept in mind.[9]

Polanyi provides the key to his analytical distinction as follows:

> Pre-history, early history, and indeed as Karl Bücher was the first to proclaim, the whole of history apart from those last centuries, had economies, the organization of which differed from anything assumed by the economist. And the difference we now begin to infer, can be reduced to a single point — they possessed no system of price-making markets.[10]

III

Is there an economic explanation for these "transactional modes" or must we retreat to the ad-hoc explanation that has characterized historians

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[7] Dalton, p. XLIV.

[8] K. Polanyi in Dalton, p. 12.

[9] K. Polanyi, et al., *Trade and Market in the Early Empires*, p. 20, 21.

[10] K. Polanyi in Dalton, p. 119.

and scholars from the social sciences. We should begin by agreeing with Polanyi [11] that all societies have elements of reciprocity, redistribution and markets in them.

But the point goes much deeper than even Polanyi realized, and poses a fundamental problem to the economist and economic historian. How do we account for substitutes for price-making markets of which families, firms, guilds, manors, trade unions, cooperatives, etc., are *organizing* institutions which allocate resources in place of markets. Most fundamental of all, how do we explain government?

These substitutes for markets not only have dominated exchange in past societies, but do so today as well. Without a theoretical explanation for these allocative institutions, the new economic historian has little to contribute to an understanding of the past, and contemporary economists can explain less and less about the contemporary economic scene.

Price-making markets have never completely dominated economic decision making throughout history, *including* the nineteenth century. We do not observe resources being allocated by market prices inside households, voluntary organizations, and governments throughout history. Even in the hey-day of the market economy when presumably "the cash nexus" (to borrow a term from Marx) had (for a brief period) replaced other values in the system, a large percentage of allocative decisions did not occur in price-making markets. Reciprocity and redistribution are everywhere characteristic today as in the past in resource allocation within households, voluntary organizations, and in government. We take it today (and in the nineteenth century) as "natural" that household and governemental economic, decision-making units are redistributive "transactional modes", yet there is nothing immutable about the redistributive activities of either. Throughout economic history, activities (such as, the provision of old-age security) have shifted from households to markets to government.

If my contention is correct that non-market allocation of resources was a major aspect of economic organization in a century when even Polanyi conceded that economizing behaviour characterized economic activity, then we can begin by asking ourselves if there is not an economizing explanation for these other "transactional modes". This should not be construed as maintaining that other disciplines do not have a part to play in explaining institutional arrangements of economies. Rather, I wish to make the affirmative point that as yet we have not even tried to see how far economic analysis will take us in explaining institutional arragements. Before we abandon or supplement economic analysis we must first find out what it can do for us. It is the contention of this essay that transactions cost analysis is a promising analytical framework to explore non-market forms of economic organization.

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11 DALTON, p. XXXV.

It is a peculiar fact that the literature of economics and economic history contains so little discussion of the central institution that underlies neo-classical economics — the market. The new *International Encyclopedia of the Social Sciences* has a brief essay on "Markets and Industry" which is both a-historical and uniformative about the fundamental conditions necessary for a market. I am not aware of any existing systematic analysis of the pre-conditions for price-making markets. What follows is certainly tentative and incomplete.

An essential pre-condition for price-making markets is the existence of well-defined and enforced property rights over the good or service to be exchanged. Such a condition does not exist today, or in the nineteenth century, for many goods and services, and was conspicuously absent throughout most of recorded history.

The costs of defining and enforcing property rights — transaction costs — lead to non-price allocation of many goods and services today, because the costs of delineation or enforcement exceed the benefits. Common property resources and public goods are conspicuous examples, but mundane ones such as the classic one of the shopping centre parking lot (because the cost of an attendant to monitor the lot exceeds the benefits) are everywhere around us. Since technological developments are continually reducing the costs of delineation and enforcement of property rights (although in some instances the effect of technological change may be the reverse), transactions costs in the ancient past would have been an insuperable barrier to price-making markets throughout most of history. Indeed, we do not observe such markets emerging until the Sixth Century B.C., Athens.

To the degree that ownership rights are absent or attenuated, some other allocative mechanism will exist. The problem for the economic historian is to identify the right structure, and changes in these rights which allow us to explain changes in contractual behaviour, resources allocation, and income distribution. Put into the larger context of the whole structure of an economic system, we observe that economic decisions are made by households, voluntary organizations, markets, and governments, and our task is to specify the transaction costs involved so that we can explain the basis of decision making in one or another of these decision-making units, and explain the form that it takes. We shall explore that issue now and leave to the last section a tentative examination of the nature of changes which will lead to alteration in the decision-making structure over time.

The meaning of a market is at issue to begin with. Polanyi appears to have a specific and very restrictive definition of a price-making market in mind as typified by the Agora or the modern day farmer's market. These are characterized by a large number of buyers and sellers, a variety of goods, an agreed upon medium of exchange and an enforced set of property rights over the terms of exchange. We should note carefully that by such a restricted definition, most exchanges do not take place in markets. The reason is straightforward. The contracts involved in exchanges have to deal with many margins which result in different forms of exchange. While we are far from being able to formalize these in theoretical terms, we can at least list some of them. The number of buyers and sellers, the cost of measuring the characteristics of the commodity, the cost of acquiring information, the cost of altering the contract, agency costs, etc.[12]

In general we observe that the smaller the number of buyers and sellers the more likely there will be monopoly and monopsony power present and traders will prefer long-term stable contracts to insure uninterrupted trade; the greater the volume of transactions the lower the cost per unit of acquiring information about supply and demand conditions; the more costly it is to alter a contract the more likely it will be of long duration; the greater the variety of goods and services to be traded, the lower the information costs of determining trading equivalents as compared to other « transactional modes »: the lower the costs of specifying and enforcing contractual agreements to trade the greater are the gains to trade from price-making markets.

We have yet to derive from these observations specific and well behaved cost functions of transactions, but they can give us an initial start towards explaining changes in « transactional modes » of economic organization with changes in the above mentioned factors.

We can begin to make sense of the existence of firms (manors, guilds, etc.) when we pose the issue of the costs of transacting in the market all of the separate contractual arrangements involved in production as compared to organizing them within a firm. Whether we regard the modern firm as that range of exchanges over which the market system is suppressed (Coase) or a contractual organization in which there is joint input production (Alchian and Demsetz) or a legal fiction which serves as a nexus for contracting relationship which is also characterized by the existence of divisible residual claimants (Jensen and Macking),[13] it is clearly a wealth maximizing institution which substitutes for price-making markets. It is reasonable to assume that the forces that lead to the substitution of firms for markets today may also help us to explain the variety of forms of economic organization in past societies.

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12 The literature on contract theory is growing rapidly. See in particular STEVEN N.S. CHEUNG, *Transaction Costs, Risk Aversion, and the Choice of Contractual Arrangements,* « Journal of Law and Economics », 1, April 1969. MICHAEL JENSEN and WILLIAM MECKLING, *Theory of the Firm, Managerial Behavior, Agency Costs and Ownership Structure,* « Journal of Financial Economics », Vol. 3, 4 (Oct. 1976), VICTOR GOLDBERG, *Regulation and Administered Contracts,* « The Bell Journal of Economics », Autumn 1976.

13 For an exploration of this issue, see RONALD COASE, *A Theory of the Firm,* « Economica » 1936, and A. ALCHIAN and M. DEMSETZ, *Production, Information Costs and Economic Organization,* « American Economic Review », December 1972, Jensen and Meckling, 1976.

Let us see if a transactions-cost approach can shed some light upon Polanyi's « transactional modes » of reciprocity and redistribution. Take the Kula trade of the Trobriand Islanders, the classic case of Polanyi's reciprocity mode. The traditional interpretation which underlies Polanyi's view rests on data provided by Malinowski. According to this view, Trobriand society is stable, patterned and unchanging, and giving is good in itself and not carried out for any ulterior motive. (See the quote from Dalton, page 706 of this paper). In effect, gift giving is part of a stable pattern of role fulfillment. However, a later study which also builds on Malinowsky presents quite a different picture:

> The exchange of gifts creates or reinforces relationships of alliance between individuals and the groups of which they are representative. They open the way for the exchange of other acts of duty and support, both material and nonmaterial. In the *kula* ring, the partnership establishes an alliance with political overtones, in that law and order is guaranteed between the communities involved. It opens channels of substantial trade and social intercourse. But a man's position in the ring is not predetermined and static. A participant starts from a position of relative capital advantage or disadvantage, capital here including his actual stock of *vaygu'a* and his indirect control of them through his effective relationship with other persons, and hence his ability to call upon their stocks. From this position, if he is ambitious, he may maneuver to increase the number and scale of alliances, and hence his command over the flow of wealth and the degree to which his good will is sought, and hence his status and prestige.[14]

Cyril Belshaw in an examination of reciprocity societies maintains that these societies are based on gift giving and prestation:

> A gift is usually contrasted to a payment. The *Shorter Oxford Dictionary* says a gift is voluntarily transferred "without expectation or receipt of an equivalent". This sense of the word is not accurately applicable to the transactions we have recorded. In some instances there is an immediate reciprocation, and in all there is an acknowledgement of a relationship which implies continuous obligations and transactions. A more usual Middle English usage recorded by the *Oxford Dictionary* comes closer: « Something given to corrupt; a bribe ».[15]
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> At this juncture we can see that gift-giving implies social imperatives, which leads to the notion of prestation. Here again, we must examine meanings and connotations, particularly since this term is not common in English usage. The primary meaning, again according to the *Shorter Oxford English Dictionary,* is "the action of paying, in money or services, what is due by law or custom, or feudally", which is very close to one of the technical French meanings, namely *"impot communal affect a l'entretien des chemins vicinaux et payable en argent ou en nature".* Such definitions imply a fairly clear

14 Cyril Belshaw, *Traditional Exchange and Modern Markets* (Englewoods Cliffs: Prentice-Hall, 1965), p. 19, citing a study by T.P. Singh Uberoi, *Politics of the Kula Ring,* Manchester University Press, 1962.

15 Belshaw, p. 46.

> obligation on the part of an individual to render something specific, the obigation being enforced by law or at least strong public pressure.[16]

In effect reciprocity societies can be considered as a least-cost trading solution where no system of enforcing the terms of exchange between trading units exists.

Two of the cornerstones of Polanyi system are his account of the ubiquitous « port of trade » and his account of marketless trade in Babylonia. His own account in each case is more amenable to a transactions cost explanation than one grounded in non-economic behaviour. Polanyi maintains that « ports of trade were a universal institution of overseas trade preceding the development of international markets ».[17] They had their origins in prehistoric « emporia » which he describes as follows:

> The Carthaginians, according to Herodotus (Herod., IV, 196) indulged in a dumb barter with the natives of the African coast, exchanging their goods for gold. Caution impelled the parties to repair, in turn, to a spot near the beach, leaving an amount of goods and gold, respectively. This was repeated, until the other party was satisfied with the amounts offered, both sides withdrawing then with the purchase sought, ever having met their counterparts face to face. Lehmann-Hartleben found remnants of semi-enclosed spots open toward the sea and showing ruins of an altar, separated only by a low stone wall from the background area. The low wall did not by itself offer defense against attack; it merely indicated the area to which the protection of the altar and the "peace of the emporium extended".[18]

Polany explains the ubiquitous existence of the port of trade in the following terms:

> Thus we find the port of trade as a universal institution of overseas trade preceding the establishment of international markets. It was, as a rule, situated on coastal or riverain sites, where inlets and extensive lagoons eased transportation by land. A related institution, however, might also be found far inland, on the border of two ecological regions, such as highland and plain, but particularly on the border of the desert, that alter ego of the sea. The caravan cities of Palmyra and Petra, Karakorum, Ispahan and Kandahar may be said to have fallen in the category of quasi ports of trade.
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> Even the barest outline of the origins and development of the port of trade confronts us with a number of forms, varying in range and scope as widely as do market institutions to which, in historical retrospect, the port of trade may appear as a functional alternative. Indeed, markets differ as an African bush market does from the New York Stock Exchange, and the international market for capital, freights, and insurance from the slave market in the American South of a century ago, yet all of them are authentic markets. In

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16 BELSHAW, p. 47. The French definition comes from *Nouveau Petit Larousse Illustré*, 1948.

17 DALTON, ed., p. 239.

either case — market-type institution and port of trade — history and anthropology present a bewildering ramification.[19]

Polanyi's own description makes clear that in this environment there was not an agreed upon enforceable set of property-rights for trade between political units. Accordingly, a neutral territory for exchange which begins as a cautious and armslength exchange evolves into a neutral zone sanctified by custom. (The evolution of medieval trade fairs comes to mind).

If the port of trade was one of the cornerstones of Polanyi's system, the other was the nature of the agreements which were the basis of trade. Polanyi's own description of Babylonian trade goes as follows:

"Prices" took the form of equivalencies established by authority of custom, statute or proclamation. The necessaries of life were supposed to be subject to permanent equivalencies; actually they were subject to long-range changes by the same methods by which they had been established. This need not have affected the trader's, which did not depend on price differentials. In principle there was always a "price", i.e., the equivalency at which the trader both bought and sold. But rules regarding the application of equivalencies were hardly the same for monopoly goods, consignment ware and "free" goods. The numerous qualifying adjectives which accompany the term equivalency refer to the various rules and their effects.

The equivalency for copper, "a monopoly", was fixed by treaty over a long term. Copper mining, as organized by the natives, would involve assurances by their chiefs that at least a part of the equivalencies, presumably in goods coveted by the people, would be forthcoming in definite amounts. As to consignment ware, mainly fine cloths manufactured in Assur and imported lead (or tin?), "prices" were similarly fixed and the goods bought and sold at the "price". "Prices" for free goods are especially important, for eventual departures towards market trading were likely to originate from here; in other words, the present meaning of "price" might have developed from equivalencies for "free" goods. The many different adjectives attaching to equivalencies in the Sumerian formulary (also found in Ugarit) as well as the peculiar terminology of Larso documents indicate that the handling of "equivalencies" must have been subject to administrative rules of an intricate kind. In the twentieth century, A.D., this should surprise no one.[20]

Polanyi's description far from suggesting economic organization grounded in "irrational" (in the economic sense of the word) behaviour is precisely consistent with a transactions cost explanation. He concedes that price equivalents did in fact change over time; that in copper, a monoply trade, the equivalents were fixed over a long term so that there would be assurances that trade would not be interrupted. He even mentions the origins of price-making markets. For Polanyi, the key is that the trade is « risk

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[18] Dalton, ed., p. 243.
[19] Dalton, ed., pp. 239-40.
[20] Polanyi, et al., p. 20.

free ».[21] And, indeed, it was in the sense that long-term agreements were designed to reduce risks associated with monoply or monopsony bargaining power.

Polanyi equally characterizes feudalism and manorialism as a redistributive system. In "The Rise and Fall of the Manorial System: A Theoretical Model",[22] and in *The Rise of the Western World: A New Economic History,*[23] Robert Thomas and I account for feudalism and manorialism, and their demise in the context of a transactions cost model, and therefore I shall not recapitulate the explanation here.[24]

A basic point at issue is that Polanyi conceived the custom, kinship arrangements, status, etc., to be fundamentally a result of non-economic forces whereas both the « customs of the Manor » of feudal times described by North and Thomas and the customs described in the above illustrations of Polany are consistent with an explanation that they evolved as ways to reduce transactions costs. There is no direct way to test these alternative views so that disagreement at that level is not fruitful. But changes at the margin in transactions costs should allow us to develop refutable explanations.

IV

Further significant advance in economic history requires that we succeed in defining and explaining the different allocation systems that have characterized economic organization in the past five millennia. It was Karl Polanyi's intuitive genius that he saw the issues. A transactions-cost approach offers the promise of providing refutable explanations for these « transactional modes». More than that this approach offers the promise of accounting for changes in these allocation systems over time. Polanyi provides us with an account of reciprocity and redistributive systems which is inherently changeless. There is nothing in his framework that explains changes in the mix of the system over time. To the degree that we can develop an ordinal ranking of transactions costs, then changes at the margin should produce predictable pressure for institutional rearrangement. The caveat to such an optimistic statement is that while we can and should be able to predict the direction of institutional change, the precise form it will take is still beyond the

21 POLANYI, et al., p. 21.

22 *Journal of Economic History* (December, 1971).

23 Cambridge University Press, 1973.

24 Stefano Fenoltea provides an alternate explanation for feudalism and manorialism, but still based on a transaction-cost approach in "Authority, Efficiency, and Agricultural Organization in Medieval England and Beyond", *Journal of Economic History* (December, 1975).

scope of the state of the art. We cannot as yet derive a specified supply function of institutional arrangements to provide such a determinate answer.

Yet, we also should not minimize the positive implications. Further research should enable us to be able to specify the precise implications of technological changes, population growth or decline, on transaction, costs, and thus derive both refutable propositions and explain the direction of economic change — a small but significant step towards meeting Karl Polanyi's challenge.