

## A Commentary on Asad Zaman's paper: 'The Methodology of Polanyi's *Great Transformation*'

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Asad Zaman has set for himself the admirable but difficult job of articulating the methods used by Karl Polanyi in his well-known and well-regarded work, *The Great Transformation* (hereafter referred to as TGT). It is to his credit that he is partially successful in completing the task. Before I explain why I think that Zaman succeeds and why I think he does not, I need to spend a few paragraphs explaining why the task is important and why it is so difficult.

The task of articulating Polanyi's methods for gathering evidence and creating his argument in TGT is a difficult one for several reasons, the first of which is that Polanyi's writing style sometimes makes reading fun but hard. The late George Dalton, whose own work in economic anthropology was heavily influenced by Polanyi, described the prose style of TGT as that of 'a stiletto set in the end of a battering ram'. The combination of close analysis and rhetorical power that this description suggests can be persuasive but requires close reading and considerable background knowledge for the structure of Polanyi's argument to become clear. It is not, for most economists, an easy read.

What makes articulation of his method even more difficult is that Polanyi did not have a traditional academic background. His background as a member of an intellectual Hungarian family, a journalist in Vienna, and then his involvement in worker education in England where he sought refuge in the 1930s, prepared him to make a political statement rather than one that would be more traditionally academic. (See Block and Somers 2014 for the best available treatment of Polanyi's background and its influence on his work.)

What Polanyi was quite clear about when he wrote TGT was the inadequacy of then current economic analysis to explain the events that had wracked Europe during his young and middle years. He found neither Marxian analysis nor the narrowly neoclassical economic analysis of English and many other universities adequate to account for the social and political upheaval that had so altered his world. The amazing TGT was his effort to make sense of that upheaval, but in TGT Polanyi did not offer a fully developed theoretical approach that could be used in a variety of contexts to arrive at a better understanding of economic systems and their evolution. Most of TGT was about a specific time and place.

Polanyi's methods and his conclusions did not fit within either the Marxist or the Marshallian traditions that dominated Anglo-American economic thought in the middle of the 20<sup>th</sup> century, but his work was compatible with that of the American Institutionalists who played a major role in U.S. economic thought during the interwar period. For modern readers who may not know much of the literature of the original American Institutionalism, this makes understanding the impact of TGT even more difficult. That Columbia University invited Polanyi to become a Visiting Professor and teach their General Economic History course, which was part of their graduate programme, is testament to the similarity of Polanyi's approach to that

of the Institutional economists who had played such an important role at Columbia during the interwar years. (For more on this see Rutherford, 2011.) That he remained in association with Columbia after retirement as co-director of a Ford Foundation financed interdisciplinary project, is evidence of continued interest among colleagues and students at Columbia in sorting out the implications of TGT for further study of economic change and institutional evolution. It was after the publication of TGT, while he was at Columbia University (1947-1953) that he and his colleagues who produced the work published under the title *Trade and Markets in the Early Empires*, worked out more explicitly some of the theoretical implications of the analysis of TGT.

My point, a point that is also made by Block and Somers, is that TGT was written *before* and not after Polanyi had the opportunity or the context in which to fully explore the methodological underpinnings of TGT. Because his masterpiece was written at the beginning of his academic career, the task of articulating the methods used in its writing is made more difficult and especially so as Zaman limits his analysis to his chosen topic, Polanyi's method in TGT.

Finally, the difficulty of Zaman's chosen task is enhanced by the considerable remove of Polanyi's approach from that of most work undertaken by economists today. In a sense, of course, Polanyi was not a 'real' economist. He knew much but did not hold what would today be considered proper economic credentials and he made no effort whatsoever to provide the kind of 'literature review' that is today considered a necessary part of academic projects. This means that the analyst must bring considerable knowledge to a reading of TGT.

Having outlined the difficulties of the project that Zaman has undertaken, I turn now to the importance of his task. It is one thing to admire TGT for its trenchant analysis of the sources of the social, economic, and political turmoil of Polanyi's time. It is quite another to understand how similar studies of our own time should be undertaken. Indeed, I would suggest that one major cause of the failure of the kind of Institutional/Evolutionary/Historical tradition that led to Polanyi's warm welcome at Columbia is precisely the failure of that tradition to make clear what is required to be a Polyanian (or a Veblenian or a follower of W.C. Mitchell) in doing economic analysis.

To the extent that Zaman can lay bare the elements of Polanyi's approach so that those same elements can be used in analysis of other times and places, he will have made a major contribution to strengthening of an important part of the heterodox tradition in economics and to socioeconomic analysis in general.

Two key elements of Zaman's paper seem to me to be an excellent foundation for understanding TGT. The first is the role that groups of individuals play in shaping institutional (meaning politico/socio/economic) change. The second is that individuals acting together use 'theories' to guide understanding of the changes in which they are involved and to articulate both possible and desirable outcomes. Taken together, the process of reorganising political, social, and economic institutions, and the justifications used to effect that change, is what Polanyi means when he says that 'society' protects itself. Society becomes a reality for Polanyi because individuals band together to accomplish goals and because those goals emerge from the institutional nexus that organises and gives meaning to human actions and interactions. The evolution of socioeconomic and political systems is an interactive process in which individuals both shape and are shaped.

Zaman does a good job when he writes that 'Polanyi does not treat institutions as the final cause...' Zaman recognises that institutions play a central role for Polanyi in explaining history, but are themselves creations of the human processes that we call history. Zaman finds an answer to the puzzle of how institutions shape history but are also a consequence of history by use of the concept of 'collective human will.' This leads to his conclusion that

Polanyi's work rests on what Zaman calls 'methodological communitarianism,' an approach that is the antithesis of the methodological individualism that is the approach of much modern economic theorising.

Zaman explains how Polanyi's methodological communitarianism differs from Marx's analysis by saying that Marx's understanding of class struggle as the fundamental driving principle of history is a subset of Polanyi's analysis of change as the reaction of 'society as a whole' in response to external causes. He illustrates Polanyi's argument by writing that the new importance of international trade in the late 19<sup>th</sup> century had created 'new classes and new class interests,' in this case those who supported the Gold Standard as essential to flourishing international trade. He also uses the 100 years' peace to illustrate the importance of coalitions that cut across class boundaries, where class is understood as the classes of Marx and the other classical economists.

Zaman could offer a stronger illustration of Polanyi's use of methodological communitarianism by explicit use of Polanyi's critique of the economic bias that underpins both the classical and neoclassical analyses of economic conflict and change. As Block and Somers put it

[Polanyi]... rejects the view that individuals are motivated solely by self-interest... [and] considers no mistake to be greater than to define classes as aggregates of economic interests. On the contrary, classes are social constructions; they represent collective responses to changes in the organization of society. In particular, Polanyi insists that reducing the working class to its economic situation and interests distorts the entire history of its political development' (p. 62).

Zaman's emphasis is on some of the magnets that drew new coalitions together during the 19<sup>th</sup> century and this is good, but further exploration of what Polanyi meant by 'economic bias' would help the reader new to TGT to understand Polanyi's direct rejection of narrowly defined economic interests as the only thing that brings groups together.

To repeat myself: Zaman does a good job of identifying methodological communitarianism and the use of common understanding to shape responses to changed circumstances. But, there is much more to do to translate the brilliance of TGT into a well-understood set of methods that can be used to understand the transformations currently underway in our world and our economies. My suggestion to Zaman is that he considers the following in pushing his worthy project forward.

It does follow clearly from Zaman's well done identification of the key elements of Polanyi's method that what are often thought of as separate analytical domains must be combined because of the interrelatedness of social, political, and economic factors in the evolution of economic systems. Polanyi's method is of necessity interdisciplinary and this Zaman understands and rightly emphasises.

That said, what I find most puzzling about Zaman's essay is his statement that Polanyi's methodology in TGT is 'radically different from current methodologies in Economics, both orthodox *and heterodox*' (emphasis added) and in his grounding of this difference in a rejection by Polanyi of 'the deeply flawed epistemology' of early 20<sup>th</sup> century social science, namely logical positivism. As defined by Zaman positivism means that 'facts and logic are sufficient to arrive at the truth.' But, as Zaman notes, 'theories' are essential to link 'the facts' and to frame them. This is as true for observers as it is for participants in socioeconomic transformations.

While I absolutely agree with Zaman on this last point, I don't think that the social scientists in general in the early 20<sup>th</sup> century adopted the simplistic view of logical positivism that he alleges they did. It would require a very much longer essay to compare the evolution of Polanyi's own thinking and that of the American philosophical tradition of Pragmatism which contributed greatly to the kind of social science that Polanyi found so compatible at Columbia University. (For an eminently readable introduction to some of the leading practitioners of this school of thought see Rucker, 1969.) Zaman's insistence on the importance of theories leads him to the rather strong conclusion that because '[t]heories formulated by observers shape their understanding of their experience...' this means that the methodology of science, 'which requires separation of the observer and the observed' cannot be utilized in the study of society.

A long line of economists and other social scientists struggled with just this dilemma and those who did so most successfully owed, either directly or indirectly, their resolution of the issue to Charles Sanders Peirce's explanation of the role that abduction, as opposed to induction and deduction, play in providing the causal relationship between actions and observations. Daniel Bromley (2006, Chap. 6) provides an excellent treatment of the importance of abduction and Malcolm Rutherford's book on the American Institutional tradition in economics in the interwar years showed that it involved a combination of scientific method and always value-laden policy prescriptions. To support his position that the 'scientific method' cannot be utilised in the social sciences, Zaman needs to consider that substantial body of work and the considerable overlap of the Peirce-Veblen-Dewey-Mitchell et al. tradition with what Polanyi brought to Columbia in the late 1940s. Without doing so, Zaman cannot successfully support his conclusion that 'scientific method' cannot be utilised in the social sciences.

Further consideration of this issue would be particularly important for Zaman if he should, as I would recommend, go back to incorporate the material from chapter 4 of TGT into his articulation of Polanyi's method. In that chapter, Polanyi laid out a classificatory scheme for the ways in which different societies provision themselves. It is surprising to me that Zaman does not give greater emphasis to this Chapter and the role that it plays in allowing Polanyi to argue that the self-regulating market mechanism of 19<sup>th</sup> century utopian efforts and 20<sup>th</sup> and 21<sup>st</sup> century textbooks is a peculiar system indeed.

My understanding of the role of TGT in the history of modern economic thought is that Polanyi greatly enriched the Institutional tradition that he found at Columbia, with its emphasis on the importance of understanding history and evolutionary change, by adding his brilliant understanding of the need to simplify and abstract different systems of provisioning from their specific historical contexts. This required the social science descriptions of such systems that Polanyi relied upon and it allowed a kind of comparison of systems that seems pretty 'scientific' to me. Only through that method could the utopian self-regulating market system that was partially achieved in the 19<sup>th</sup> century, and the 20<sup>th</sup> century responses to its weakening of the non-economic bonds fundamental to society, be fully understood. It was precisely by relying upon the work of both social scientists and historians that Polanyi was able to offer the schematic rendering of such systems in Chapter 4 of TGT. And, it was that rendering that allowed him to present the stark contrast that the self-regulating market system of the 19<sup>th</sup> century offered.

What Polanyi also added to the multidisciplinary and institution based social analysis of his time was renewed emphasis on the evolution of ideologies as economies evolved and, with such evolution, the necessary evolution of the assumptions of those who used abductive reasoning in their studies of both evolving economics and ideologies. This is, as Zaman, says, a multilayered analysis and one that is greatly superior to the non-evolutionary and essentially

non-historical approach that has come to dominate economics. Zaman is quite right to call this to our attention.

Block and Somers, in their fine and recent treatment of TGT, add another important conclusion. They argue that what makes TGT so distinctive is Polanyi's recognition of the ongoing importance of political power, where political power is understood as the legitimate exercise of collective human will. Zaman also recognises this point and his recognition would be given greater prominence were he to place greater emphasis on the evolutionary dynamic which is always there precisely because of political power.

By further articulation of the role of political power (or, more simply put, group power) in the evolutionary process, Zaman could also address more fully a not quite satisfactorily resolved issue in his essay. He emphasises that external forces produce change but that observation leads to the question of why the status quo is so constantly battered by recurring external forces. Why don't human populations settle into a kind of stasis? Actually, human populations did so exist for a very, very long time. Why has change become a constant in the modern world? A full explanation of evolution requires an explanation of novelty.

*The Great Transformation* is a book that is about a particular place, the North Atlantic trading community and specifically the English component of that community, in a particular time, the early 19<sup>th</sup> century to the middle of the 20<sup>th</sup> century. It is not a discourse on social science method. That said, Zaman does a good job of identifying some of the key elements: Polanyi's recognition that the individual should not be the focus of attention, the emphasis on the interrelatedness of what we otherwise identify as social, economic, and political, and the role that the understanding of context plays in the formation of policies to deal with new situations. I would not have expected Zaman or any one person to solve all of the issues that I have raised here and I raise them only to say that I hope that Zaman will continue his task of telling modern readers what it is that causes so many of us to go back time and again to reread *The Great Transformation* in search of better understanding of our world some three-quarters of a century after its publication.

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