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# The economistic fallacy and forms of integration under and after socialism


Chris Hann

## Abstract

The concept of ‘the economistic fallacy’, theorized most elaborately in a posthumous work, is central to the entire oeuvre of Karl Polanyi – and to its endemic ambiguities. While previous discussion has focused on capitalist and pre-capitalist societies, this paper explores the alleged fallacy in a socialist framework. Drawing on field-work in a village on the Great Plain, it is argued that the Hungarian variety of ‘market socialism’ brought about a successful balance between the Polanyian ‘forms of integration’, in a conjuncture which stimulated household accumulation and promoted the interests of the rural population as a whole. Since the demise of socialism, this balance has been lost. A renewed economistic fallacy can be detected in the era of neo-liberal capitalism, but in Hungary the scope for household accumulation has greatly diminished, and the high price paid by the countryside is reflected in reactionary political movements. Polanyi sometimes fell into the trap of an anti-market, ‘collectivistic fallacy’. However, if the economistic fallacy was dominant in the ‘nineteenth-century consciousness’ which he lambasted, the twentieth century demonstrated the inadequacy of Marxist-Leninist-Maoist alternatives in their purist forms. The Hungarian case exemplifies the more general challenge: how to institutionalize substantivist mixed economies which allow individuals and households appropriate space for ‘economistic’ behaviour in markets to meet some of their needs, without indulging the fantasy that reduces human motivations to utility maximization and socio-cultural complexity to a generalized market rationality.

**Keywords:** economic anthropology; forms of integration; Hungary; János Kornai; Karl Polanyi; socialism.

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## Introduction: Karl Polanyi, Hungary and socialism

The scholarly output of Karl Polanyi was very closely influenced by his background and the trajectory of his life (Dale, 2010). In the last decades of his life he worked intensively on materials concerning Ancient Greece (Polanyi, 1977) and the Kingdom of Dahomey in West Africa (Polanyi, 1966), but he never ceased to follow events in Central Europe, especially Hungary, the country in which he was raised. Three lengthy formative phases can be distinguished in Polanyi's career: first, his student years in Hungary before the First World War, when Budapest was one of the most dynamic capitalist metropolises of the continent, though the fortunes of his own bourgeois family revealed how easily boom could turn to bust; second, following traumatic experiences on the Eastern front at the end of the First World War, his stint as an economic journalist in Vienna in the 1920s, where he engaged critically with Marxism and the Austrian school of neo-classical economics; third, his further exile in England, where he lectured under the auspices of the Workers' Educational Association to audiences which included workers rendered unemployed by the Great Depression. He wrote *The great transformation* (Polanyi, 1944/2001) in this last phase. Its success led to academic recognition and employment in New York after the Second World War, notably in the project which generated the remarkable collection *Trade and market in the early empires* (Polanyi et al. 1957). Given the circumstances of the first six decades of his life, it is not surprising that the mature pursuit of scholarship in the ivory tower of Columbia University betrays an accumulated passion. His conviction that all the disasters of his age were attributable to the vain attempt to institute self-regulating markets led him to play down and even deny the importance of market exchange in all previous human economies.

For the mature Karl Polanyi, the only available alternative was socialism.<sup>1</sup> He was ultimately dismissive of the possibility of any compromise between capitalism and socialism. George Dalton (1968) emphasized Polanyi's criticisms of the economic determinism he detected in Marx's historical materialism, and also his refusal to join a socialist or communist party (unlike his revolutionary wife Ilona Duczynska). Yet the same Karl Polanyi offered almost unstinting support for the Soviet Union, even at the time of Stalin's purges, and even after his own niece was imprisoned. He toyed with the idea of returning to Hungary after the war, mindful of a duty to contribute to its socialist transformation. He criticized the Soviet intervention in 1956 but would have no truck with the nationalist 'counter-revolutionaries.' When he did finally return in 1961 and 1963, not long before his death, he applauded the socialist consolidation then under way under the leadership of János Kádár. Of course, he had no opportunity during these brief visits to acquaint himself with the realities of Hungary's socialist transformation. The last book he published in his lifetime was a collection of populist poetry, translated and co-edited with his wife (Duczynska & Polanyi, 1963). This paean to Hungarian peasant traditions can be viewed as an ironic celebration of socialist

collectivization, completed just a couple of years earlier. Collectivization epitomized Polanyi's programme in the sense that it promised in one fell swoop to decommodify the 'fictitious commodities' of land and labour (Polanyi, 1944/2001). Yet he could hardly have been unaware of the massive, popular opposition to these draconian measures, which in Hungary as elsewhere could be implemented only through force or the threat of force.

The empirical sections of this paper take up the story from there. After outlining the pre-socialist legacy of agrarian backwardness in Hungary, I show how this problem was addressed in the socialist decades. The panacea of central planning, of which mass collectivization of the peasantry formed a part, was itself distorted by a kind of economic fallacy, notably in the form of an obsession with the statistical indicators of rapid industrialization. Yet these processes were accompanied not only by radical redistribution but a kind of civilizing process, which transformed the situation of previously marginalized groups. Moreover, Hungarian economic policy-makers realized early on that over-centralization was detrimental to economic efficiency. The subversive Western language of neo-classical economics became increasingly influential, and far-reaching 'market socialist' reforms were introduced, culminating in the New Economic Mechanism in January 1968. Villagers were among the major beneficiaries of these policies, which led to a frenzy of consumerist accumulation based on household farming. To some members of the Communist Party, the insidious rise of a 'second economy' outside the planned economy looked suspiciously like the conditions of the allegedly unfettered market in its classical, capitalist form. Contrary to these discourses, in the main body of the paper I turn to my own data and other anthropological research to show how new forms of market exchange did not destroy the society but rather coexisted with other 'forms of integration'. With this concept, which makes its first appearance in *The great transformation* (though in this work the preferred formulation is 'principle of integration' - see Servet, 2013: 193), Polanyi provided a simple tool to modify and transcend the dominant ideological antinomies of the age.

Some 'dissidents' went much further than Hungary's reform communists and condemned Kádárism from the other end of the political spectrum. Internationally, János Kornai was the most influential academic critic of the socialist 'economics of shortage'. For him, the 1968 measures and later steps in the direction of market socialism were inadequate and contradictory, a poor simulation of the real markets of capitalism underpinned by private property. Like that of Polanyi, Kornai's social philosophy seemed (at any rate on the surface) to be intolerant of hybrid forms. Long before the system collapsed, he was arguing that only the hard budget constraints of genuine market competition and the pre-eminence of private property could assure economic well-being. The irony is that the years in which Kornai developed this analysis of shortage were years of plenty for most of the Hungarian population. By contrast, when markets and private property came to prevail after 1990, the majority experienced dislocation, high levels of uncertainty and a decline in

their living standards. This applied with particular force in the countryside, now severely disadvantaged in comparison with the later socialist decades. I shall return to János Kornai in concluding and contrast his brand of ‘Danubian economics’ with my reading of Karl Polanyi. I begin by looking more closely at the latter’s concept of the economic fallacy.

### The economic fallacy and economic anthropology

Although the economic fallacy was extensively discussed under this name only in the opening chapter of the posthumous volume edited by Harry Pearson (Polanyi, 1977), it is no exaggeration to suggest that its diagnosis was central to Karl Polanyi’s economic anthropology, social philosophy and moral vision for most of his life.<sup>2</sup> He uses the term to pillory the nineteenth-century utilitarian inventors of scarcity and ‘economic man’, who confuse one particular type of economy, the type dominated by market exchange, with human economy in general. In the same posthumous volume, repeating distinctions drawn clearly in Polanyi (1957) and harking back to *The great transformation* and even earlier works, Polanyi elaborated the basic distinction between the ‘formal’ and ‘substantive’ meanings of economy. In his view, modern economics has fatally confused the two. It is a fundamental error to look for economic man in societies where the main ‘forms of integration’ are not market exchange but reciprocity and redistribution (*The great transformation* included ‘householding’ as a distinct form of integration, but it no longer figures in the 1957 paper; see Gregory, 2009). According to Polanyi, our task is to uncover the historical processes which generated nineteenth-century laissez-faire consciousness and then generalized this impoverished model so as to make it seem natural for all humanity. For example, we have come to take it for granted that money originates to overcome the inefficiencies of barter and facilitate utilitarian trade, but Polanyi insists on disaggregating the ‘catallactic triad’ of trade/money/market. The existence of local and regional markets is not to be confused with the dominance of a market system, let alone the ‘utopian’ idea that such a system could be self-regulating.

These ideas of Polanyi’s resonate with many similar currents in heterodox economics and economic history. They had an enormous impact on the field of economic anthropology in the 1950s and 1960s, generating a series of polemical exchanges between Polanyi’s ‘substantivist’ followers, who argued that the economy was institutionalized or ‘embedded’ in wider social relations and hence only amenable to study in specific historical settings, and their ‘formalist’ opponents, who upheld the general validity of the market model and argued that the discipline of neo-classical economics was built on universal norms of human behaviour. This debate echoed the *Methodenstreit* in late-nineteenth-century Germany (Hann & Hart, 2011). It could not be readily resolved because, as in the earlier *Streit*, the epistemological differences were too great. Eventually the substantivists, most prominent among them George

Dalton, who was trained in economics, acquiesced in a compromise. They conceded that modern economies, integrated primarily through markets, were best left to the economists. However, historians and anthropologists should make the running in developing appropriate concepts for the analysis of all pre-industrial, pre-capitalist economies, still embedded in their respective societies. Nowadays most economic anthropologists view Dalton's concession as a deeply unsatisfactory capitulation. They insist that it is vital to study the ways in which even the most sophisticated market economies are firmly embedded in specific social and cultural conventions, and they do so even in the heartlands of financial capitalism, from the Shanghai stock exchange (Hertz, 1998) to Wall Street (Ho, 2009).

Not all the blame can be attached to George Dalton. Karl Polanyi himself was prone to over-simplify his notion of the market and to exaggerate if not demonize the power of this 'self-regulating' model to colonize modern life-worlds (to borrow the vocabulary of a related intellectual tradition). In these pessimistic moments, he thought that formalist calculation based on the maximizing preferences of disembodied individuals and firms could overwhelm substantive considerations of human needs, shaped by society in its adaptations to nature. This bleak vision was the everyday reality of *market society*:

From this vantage point, it is not difficult to discern that what we have here called the economic fallacy was an error mainly from the theoretical angle. For all practical purposes, the economy *did* now consist of markets and the market *did* envelop society. (Polanyi, 1977, p. 9; emphasis in the original)

Should we interpret 'for all practical purposes' to mean that our societies are so completely dominated by their economies that the formalist approach to the study of 'economic man' is both necessary and sufficient? Or would this still be an error, a misrecognition of 'the true condition of affairs' (Polanyi, 1977, p. 16) in these market-dominated economies, as in all others? Polanyi is sometimes ambiguous. The economic fallacy means seeing the world through the blinkers of the neo-classical economist.<sup>3</sup> It is a fallacy 'from the theoretical angle', and yet following the institutionalization of the 'commodity fictions', the real world has come to conform to the 'daydream of the educated multitude' (1977, p. 14). He characterized the economic fallacy variously as 'logical error', 'utilitarian myth', 'economic solipsism' and ultimately as 'a metaphysical problem'.<sup>4</sup> The term blends well with Polanyi's anti-market rhetoric, but it turns out to be slippery. I argue that its implicit binaries, namely that there once existed a world entirely free of the economic, and that the task of socialism is to restore such an order, are equally misleading utopian illusions. The ultimate challenge is the same in all human economies: how to institutionalize or (re-)embed the 'formal' or economic in an encompassing holistic or 'substantive' societal framework. Recent transformations in rural Hungary provide instructive illustrations of different attempts to solve this problem.<sup>5</sup>

### Rural Hungary: the *longue durée* development of underdevelopment

The country in which Karl Polanyi grew up was still overwhelmingly an agrarian society. In the last decades of the Habsburg Empire, some 60 per cent of the population still worked exclusively in agriculture. The rural population was expanding rapidly, but economic opportunities were limited. The Hungarian territories were backward in comparison with most of the *Mitteleuropa* territories controlled from Vienna, let alone the industrial capitalism of Western Europe. Feudalism had been formally abolished, but the old structures persisted in an uneasy juxtaposition with new capitalist institutions. In the latter, Magyars were often outnumbered by Germans and Jews, many of whom did their best to assimilate into Hungarian society – like the family of Karl Polanyi, whose father was still known at his death in 1906 by the less Magyar-sounding name of Pollacek.

In the absence of urban jobs and opportunities to develop commercial farming in one's native community, demographic pressure led ineluctably to migration. Large numbers of poor peasants left Hungary for North America, but this was not the only option. Following the Ottoman occupation, large areas of the Great Hungarian Plain were not immediately resettled, but used as extensive pasture by the inhabitants of the remaining market towns. In the nineteenth century, the large estates to which this under-utilized land belonged were gradually split up. By the end of the century anyone could buy a small parcel of private property on the *puszta* and build a new home on this 'internal frontier'. This isolated farmhouse was known as a *tanya*. Its occupants needed to be highly self-sufficient, for they lacked a nuclear village and the towns were remote.

The community now known as Tázlár took shape in this way from 1872 onwards (Hann, 1980). The immigrants were extremely diverse. Some were wealthy enough to acquire large landholdings and produce commodities for the market (generally through neighbouring communities with access to a newly constructed railway link to the capital, barely 100 kilometres distant). Others were driven to this location by hunger and destitution in their natal communities. However, small plots of sandy soil in Tázlár did not suffice for household self-sufficiency. The members of these poorer households were obliged to work for the more prosperous as day labourers, and to send their children to live with them as farm servants. These conditions did not change significantly down to the 1940s. The population grew rapidly, reaching 3,400 in 1949. Industrial jobs were not available, illiteracy and sickness were rife and the peasantry was generally perceived to be the country's outstanding social problem. In contrast to those parts of Hungary where large estates continued to dominate, almost all Tázlár peasants expended at least some of their labour on plots which they themselves owned. Both land and labour were increasingly commoditized in a monetized, capitalist national economy. Eventually schools, churches and cemeteries were constructed in central clusters, but the great majority still lived on scattered *tanya*. This is where they held their modest

wedding parties; not integrated into any local community, let alone the national society. This *tanya* system epitomized the underdevelopment and backwardness of the Hungarian countryside (Hann, 1980).

### **From Stalinism to Kádárism: the socialist mixed economy**

At the end of the Second World War, the semi-feudal social structure described above was significantly weakened by the Land Reform of 1945. As with earlier, ineffectual reforms in the 1920s, many of those villagers who obtained land (some for the first time) lacked the resources and skills to farm it. In Tázlár as elsewhere, these were generally the first to leave the countryside for industrial jobs. Others joined new co-operatives in the villages. When socialist power-holders consolidated the institutions of one-party rule and central planning in the 1950s, their more systematic attempts to promote co-operative farming met with strong resistance. Private land ownership and labour-intensive technologies based on a strong work ethic were the enduring basis of the peasant economy. They contradicted the socialist visions. Acreage was taken to be the basic measure of class status, both by the peasants themselves and by the regime. Given the poor endowment of Tázlár, this meant that households barely able to produce any significant surplus for the market on their infertile fields were in danger of being classified as *kulák* and subjected to harsh sanctions.

The early co-operatives collapsed following the political crisis of 1956. Only a few years later, throughout the country, the regime of János Kádár, installed by the Soviet Union, imposed the production co-operative (the equivalent of the Soviet *kolkhoz*) on a disillusioned, fearful rural population. In precisely the same years that Tázlár villagers were obliged to accept a diminution of their property rights by joining unpopular new co-operatives, two major buildings were erected. These are still among the largest edifices in the community half a century later (Horváth, 2011). One was the socialist Culture House, built with external funds by the construction brigade of one of the new co-operatives, with additional labour inputs from villagers that were not entirely voluntary. The other was a new Roman Catholic church, built nearby by many of the same masons, backed up by freely given donations of cash and labour, coordinated by an energetic young priest. A smaller Calvinist church had been erected a few years before. These buildings were followed by the construction of new council offices, a central school and a surgery. With electrification and the installation of piped water, *tanya* dwellers now had strong incentives to move into the newly designated village centre, which had previously been little more than a hamlet.

This modernization amounted to a distinctive rural embourgeoisement (Szelenyi, 1988) or a socialist *civilizing process*. The legacy of backwardness could not be eliminated overnight, but the policies were conciliatory, at least after the debacle of 1956. Tázlár is as good a microcosm as any for



understanding what happened nationwide. Like their counterparts elsewhere, in these years Hungary's central planners were dedicated to break-neck industrialization and economic growth. The proportion of the labour force working in agriculture fell from 52 per cent in 1950 to 31 per cent in 1967, on the eve of the introduction of the New Economic Mechanism (Hegedűs, 1977, p. 99). As Johanna Bockman has argued (2011), even in the 1950s influential economists shared much of the language and methodology of neo-classical economists in the West. They conceived the economy in terms of a 'mechanism' to maximize a series of indicators, during those years in the sphere of production rather than consumption, but with increasing emphasis on incentives and indirect controls rather than 'administrative' levers. These elements of neo-classical economics (arguably a Habsburg intellectual legacy, as I shall discuss below) were now subordinated to a substantivist emphasis on human needs – needs identified, of course, by the Communist Party. The *tanya* system had evolved over the preceding generations due to the uneven impact of capitalist markets on this marginal region. Now, in little more than a decade, socialist planners made considerable progress in alleviating the attendant social problems of this settlement system. The *tanya* population of Tázlár declined rapidly as inhabitants moved to the village centre to enjoy new comforts; by 1960, the total population had already fallen below 3,000.

Agriculture remained the basis of the local economy, but Hungarian socialists under Kádár did not follow Soviet precedents. Instead of bleeding the sector to promote industry, the planners invested in the rural production co-operatives and encouraged them to develop profit-oriented sideline activities. Even more importantly, they left rural households considerable possibilities for self-provisioning and also for petty commodity production responsive to market signals. Through the production co-operatives and other large enterprises, the state assisted households with supplies of inputs and transportation. This 'symbiosis' between a modern, capital-intensive socialist sector and a traditional, labour-intensive 'householding' sector, was the key to the dynamic performance of Hungarian agriculture in the last decades of socialism (Swain, 1985).

Tázlár again epitomized this transformation. Unlike more representative communities such as Átány, in the northern zone of the Plain (Fél & Hofer, 1969), Tázlár peasants escaped the *kolkhoz*. The scattered settlement pattern and the high-value crops which settlers had planted around their farmsteads were not amenable to large-scale farming methods. It was economically rational ('economistic') to leave things as they were, at least initially, even if this slowed down the exodus from the *tanya*. Instead the farmers of Tázlár were compelled to join a 'lower' form of co-operative, later known by the name 'specialist co-operative' (*szakszövetkezet*). This institution was initially managed by farmers themselves, but local leaders made way for professionally trained outsiders in the 1970s. The leadership was responsible for providing work for everyone who wanted it, and for ensuring that no cultivable surface, no matter how poor in quality, was left unused (*parlag*). The co-operative was expected gradually

to expand the area of collective cultivation by consolidating small plots. This process was facilitated by central subsidies paid to co-operatives cultivating lands of 'poor natural endowment'. Villagers were powerless to resist these measures; but they had little or no obligation to work in the collective sector, and if their family plots were confiscated for consolidation purposes, they were offered use rights elsewhere. Those not tempted to leave the village for the city found it worth their while to maintain traditional forms of household labour in symbiosis with the specialist co-operative. As elsewhere in rural Hungary, raising pigs was the emblematic activity. The co-operative provided cheap fodder produced efficiently in its large fields. It also offered access to machines and fertilizer. Villagers did the dirty work in sties in their backyards. Marketing was taken care of by the co-operative and other state enterprises. The upshot was a staggering expansion in the production and consumption of pork in both town and countryside.

The main incentive to produce commodities for the market was the burgeoning range of consumer goods available in Hungary by the 1970s. Many markets repressed in the 1950s now re-emerged. Some households in Tázlár rented additional land and hired day labourers to help them cope with bottlenecks, especially in vineyard production. My landlady, who had lost a lot of family land after being classified as a *kulák*, shared her yard with her grandson and his young family. Feri's wife took charge of the hogs they raised, while he prospered as an entrepreneur. He was one of the first villagers to own a tractor privately. He also hired other young men to supply machine services to farming households, thereby competing with the tractor brigade of the co-operative. A little later he was able to build himself a luxury house and import a BMW from Austria. This was exceptional, but many other villagers were acquiring less expensive vehicles built in the Eastern bloc such as Trabants and Ladas. Many markets were imperfect – delivery of socialist vehicles ensued only years after payment of the initial deposit, whilst foreign travel required extensive bureaucratic preliminaries to obtain a passport – but they were effective enough to stimulate the emergence of an unprecedented consumer society in the countryside. Snide urban jokes about villagers who had acquired cars and bathrooms without any knowledge of how to use them were not entirely without foundation.

Although communities with specialist co-operatives exhibited these patterns of conspicuous consumption more dramatically (especially where hogs were supplemented in the household economy by vineyards), the same basic pattern prevailed throughout rural Hungary. Materialistic motivations were carefully documented and theorized in terms of a household work ethic by Martha Lampland, who investigated a village in Transdanubia formerly dominated by large estates (Lampland, 1995). Party conservatives became dismayed by the income differentials that opened up between villagers and the urban proletariat, as well as new patterns of stratification within the rural sector (Hegedűs, 1977). In consequence, at the time of my field-work in 1976–1977 the prices offered for hogs were held down by the state, while the prices of

fodder and fertilizer continued to rise. When villagers responded by cutting back on production, political qualms were quickly abandoned. Good food supplies were a key element in Kádár's social contract, and agriculture contributed substantially to export earnings in those years.

Urban intellectuals might grumble about the *nouveaux riches* in the countryside, but with the expansion of the *maszek* (private) sector and other 'informal' economic activities in the cities, market-oriented, economic behaviour became a hallmark of the entire country. It was well illustrated by the toleration of small-scale commerce known as the 'little COMECON' markets (Hann, 1992). Traders from neighbouring countries, notably Poland and Romania, where even food was often scarce, could see that Hungarians had never had it so good as under the system that Westerners termed 'goulash communism'. Less than a generation after Stalinism, the catastrophe of 1956 and mass collectivization, reform socialists managed to institutionalize a form of mixed economy. Private ownership of land was a relic of the past, and the commanding heights of the industrial sector were dominated by the state, which through its apparatchiks exercised considerable redistributive power. Yet there was increasing room for householding and entrepreneurial initiative in both rural and urban variants of the 'second economy', such that both land and labour were again openly commoditized.

Clearly the balance between what Karl Polanyi called 'forms of integration' changed in these decades of market socialism. To understand these transformations, popular stereotypes of economic, egoistic behaviour need to be placed in context. Fél and Hofer (1972) provide an invaluable baseline in their study of the much older community of Átány. These ethnographers showed that peasant economic behaviour was traditionally governed by the rhythms of the life cycle and the seasons, and also by an ethos of moderation (*mértékletesség*), rather than a selfish drive to accumulation. At first sight, the case of Tázlár, a community of scattered farmers born in the first phase of capitalist market economy, contradicts such historical embeddedness. Yet here too, accompanying the struggle for survival on the sandy *puszta*, and the strongly held conviction that one's standing in the world rose with every additional acre one purchased, collective and social preferences were always significant. Thus it was not long before the early immigrants combined to petition external bodies to provide them with churches and schools. These were the only institutions to take root until socialists began half a century later to consolidate a nuclear centre through electrification and other infrastructural investments. As described above, the years around 1960 were the key phase of community building and social solidarity at two antagonistic levels: churches and Culture House. By the time of my field-work 15 years later, neither the religious nor the secular institutions were especially dynamic. As for the cooperative, in spite of the freedoms it allowed and the support it extended to its members, I found it to be weak and unpopular. Most of its senior leaders resigned during the period of my field-work, partly as a consequence of constant criticism from the membership. While the state's continuous

extension of social security and pension right entitlements to the rural population was much appreciated, local officials were still mistrusted. In the early 1980s the Tázlár council leader, the same individual (of poor peasant origin) who had masterminded the construction of the Culture House in 1961, was found guilty of extorting bribes in connection with the extension of electricity supplies to outlying farms and sacked. Meanwhile, despite these mishaps in the public sector, household accumulation continued apace. I moralized in my monograph about the high costs of familial self-exploitation (especially since for many persons, both men and women, the strenuous activity in household farming came on top of regular full-time employment in a socialist co-operative or factory). But in retrospect I cannot endorse a blanket diagnosis of economic private accumulation.

First, there was considerable variety in householding, which continued to depend heavily on the developmental cycle. Some households were content to 'satisfice' rather than expand their existing activities, let alone take risks by developing new ones. More importantly, even those who pushed themselves hard to succeed in this socialist variant of market economy remained members of a vibrant moral community. This was evident in numerous rituals, some of them new and optional, such as the New Year's Ball in the Culture House, others more traditional and effectively compulsory, such as those of the life cycle and church attendance at the major religious holidays. Many economic activities were thoroughly embedded in ritual sociality. House-building required the supervision of a skilled mason, but work groups were recruited among kin and friends, so that the accomplishment of essential tasks was often mixed with the pleasures of a festive occasion (*kaláka*). Winter pigsticking also required help from outside the household; this ritual, too, exemplified how economic activity was embedded in social relations, notably in the subsequent distribution of samples of the fresh meat and blood sausage to neighbours and kin.

By far the most conspicuous rituals in village life in the 1970s were weddings. It was common to invite hundreds of guests for a celebration, which therefore required careful planning, significant investment for items such as the marquee and days of preparing the food in close co-operation with other households (especially their female members). The climax of the event was the 'bride's dance', when guests queued for a whirl with the bride, following which they made a substantial cash donation (sometimes on top of an earlier wedding gift). The total sum gathered was sometimes reported in village gossip as a measure of a wedding's success. It went to the new couple and was generally used to finance a major purchase such as a new house or a car. Some extrovert individuals might flaunt their contribution on the night and brag about it afterwards. Such behaviour drew criticism from other villagers, as well as from fastidious urbanites who saw such 'profit-oriented' performances as the ultimate betrayal of pure peasant traditions. But they are better seen as substantively embedded rituals which, taken together with the increasingly commercial orientation of the household economy, secured the meeting of

socially defined needs on a level that villagers had never dreamed of in the past.

The ritual efflorescence of the late socialist period needs to be placed in wider contexts of economic transformation and resilient community norms. Rather than economic maximization, Mihály Sárkány (1983) argued that the lavish wedding parties were a symbolic demonstration, above all to the younger generations, of the newly won attractions of the collectivized village vis-à-vis the city; their ‘latent function’ was to encourage young persons to remain in the countryside. While the general validity of this analysis is undeniable, Tázlár had not experienced conventional collectivization, its socialist sector was very small and some of those whose weddings I attended had no intention of remaining village residents. The party, and the transfers which culminated in the bride’s dance, were above all a form of community endowment of the new couple, grounded in mutual support.<sup>6</sup> This corresponds to Polanyi’s notion of reciprocity, which stands diametrically opposed to market exchange. These wedding transfers were reciprocal in the sense that the families whose children benefited from the donations would themselves make appropriate transfers at future weddings. This reciprocity had transparent *redistributive* implications. In Tázlár, it was taken for granted that a wealthy entrepreneur such as Feri would give generously when he was a wedding guest, helping to endow a bride and groom from poorer families with the wherewithal to set up their own household. It would be an exaggeration to pretend that such ritual redistribution could fully compensate for the economic differentiation that was emerging in the last decades of Hungarian socialism as a result of the expansion of markets and the ‘second economy’. State redistribution was of greater material significance by this time than the solidarity accomplished via ritual. Nonetheless, in the context of a community such as Tázlár these celebrations demonstrated the realization and reproduction of *Society*, rather than its atrophy in the face of unmitigated economism. Moreover, many relationships in the second economy (and perhaps also in the first, i.e. relationships between the units recognized in the plan) were still grounded in reciprocity in the extended sense in which this term has been theorized by Jean-Michel Servet (2009). Reciprocity is the privileged form of integration of every *économie solidaire*, though it must not be idealized and is never the only form in operation.<sup>7</sup>

### Post-socialist decline

I have documented the post-socialist transformation of Tázlár on the basis of numerous later visits, the longest of which was in 2001 (Hann, 2006). The specialist co-operative still existed at this point, at least on paper, but it was liquidated a few years later. Its land and buildings have all passed into private ownership. However, following the implementation of a complex ‘compensation’ scheme rather than a pure model of restitution, few villagers succeeded in

obtaining exactly the real property they wanted (usually that which their families had owned previously). This process generated much conflict between neighbours and sometimes even within families. With the destruction of the socialist symbiosis, agricultural output has fallen dramatically, and large tracts of land are *parlag* (no longer cultivated). This decline was accentuated by the loss of markets in the East, especially for wine. Meanwhile, even after entry into the European Union in 2004, new markets in the West have proven difficult to penetrate. Conditions have improved for some farming households with the payment of EU subsidies. However, compared to the supports they enjoyed under socialism, almost all farmers in a region of poor natural endowment such as Tázlár have become worse off.

Farming decline is reflected in the village economy as a whole. Fewer new houses have been built, and attempts to attract new investors have been unsuccessful. Village population has declined, despite a small influx of Roma families attracted by the low price of housing in a disadvantaged village. (There is no conspicuous problem in Tázlár, unlike many other Hungarian communities, but these Roma are poorly integrated.) Villagers vote either for the populist-nationalist party of Viktor Orbán or for the even more right-wing *Jobbik* party. Some believe that at the root of all their economic problems are Jewish cosmopolitan intellectuals in Budapest (and possibly in Brussels as well). These developments in the sphere of politics can be theorized with terms developed in an earlier generation by the Jewish cosmopolitan Karl Polanyi. The Hungarian countryside in the last two decades shows that the 'double movement' through which *Society* seeks to defend itself against the depredations of the market can take malignant, reactionary forms.

It would be incorrect to analyse post-socialist Hungary solely in terms of the impact of neo-liberal, 'self-regulating' markets. State safety nets have not disappeared, and, besides, the agrarian markets of the EU are in some elemental ways more regulated than this sector was under socialism. However, for many villagers the country's return to the principles of private property and capitalist market economy has meant a paradoxical decline in the salience of calculating, economic behaviour in their everyday lives. They participate in a dramatically enlarged world of consumption voyeuristically via television advertisements and, in some cases, the internet; but the aspiration to save to build a new house or purchase a new car is no longer realistic because, in the new economic conditions, few households have the resources to sustain the old patterns of petty commodity production. On the other hand, the decline of agricultural markets means that villagers must take greater care to *economize* in everyday life. In Tázlár they are helped in this by the local 'Chinese shop', which has taken over the premises formerly managed by a socialist Consumers' Co-operative but serves very much the same function.

Many Tázlár villagers thus have more time nowadays for recreational activities than in the feverish years of socialist accumulation, e.g. attending pensioners' clubs at the Culture House and participating in their excursions. People of all age groups invest great effort in preparing for an annual

performance of traditional folk songs (*Nyílik a Rózsa*) at the Culture House, while innovations such as oriental belly dancing have also proved popular. By contrast, life-cycle rituals have declined in scale, parallel to the decline in household petty commodity production. Wedding receptions have become modest affairs, with any inter-household co-operation restricted to close kin. They are often held in restaurants in nearby small towns. Many couples nowadays do not even have the civil ceremony, in order to reduce their expenses. The old *kaláka* co-operation in house-building has also disappeared. As for the winter ritual of pigsticking, this was significantly affected by the arrival of household freezers in the last decade of socialism. Some households nowadays slaughter pigs outside the season, while others no longer keep pigs at all. Bea Vidacs ([forthcoming](#)) has demonstrated how this ritual, having largely died out as a traditional winter ritual of the household in a village at the eastern border of the Great Plain, has recently been transformed into a *public* festival of the community.

Feri, the entrepreneurial grandson of my landlady who I mentioned above, continued to expand his business activities in the early 1990s. He opened the first petrol station in the village and undertook international commissions with his long-distance haulage fleet. He remains one of the wealthiest inhabitants of Tázlár, but after the turn of the new century he began to scale back his activities. This came as a surprise to me – especially when he began to come up with quite uncharacteristic (for him and his *ex-kulák* family) complaints about the abuses of a market system when taken to extremes, when there was ‘no longer any basis of trust.’ I joked with him a few years ago that surely conditions had been much worse in his earlier years under a socialist regime, but Feri defended János Kádár as having pursued a middle road, more humane in its social implications than the cut-throat competition of the new capitalism (Hann, 2011). Nowadays he finds more time to go to church<sup>8</sup>.

The niches that Feri was able to exploit in the socialist market economy of the 1970s and 1980s have disappeared, along with that symbiosis of public and private, co-operative and household, which was key to the prosperity of the Hungarian countryside as a whole under Kádárism. In retrospect, those decades can be seen as a ‘transitional’ stage. The balance of reciprocity/redistribution/householding/market which I observed in the 1970s was already coming under pressure in the 1980s, years before the end of socialism. These decades can also be viewed as an exceptional interlude in the long-term balance of power between countryside and town. The Hungarian Socialist Workers’ Party was extraordinarily successful in improving the living conditions of large sections of the rural population of a backward, under-developed country. Perhaps this deserves respect, rather than sneering accusations of economism. However, the ephemeral moment which allowed Hungarian villagers to profit from a fruitful combination of all four of Polanyi’s ‘forms of integration’ was deemed after 1990 to be an unwarranted distortion from the natural paths of private property and ‘unfettered’ markets. In contrast to the young people I knew in the 1970s, young villagers nowadays have no

prospect of communal endowment, or of finding work locally. The region has reverted to its pre-socialist condition as a capitalist periphery, its new role being to supply cheap labour not only to Budapest but to the wealthier countries of the European Union and even the United States.

## Two Danubian economists

Before concluding, I want to return to the theoretical and biographical questions I raised in the Introduction. Karl Polanyi was born in Vienna in 1886, but he grew up in Budapest and must have been influenced by the dramatic growth of that city and the expansion of its industrial base during his formative years. When he travelled across the Great Plain to Kolozsvár in Transylvania (now Cluj-Napoca, Romania) to meet with his doctoral supervisor Bódog Somló, he would have had ample opportunity to register the fact that this economy was still predominantly agrarian.<sup>9</sup> After the First World War and the failure of the Republic of Councils, Polanyi lived in exile in Vienna for over a decade, working as an economics correspondent for the *Österreichische Volkswirt*. During these years he engaged polemically with Ludwig von Mises and others on the subject of socialist calculation. The political contrasts between them are clear enough. Yet Gareth Dale has shown that Polanyi's radical critique of capitalism did not entail a rejection of the subjective-psychological theory of value underpinning the Austrian school. Like Max Weber, Karl Bücher and other leading figures of the Historical School (but not Ferdinand Tönnies), Polanyi was impressed by the rigour of Carl Menger's marginalism (Dale, 2010, pp. 101–3). In Polanyi's case, this admiration seems to have been coloured by a quasi-religious concern with personal responsibility.

Yet while at some level accepting the abstract market model underpinning this current in economics, Polanyi shied away from the Austrian camp for both scholarly and ethical-political reasons. He consistently rejected its methodological individualism in favour of *Society*. Polanyi disputed Adam Smith's premise of man's 'natural propensity' to truck and barter, insisting instead on the need to examine how such forms of behaviour emerge in the course of the evolution of the economy as 'instituted process'. This is the core of his analysis of the economic fallacy. It is underpinned by a notion of human needs (the concept of *Bedürfnisse* turns up in his earliest writings in Vienna and doubtless derives from his reading of Ernst Mach before the First World War). He argues that these can only be formed collectively. This is why, at the end of the day, *Society* must trump the utility-maximizing individual (and also the household). Unfortunately, since the nineteenth century the odds have been stacked the other way, and 'Edgeworth's Bad Dream' (Davis, 1992, p. 21) has come to approximate the reality of the economy and indeed the goals of all human activities.

Karl Polanyi offered little practical or political guidance as to how the evils of market capitalism's economic fallacy could be overcome; but his



detestation was so deep that he was ready to defend the Kádár regime even before it had embarked on its course of economic reform. Polanyi would no doubt have found the crasser aspects of materialist consumerism after 1968 deeply unappealing (starting with the petty smuggling of goods on the train linking Budapest to Vienna). He might have been tempted to see in the 1968 reforms a regrettable variant of the economic fallacy, promoted by transnational elites influenced by neo-classical economics and subverting more noble socialist ideals. Even if the means of production remained overwhelmingly in socialist ownership, policy-makers were in danger of ignoring social needs if they opened the doors to private embourgeoisement. On the other hand, had Polanyi lived to see the changes brought about in places such as Tázlár, as I have outlined them above, he might have come to see merit in compromises and hybridity, in *Mischformen* such as the specialist co-operative. Let us recall that the last work he published in his lifetime was a eulogy of the peasantry: the policies of Kádárism were visibly successful in lifting millions of peasants and workers out of poverty and dependence.

The Polanyi oeuvre allows many interpretations. For Hannes Lacher (1999), his adherence to an Austrian neo-classical tradition invalidates the critique of market capitalism, or at any rate reduces it to moralistic hand-waving (cf. Dale, 2010, p. 247). But if one focuses as I have on the four ‘forms of integration’ which Polanyi identified in *The great transformation* (cf. Hann, 2009), it is possible to acknowledge the elegance and superiority of the neo-classical (‘formalist’) tradition for dealing with market exchange, while rejecting this body of theory for the other forms of integration. The overall, holistic account has to be substantivist. It is true that Polanyi himself sometimes implied that market exchange had become so dominant in industrial capitalism that the ‘economic fallacy’ was the necessary and sufficient prism for understanding contemporary *Society* in its entirety. But this is in turn false, grounded in an exaggerated collectivistic reaction to the nineteenth-century legacies.

Hungarian market socialism is instructive in understanding and resolving these tensions. It was developed under Kádár’s leadership by reformers whose names have now passed into oblivion. Politicians such as Imre Nagy, Rezső Nyers, Lajos Fehér and Pál Romány were supported by scholars such as József Bognár and Mihály Simai in international political economy and György Ránki and Iván T. Berend in economic history. The compromises of market socialism always had their detractors. For more orthodox Party members such as sociologist András Hedeđűs, goulash communism smacked too much of capitalism. For critical liberal philosophers and social scientists such as János Kis and Iván Szelényi, the grafting of the inequalities of the market order on to the existing inequalities of socialist redistribution could not resolve the basic iniquities of the one-party system.

In addition to these critics, ‘nineteenth-century consciousness’ lingered strongly in the discipline of economics. By far the most influential analyst of Stalinist socialism, reform socialism and then transitional capitalism in Hungary over the last half century is János Kornai, widely known internationally thanks to

the many translations of his major books. Kornai's biography shows a few similarities to that of Polanyi. He was born in 1928 as János Kornhauser, but his prosperous Jewish parents opted (or felt pressured) to change their surname to a variant that sounded more Magyar, just as the Pollaceks had half a century earlier. Kornai too experienced a form of war trauma – not as a combatant like Polanyi in the First World War but through the death of his father in Auschwitz. Like Polanyi, he worked for many years as a journalist and was largely self-educated in the academic fields in which he established his international reputation. In his youth, Kornai was an enthusiastic member of the Communist Party. Despite the horrors of the 1950s, he was slow to shed this commitment. By the end of that decade he had published his dissertation, a critique of over-centralization in economic planning. He continued to milk this theme in the 1960s and published a paper in 1965 which was widely interpreted as a manifesto for a new 'market socialism'. However, in this era Kornai's ideas received more attention abroad than at home. He proceeded to attack the very foundations of equilibrium analysis in *Anti-equilibrium*. The title of his next major work, *Economics of shortage* (1980), together with its central notion of the 'soft budget constraint', have entered the repertoires of the less rigorous social sciences.

In popular understandings, 'shortage' (Hungarian: *hiány*) refers to an absolute deficiency of goods, exemplified by empty shelves, rationing and long queues to obtain desired items such as the Soviet Lada or the East German Trabant. Kornai played on these associations, even though they had less obvious pertinence to Hungary than to most other socialist economies. His theoretical edifice, however, is built on the concept of *relative* scarcity that is central to neo-classical economics. Central planning is deficient because it cannot perform as well as decentralized capitalist markets in allocating factors of production and ultimately in satisfying consumer wants. The endemic problem emphasized by Kornai was the tendency of socialist enterprises to *hoard* their resources, including labour, whereas a capitalist firm, subjected to a hard budget constraint by its bankers, sets wage rates according to supply and demand and disposes of any surplus by making workers redundant. As Peter Leeson (2009) has pointed out, the thrust of the argument is essentially that of the later Austrian School, especially Mises and Hayek (though Kornai does not cite these forerunners).

The contrast to Polanyi is sharp. When it comes to conceptualizing and explaining markets, Karl Polanyi stands in the tradition of marginalist, neo-classical economic theorizing. However, like Karl Bücher and others in the German Historical School, he insists that the study of the economy is always much more than this. The market has its place, but other forms of integration must also be recognized. Unlike Hayek (and the later Adam Smith), Polanyi does not attribute any natural priority to the market. But nor did he suppose that central planning could solve all the problems of socialist accounting. The resulting tensions generate ambiguities and inconsistencies, just like the actual economic policies of Hungary's market socialism; but these complexities yield more tolerable everyday human economies than the reductionism of dogmatists.

For the substantivist Polanyi, labour and land are strictly speaking ‘fictitious commodities’ (Polanyi, 1944/2001, 1977), bracketed outside the sphere of the market. In practice, following collectivization he would surely not have objected too strongly to the limited renting of land that emerged under Kádárism, as some households at a particular stage in the developmental cycle sought to increase their acreage by using land which a neighbour or the co-operative would otherwise have left *parlag*. That is a very different scenario from the massive privatization which took place after 1990 and current capitalist agribusiness. Compromises concerning labour would perhaps have made Polanyi even more uncomfortable. He would have been sensitive to the particular historical context of early socialist Hungary, when new factories were able to draw on a seemingly limitless supply of unskilled labour from the countryside. Later, when those conditions changed and labour became scarcer in absolute terms, Polanyi would have continued to stress the importance of providing secure ‘good jobs’ and a working environment that provided satisfactions beyond the monthly pay packet. If labour hoarding persisted and created excessive rigidities, he might have accepted the need to modify labour market institutions to correct the problem; but he would surely never have countenanced attacks on unions, the abolition of minimum wages and the introduction of millions of temporary workers in key sectors of the economy, as we observe these phenomena throughout Europe in the neo-liberal ‘rush to the bottom’ in the allocation of ‘human capital’.

Given the stature that János Kornai has attained internationally as an analyst of socialism, it is instructive to follow his publications during the period of ‘transition’ and to see where he positions himself in his autobiography (Kornai, 2007). Published almost two decades after the real thing (i.e. capitalist markets) had replaced the simulation (i.e. socialist markets), these memoirs focus on Hungary but also offer general insights into the second great wave of capitalist expansion in East-Central Europe (the first being that which shaped the childhood of Karl Polanyi). Addressing a wide range of themes, from corruption in the health services to fiscal reform and general problem of trust, Kornai differs from many contemporary economists in the attention he pays to socially topical and normative issues, such as how and at what level medical professionals should be remunerated to avoid the embarrassing customs of tipping (which have remained as ubiquitous in the new capitalism as they were under socialism). However, his prescriptions invariably come back to individuals, privatization and the market. Kornai embraces Hayek’s axiom that only strong private property rights can provide the informational incentives that can bring about the rational allocation of resources in an economy which progresses dynamically through competition. Equilibrium models of capitalism and market socialism are equally misguided, but the latter is economically inferior because it has no in-built mechanism for Schumpeterian creativity.

There are some poignant moments in this autobiography. One is where Kornai confesses that a sociologist colleague of many years had ceased to communicate with him because she felt disgusted by his analysis of ‘premature

welfarization' under socialism. As a comparative economist, Kornai feels obliged to make the point that, given its economic performance, socialist Hungary spent *too much* on redistribution in the form of welfare transfers.<sup>10</sup> He calls this 'the high price of goulash communism' and argues that welfare expenditure must be cut back if Hungary is to become internationally competitive in an era of cut-throat globalization. A successful transition to capitalism must therefore mean a significant deterioration in income levels, including living standards in the countryside. I suggest that this, not the bride's dance in Tázlár, is a true and severe case of the economic fallacy.

## Conclusion

In this paper I have explored several ironies: that a radical Jewish intellectual should at the end of his life eulogize Magyar peasant populism; that these same peasants should be catapulted out of their backwardness by the proletarian dictatorship; and that while this was happening the most influential model of socialist economics, the 'shortage model' of János Kornai, was put forward in a country where this analysis had least empirical traction. In their personal backgrounds on the margins of capitalist Europe, the two 'Danubian economists' have a lot in common. Both take a broad view of that discipline. Both are interested in the deeper questions of what makes for a just society as well as a flourishing economy, and both were influenced by Austrian currents in economics. It is surely no accident that 'utopian' constructions of self-regulating markets and spontaneous social order should have been central to an economics school located on the backward periphery of the capitalist heartlands. Polanyi accepted the Austrian subjectivist theory of value, but not methodological individualism or the reliance on private property rights. The most serious deficiency, which he labelled a fallacy, was to extend the logic of market society to all other domains and thus to universalize it and overlook other forms of integration. A fuller substantive account of the economy requires the inputs of anthropologists, sociologists and historians. Polemical excess led him and some of his followers to deny this for market capitalism, but a comprehensive substantivist account will necessarily uncover patterns of embedding in every human economy (cf. Hart *et al.*, 2010).

Politically, Polanyi's biography led him to come down on the side of the only socialist options available in the *realpolitik* of the twentieth century. He was convinced that only state-led redistribution could counter the iniquities of the market. At the end of his life, seemingly forgetting his earlier reservations about central planning, he endorsed the new regime of János Kádár, placed in power in Budapest by Soviet troops. He could not have predicted how the coercive imposition of collectivization would shortly be followed by measures to promote new forms of market integration, embedded in institutions such as the specialist co-operative in villages such as Tázlár. A substantivist approach to Hungary's market socialism shows how the space of the impersonal market

was gradually enlarged, while remaining embedded in a framework which represented a balance with the other forms of integration: householding and reciprocity as well as redistribution at multiple levels. Polanyi would have welcomed the social levelling of these decades, and above all the effective incorporation of millions of rural citizens, thanks to policies which destroyed the previous rural property system and brought about a massive sectoral redistribution that favoured the countryside.

János Kornai deplored such interventions. Kornai spent his formative years under a Stalinist regime, which offers a key to understanding why he moved consistently thereafter in the opposite direction to Polanyi. Along with other contemporary Hungarian economists, initially he contented himself with applying neo-classical economic models to reform the administrative levers of central planning. This was consistent with Polanyi's acknowledgement of marginalist insights, i.e. the first generation of the Austrian school, within the realm of the market. But Kornai came to reject this reform socialist path and instead recommended a sweeping extension of markets and property logic. This is the Hayekian move, the later Austrian contribution to neo-liberal agendas, which leave no space at all to theorize an ethical collectivity, *Society*.

By contrast, the economic anthropology and general social theory of Karl Polanyi uphold *Society*. For many influential thinkers in recent decades, this is suspect, even old-fashioned. Along with politicians such as Thatcher, scholars such as Bruno Latour and Marilyn Strathern dismiss the concept of society as theoretically obsolete. Some of the best recent scholarship in economic anthropology, echoing Polanyi's concern with the lived human economy and delving deep into central themes of the master, such as the catalactic triad, focuses on loosely defined groups such as the 'undeserving poor' rather than recognize a monstrous capitalized monolith, *Society* (Graeber, 2011). While understandable as a reaction to the simplifications of classical social theory, this move yields too much ground to the hegemonic neo-liberalism.

Karl Polanyi was prone to theorize market and society in dogmatic and confusing ways. In his operationalizing of the notion of economy, he did not consistently follow his own strictures to situate the domain of markets and anonymous utility maximization within larger domains of personal and social relations, marked by other forms of integration (Berthoud, 1990). Though he showed in his Dahomey study (Polanyi, 1966) that a great deal could be achieved on the basis of historical sources, he was not a field-worker. He carried out no first-hand investigation of how the forms of integration coalesce in concrete instances. Compared with Marcel Mauss, the other seminal 'armchair' founder of economic anthropology, Polanyi had a stronger tendency in the heat of his rhetoric to extreme positions – denying the importance of markets and individual rationalities in primitive and archaic economies, and exaggerating their domination in the 'true conditions of affairs' of our modern world. Contemporary approaches in the discipline inevitably qualify his overdrawn notions of embedding and disembedding. Without denying the changes brought about by the breakthrough to industrial society, they explore the 'tension' that

exists in all economies between the forces of market and calculative reason on the one hand, and the community or ‘base’ on the other (Gudeman, 2008). Seen in this way, Polanyi’s notion of the economic fallacy is still useful in grasping the axioms of a good deal of mainstream economic theory and their unwarranted application to empirical human economies universally. It does not help in providing a realistic account of any substantive economic worlds, either those of modern capitalism or of its erstwhile socialist rival.

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### Notes

1. The details of his relationship to the many intellectual strands of socialism and Marxism raise issues too complex to be addressed in this paper; they will be illuminated further in the comprehensive biography currently being prepared by Gareth Dale.
2. Pearson does not provide detailed information, but the first note accompanying the simultaneous publication of this chapter in *Review* (1977, 1 (1): 9–18) indicates that it was written in the early or mid-1950s. The concept of economic fallacy appears in the first footnote in Polanyi’s synthetic paper on ‘The economy as instituted process’ (1957, p. 270). It is consonant with his use of ‘materialistic fallacy’ in *The great transformation* (1944/2001, p. 161).
3. Polanyi does not use the term ‘neo-classical’ or engage closely with the modern history of economics. As Dale points out (2010, pp. 12–13, Ch. 1, 101–3), in the 1920s he found the marginalist theory of value intellectually persuasive, though this did not fit easily alongside his critical political stance. I return to this theme below.
4. He used this last phrase in conversation with Abraham Rotstein (Notes, deposited in the Karl Polanyi Archive, 45/6, p. 3). I thank Gareth Dale for this reference.
5. The centrality of the notion of economic fallacy to Polanyi’s ‘holistic social science’ was discussed from the point of view of sociological theory by Block and Somers (1984). Its renewed pertinence in the era of neo-liberalism has been addressed by Christopher Holmes, who operationalizes the notion in empirical investigations of ‘marketized social protection’ in Britain (Holmes, 2010, 2012). For a critical Maussian perspective on the ambiguities of Polanyi’s position and his paradoxical ‘reductive view of the economic’, see Berthoud (1990).
6. A similar pattern of ‘communal endowment’ has been documented in post-socialist Transylvania by Monica Vasile (forthcoming). As in late socialist Tázlár, seemingly economic behaviour arises when previously poor villagers become suddenly

prosperous, but Vasile shows that this is not to be confused with the maximization of profit by anonymous individuals on a disembedded market.

7. While Polanyi took his prime examples of reciprocity from technologically simple, stateless societies, notably the Trobriand Islanders as documented by Bronislaw Malinowski, Servet proposes that egalitarian relations between producers and customers in complex modern economies can also be characterized by reciprocity, a form of integration which is not to be reduced to the gift or confused with versions of corporate social responsibility that are driven ultimately by profit-maximizing. The key element is sympathy for others within an encompassing whole. Economic maximization is not absent in the Trobriand Islands: it can be found in particular domains, e.g. in the barter practices known as *gimmali*. According to Servet's reading of Polanyi, the crucial change is that only with the British-led laissez-faire regime of the nineteenth century does 'the market' develop institutional forms which separate it from society, occluding social perspectives by conferring on the economic, materialistic point of view an illusion of transhistorical verisimilitude. See also Servet (2010).

8. Feri passed away in December 2013. I shall miss him.

9. Although Polanyi's main discipline at this time was law, he may have received early exposure to anthropological themes from Somló, whose critique of the concept of 'natural economy' in *Der Güterverkehr in der Urgesellschaft*, published in 1908, was a major work of the German Historical School (cf. Berthoud, 1999; Sárkány, 1977). In a personal communication, Mihály Sárkány has recently informed me of a letter in which Polanyi professed not to have known of these interests of Somló until much later, after seeing his supervisor's work cited by Marcel Mauss in his celebrated *Essai sur le don*. See Gyurgyák (1988, p. 66).

10. Other economists have argued explicitly that too much was spent to improve living standards in the countryside (see Newbery, 1991).

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