The Contribution of Karl Polanyi: Marketing as Part of the Economic Evolution in Social Change

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While some of Polanyi's contribution is acknowledged and referred to by the classical marketing academics (Bartels 1962), there may be some who refute his positions; historically and theoretically. Still, Polanyi offers the historian of both marketing and economics an interesting set of intellectual contributions to consider. For the uninformed, this article will introduce Karl Polanyi, the main points of some of his controversial perspectives of socially driven economic activity, and will generally discuss relevant connections to the evolution of contemporary marketing theory.

A recent AllAfrica, Inc. copyrighted story appearing in the July 1, 2004 edition of the *Africa News* suggested that much of the blame for the economic devastation of the South African economy is the direct consequence of the *dirigiste* economic policies of President Thabo Mbeki. The newspaper article drew upon the intellectual contribution of Karl Polyani in an attempt to suggest that perhaps state-centered intervention is necessary in creating the type and scale of development needed to elevate failing lesser-developed economies; a position that has been uniformly rejected by the vast majority of free-market advocates including Polanyi. Regardless, the sad truth is that since the repudiation of apartheid, South Africa economically has slipped backward, in many respects resembling the 19th century industrial revolutionary period used by Polanyi while creating many of his seminal yet controversial theories of economic evolution and societal development.

While this paper will not reveal any specific issues associated with the South African dilemma, the very current reference to Polanyi does provide an opportunity to historically reflect on the significance of his concepts of the economic evolution of human relationships and economic social order which can be considered to be the part of the origin of contemporary marketing theory and practice. To this end, this investigation will use the theoretical discussions of Polanyi and others as the basis for exploring the emergence of the social and commercial science of marketing. Mindful that economics and marketing are merely related disciplines, this examination will reveal historically relevant characteristics of both disciplines necessary to such an analysis. Further, there are few theorists, regardless of discipline, who are considered as unanimously accepted; Polanyi is no exception.

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For the purpose of this conference this article will introduce Karl Polanyi, the main points behind his controversial perspective of socially driven economic activity, and will generally discuss relevant connections to the evolution of marketing theory. A more in depth description and historical evaluation of each in relation to the emergence and evolution of contemporary marketing theory is the subject of an ongoing analysis to be submitted for publication consideration at a future date.

BIOGRAPHICAL SKETCH

Karl Polanyi was born in Vienna on October 21, 1886. He died on April 23, 1964 in Pickering, Ontario. He was the son of a Hungarian engineer and entrepreneur, Michael Pollacsek, and a Russian mother, Cecile Wohl, who was a familiar figure in Hungarian intellectual society.

Karl Polanyi studied at the Universities of Budapest and Kolozsvár, earning a law degree in 1909. From 1915 to 1917 Karl Polanyi served as an officer in a cavalry regiment of the Austro-Hungarian army on the Russian front during the First World War. In 1919, he was hospitalized for illness in Budapest and subsequently in Vienna where, during his convalescence he wrote a large (unpublished) manuscript, ranging over many topics including science, medicine, the origins of human suffering, and the morality of communists.

From 1937, Karl Polanyi earned his living as a tutor for the Workers Educational Association. His lectures on English social and economic history and international affairs directly contributed to *The Great Transformation (1944)*, written in the United States while the Resident Scholar at Bennington College, Vermont. In 1947, Karl Polanyi was appointed Visiting Professor of Economics at

Columbia University, New York. Until retirement in 1953, he lectured on General Economic History.

After retirement from his teaching position at age 67, Polanyi received a grant from the Ford Foundation to continue interdisciplinary research on "Economic Aspects of Institutional Growth". The result was *Trade and Market in the Early Empires*, (1957), which includes Polanyi's seminal paper on "*The Economy as Instituted Process*". His work has been translated into several languages.

CONTRIBUTION AND CONTROVERSY

Bartels (1962) and Polanyi (1957) suggest that marketing is considerably more than business activity. Specifically Bartels (1962) writes:

> Thought about marketing reveals it to be more than simply a business activity. Economists have regarded it as a type of economic activity. But more than that, sociological research has shown increasingly that the institution of the market, and therefore perhaps marketing and marketing thought, is primarily a social rather than merely an economic institution.

Because Polanyi was and is considered to be an ardent "institutionlist", (Gough 1994), he would have subscribed to both the institutional treatment of the *function* of marketing and because he believed that economic enterprise should be regarded in a broader social context, he also would have agreed with Bartels that *process* marketing is "…essentially a means for meeting and satisfying certain needs of people." Further, it is completely logical to assume that Polanyi could have been one of the authors of the most recent definition of marketing as adopted by the American Marketing Association (2004). Specifically:

> Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders.

Economists, marketers, and other social scientists have suggested that the evolution of contemporary marketing theory reflects the transactions, exchanges, and interactions of a consuming society, which therefore required that the study of marketing be elevated to include a significantly broader social context than had historically been provided in the more static economic explanation of marketing as merely a planning process associated with economic activities. Polanyi suggested that a social objective of giving more to society than would otherwise be possible can be accomplished by market-based activities such as reciprocity, redistribution, and exchange forms of trade (Polanyi et al 1957).

Economic anthropologists have for some time considered his three factor explanation of social integration of economic activities. First is the reciprocative or ritualized and highly institutionalized gift-giving type of economic exchange that occurs between members of the same family, clan or tribe. Second is the redistributive type of exchange which involves an institutional central entity or governmental agency gathering in economic goods and then re-distributing them throughout the populace of interest. Finally is the pattern of exchange that is more asynchronous than institutional. These are marketing activities simply termed "exchange;" economic goods and services are brought into a market context with prices being the result of economic bargaining rather than some standardizing method that is rooted in central distribution or communal institution and tradition (Polanyi et al 1957).

Polyani advocated a position that suggested that classical economic analysis was ill equipped for the third type of exchange (Smelser 1963): ergo the social context creating the distinction between economics and marketing. Without the social context, it can be successfully argued that contemporary marketing theory defies the perfect analysis by traditional economic theories such as supply and demand, price, and any rational calculation of economic gain. Further, because marketing theory observes the exchange activities of the market in varying degrees of perfection, the value of Polanyi and his social context of economic theory provide an additional set of perspectives from which to evaluate market behavior. Specifically, Polanyi suggested that the tacit knowledge capabilities of the firm could be more relied upon to produce successful long term competitive advantage. This socially constructed notion provides some of the theoretical underpinning for the Resource-Advantage Theory of competitive behavior (Hunt 1997).

Hunt (1999) states that while the firm's primary objective is financial performance; he specifically articulates the additional belief that within Resource-Advantage theory such financial performance produces social welfare implications which are profound and fundamental. Further, Hunt identifies the evolutionary nature of Resource-Advantage theory wherein public policy and societal institutions, such as laws, customs, taboos, traditions, and moral codes affect economic performance. This contemporary marketing concept of the moral benefit derived from promoting trust as an organizational resource is in absolute alignment with Polanyi's belief that the removal of land, labor, and capital from a commodity context into a broader social context is critical to economic freedom. To Polanyi, freedom was an intractable outcome of consumer choice which would shift demand, influence producer's incomes, and serve as an instrument of accountability instrument.

Previous to Polanyi's discussion, economic theory promoted the notion that social relations dictated economic relations while Polanyi's view was that social relations were defined by economic relations; a more consumeroriented description of social class and status. Simply stated, under the Polanyi theory, the state worked for the mercantile class, rather than the mercantile class working to further the goals and ambitions of the state. This change in the fundamental human relationships associated with exchange was brought about, according to Polanyi by the great transformation of the industrial revolution.

The Great Transformation (1944) considered four institutional pillars of 19th century economics and their impact on the behaviors of markets fully absorbed and influenced by the industrial revolution. The first institution Polanyi considered was the balance-of-power system, the second the international gold standard, the third the notion of a self-regulating market, and fourth the liberal state.

Herein the author will briefly describe the conditions and implications, as specified by Polanyi of each of these four institutional forces (two economic and two political) that are credited with forever altering the relationships inherent in an economic market. Herein it is understood that the controversies that began with Polanyi's work have yet to be resolved. Historians are not able to resolve his discussions; rather historians can merely report and analyze his discussions.

Polanyi credits the political institution of the balance-of-power system with creating an extremely long period of peace; nearly 100 years, from the conclusion of the French Revolution to the beginning of World War I. Excusing some minor conflicts, Polanyi computes that the "major powers" of the era (England, France, Prussia, Austria, Italy, and Russia) engaged in war against each other for a total of only eighteen months. This figure in the two preceding centuries averaged 60 years each. Accordingly, Polanyi suggests that the balance-of-power system that existed during the industrial revolution is the single most plausible reason for the prolonged peace. He considers this formalized balance-of –power as a positive institution that provided one of the predicates for economic prosperity.

The theoretical underpinning of the balance-of-power system postulates that three or more units capable of exerting power will always behave in such a way as to combine the power of the weaker units against any increase in power of the strongest. While history is replete with examples of the balance-of-power desire, it is the institutionalization of the concept and the addition of the "peace interest" brought about by a new mercantile position that appears to elevate the concept into the context of market behavior. Previous to the industrial revolution, the peace interest was less safely established because those parties possessing the peace interest were homogenously bound political entities and nation states; not cross-cultural industrial organizations and market driven exchange entities. Polanyi postulated that without the boundary-less exchange motive produced by economic interests, once the politically motivated imbalance gathered momentum, only the use of military force could set it right. Hence the war-like problem associated with nation state centered balance-of-power is reduced because of economically centered exchange balance peace motives. In market driven social contexts, economic peace interests are more likely to spread across tangible borders creating less institutional balance-of-power structures.

According to Polanyi, trade had become linked with peace, and the standardization of exchange currency was critical to both the expansion of trade and the maintenance of the peace interest. The balance-of-power unto itself could not ensure peace. The general acceptance and promotion of a uniform gold standard by the industrial powers of the 19th century provided much of the commonality and stability needed to ensure peace and promote the growing prosperity. The power of the gold standard to stabilize and then to disintegrate the peace interest cannot be underestimated, when considering the validity of Polanyi's institutional perspective.

To the classical economists the gold standard was the most functional and pure of economic institutions. Most refused to consider the gold standard as an integral part of the social mechanism surrounding exchange. When it collapsed in the early 20th century, the impact of its importance would cast the world economy into severe chaos, as evidenced by the Great Depression. Prior to the industrial revolution and even up to World War I, the world's great nation state powers shared the concept of a uniform gold standard, until in the social context of exchange it became apparent that the power with the greatest stocks of gold might not be entitled to the full exercise of that power unless there also existed a growing and prospering market-based economy. The abandonment of the gold standard by Great Britain, Russia, and the United States in the 1930's exemplified the archaic nature of the gold standard.

With the fall of the gold standard came the transformation of institutions of exchange toward greater understanding of the consumer as perhaps the truer producer of exchange based value. The gold standard concept exists today within third-world economies wherein it is still believed that stored wealth is more appropriate than systematic productivity (Dalton 1990). With the collapse, modern marketing theory begins to emerge as the social science that can provide the greatest understanding of how economic processes provide power, peace, and prosperity to populations lacking in large inventories of precious currency; gold.

Polanyi analyzed the unbridled excesses of the 1920's and the economic chaos after the collapse of the world's economy in the 1030's as a result of the economic theory of the self-regulating market (Lewis 1991). This single perspective has been the most controversial of Polanyi's few, but highly insightful economic contributions. In direct contradiction to the mainstream economists of his day, Polanyi condemned the economic liberalist notion that a self-regulating market would provide both the impetus for improved productivity and the necessary corrections which in conjunction with the balance-of-power, and gold standard would perpetuate peace and prosperity. On the contrary, Polanyi posited that left unattended, the logical outcome of a self-regulated market and the liberal state would be the annihilation of the human society and the complete depletion of the natural environment (Polanyi 1944). Polanyi believed that the concept of the self-regulated market was antithetical to all forms of human society. In fact he believed that history would support the fact that crass materialism was inherent in this economic theory.

Polanyi also suggested that the liberal state concept had run-amuck and was, at least partially responsible for the chaos and economic disruption that followed the collapse of the world economy in the early 20th century. The liberal state notion suggested that labor should find its price on the open market, that the creation of money should be subject to an automatic mechanism and that goods should flow from country to country without hindrance or preference. In short it meant freedom from regulation (Polanyi 1944). This absence of constraints on the economic activities is blamed for the rapid growth of inflation during periods of uncertainty and for the ruthless actions of enterprises at the expense of both labor and land. While Polanyi acknowledged that such a Laissez-faire approach is responsible for the productive habitation of the United States and much of the imperial holdings of Great Britain, he also suggests that the destruction of indigenous cultures and social structures are a more catastrophic result of the liberal state.

POLANYI AND NEEDS SATISFACTION

Polanyi's condemnation of orthodox economics is an additional element in the emergence and evolution of marketing theory and practice. Through his work, sociologists and anthropologists were called upon to help explain the role of satisfying human needs in the study of economic activity. The discussions of Karl Polanyi clearly attached or reattached human social behaviors in the conduct of market activities to the economic theory that attempts to explain the transactional relationship between production, distribution, and consumption (Lewis 1991).

Bartels (1962) pays tribute to economic theorists for their contribution to early marketing thought. This acknowledgement extends beyond a mere reference to the evolution of marketing from the study of economics; rather it points out that the work of Polanyi and others was critical to the departure from functional economics which provided the intellectual stimulus for connecting more anthropology and psychology to the study of marketing theory.

Further, Polanyi illustrates that the study of social science is less susceptible to the mathematical proof that the historical economics schools desired (McCloskey 1997). Marketing is also wrought with the dilemmas of mathematical imperfection which to the marketing theorists is part of the dynamic and constantly changing challenge associated with satisfying human needs, wants and desires.

Finally, Polanyi unceremoniously uncovers the fallacy that human motivations and behaviors are not simply the results of an individual's material self-interest (Rodrigues 2004). For Polanyi, the economics of human societies are complex, historically inconstant and not reducible to a mathematically precise set of rules. He believes that man's economy is an inextricable part of his social relationships. Still, he believes that individual motivations and preferences cannot be understood without reference to the institutional context which acts to define such activities and behaviors. Through Polanyi's study and effort, the continuing evolution of relationships in market based activities has emerged.

Polanyi was critical of unbridled capitalism, yet was perhaps more critical of Marxism. Polanyi illustrates that the true understanding of the economic activities of humankind is perhaps best promoted within a societal framework that is not dominated by overly restrictive and unrealistic institutions like the gold standard and not abandoned to the ruthlessness of no restrictions as found in the strict interpretation of the liberal state. Polanyi clearly recognized deliberate human action and he defined institutions as the embodiments of human meaning and purpose (Polanyi 1957); the same can be argued for contemporary marketing theory and practice.

CONCLUSION

Economic scholars such as Polanyi and Schumpeter are credited with exploring and exposing the interdependence of market economic activity and the community. Because of these early efforts, marketing theory has evolved and become more comprehensive. The work of Polanyi contributes to the notion of an economy as a collection of social activity in which people produce, distribute, and consume the materials required to meet their needs and wants (Gough 1994). This definition is remarkably similar to the newly adopted definition of marketing as specified herein and recently adopted by the American Marketing Association.

Returning to the Africa News story that prompted this article, it is important to point out as did the author of the news article that Polanyi also subscribed to the necessity for a society to protect themselves from economic "shock therapy."

Specifically to the South African situation, the dirigiste economic policies of the Mbeki regime are proving to be just as damaging, if not more so, that were the economic apartheid policies of the Afrikaner National Party. The author is NOT defending apartheid. Rather, in keeping with the discussion of Karl Polanyi, illustrating that state sponsored economic intervention by a liberated society can be potentially as devastating as by an oppressive society.

Herein the distinction rests in motivation. Dirigiste economic policies and other neo-liberal concepts can provide substantial state-directed benefits (consider South Korea), when used to promote the pseudo market-based activities. Unfortunately, as in the South African situation, when the success of one class emerges while commoditizing others there exist ample evidence of capitalism perpetuating inequalities, rather than contributing to change. Polanyi warned that the commoditization (land, labor, and capital) of the market produces more dilemmas than it solves, regardless of theory. In South Africa, there is the clash between a supposedly open-market economics within the reality of closed politics.

Just as with sound marketing planning, there is a need to balance institutional policies with everyday good sense. Polanyi's work is both interesting and foundational in justifying public planning's role and responsibility in capitalism. Where competitive markets fail, especially in the face of negative externalities, the benefits of institutional intervention can be shown to exceed the costs.

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