From Menger to Polanyi: 
Towards a Substantive Economic Theory

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Abstract:

Polanyi’s wide-range comparative outlook consists in considering any given social system as the result of historical evolution and as a whole. The economy appears then as a process, specifically institutional within each social system. These methodological assumptions are in contrast with those of economics, to the extent that the latter embraces both individualization and statistical generalizations, i.e. a non-institutional characterization of economic activity.

The analysis of the “market system” as an “economically” instituted economy, and of the “market society” as a society in which the economic system becomes differentiated, autonomous and dominant, enables Polanyi to explain the “economicistic fallacy” with reference to its real basis. Thus, the generalization of such categories as “rational choice” and “scarcity” reveals as illusions, in the extent that it discards their institutional particularity; moreover, an authentically general, a “substantive” concept of “economy” is needed. Polanyi opposes it to the “formal” concept, and interprets, for instance, Carl Menger’s long engagement in revising his Gesamtwirtschaft as a tentative of distinguishing a more general meaning from the “economising” meaning of “economic.”

The article carries on Polanyi’s suggestions about the reasons and results of Menger’s revision of his book of 1871. The problem of situating both Menger’s work and Polanyi’s interpretation within the history of economics is also dealt with, with particular reference to the inter-war theoretical and methodological opposition between institutional and conventional neoclassical tendencies.

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