Karl Polanyi (1886-1964) presented a useful typology of ways in which humans have organized their economies. Following is a modified version:

- Reciprocity: Homo sapiens sapiens first appears in the fossil record about 120,000 years ago; the common female ancestor for all humans ("Mitochondrial Eve") appears to be about 200,000 years ago. Agriculture first appears about 10,000 years ago. For the period between 200,000 years ago and 10,000 years ago, all of our ancestors lived in foraging (hunting/gathering) groups. Our knowledge of these groups is based on current, ethnographically known groups. Two levels of organization: the exogamous band, consisting of about 25 members, together every day; the endogamous "tribe," consisting of about 500 members, all of who speak the same language (and no one outside the "tribe" speaks that language). Exchanges among individuals are based on tradition, with the traditionally defined sexual division of labor the most important determinant of exchange. Reciprocity is a web of continuing relationships—every activity forms a claim on or obligation to other members of the group, to be discharged at multiple and indefinite times in multiple and indefinite ways.

- Redistribution: Agriculture makes large populations possible; these large populations spread across the earth, partly simply because of natural increase, partly because a large group has military advantages. In large populations, reciprocity breaks down, due to the free rider problem. Redistribution emerges: an elite takes all production and redistributes it among the producers; ancient Egypt, Sumer, Peru—and the USSR—were states organized on redistributive exchange.

- Markets: Markets are the way in which one exchanges with strangers. Market exchange has two features: the exchange is based on self-interest, and it is an isolated or closed exchange, where the participants terminate their obligations to each other once the exchange is completed. Even among foragers, something resembling market exchange took place with strangers from other groups. Because market exchange is exchange among strangers, it works with very large social groups.

Redistribution and Markets are relatively new features of human societies. Markets raise an important question: "If all members of a society exchange selfishly (based on self-interest) will the resulting outcome be desirable or undesirable?" Microeconomic research into the structure of markets attempts to answer this question. Another strand of economic thought seeks to weigh the relative advantages of redistribution and markets.

Economic thought roughly (very roughly) breaks down into three periods, characterized by how arguments are presented:

- Thought that describes the "natural" or divinely mandated ways in which economic life should be organized. This is the oldest type of economic thought; it is normative and prescriptive, rather than positive and analytical. Still seen today in conservative contexts (the Iranian Islamic state, etc.), this was practically the exclusive form of western economic thought until the early modern period in Europe.

- Thought that explains how to best organize economic life in order to increase the power of the state. Emerged by the late 15th century in western Europe—a response to endemic warfare and nation building. Still seen today among economists focused on the well-being of nations (e.g., Robert Reich).

- Thought that explains how to best organize economic life in order to make individuals as well off as possible. This perspective begins in the mid to late 18th century with Utilitarian philosophy. Overall, the dominant mode of phrasing economic arguments today.

Pre-Capitalist Economies

1) Archaic Greece (World of Homer and Hesiod--8th Century B.C.)

Oikos-noble household, with free retainers, female slaves, and (worst-off of all) propertyless, temporary workers for hire.

Within oikos- redistribution. Among oikos- reciprocity.

Gift requires **equivalent** counter-gift. Equivalencies established by tradition, and depend on status of giver and receiver.

Ideal of autarky. Reciprocal exchange among oikos- usually interpreted as way to establish alliances. In economic sense conducted only to obtain that which could not be produced locally (usually metal). Trade only to obtain imports-- exports important only as need to find equivalent countergift for import.

Considered wrong to engage in trade when not directly using the import. Exchanges should be equivalent-- no room for profit. Profit seen as taking what belongs to another -- immoral to take in sphere of reciprocal exchange-- only moral to take through force of arms.

2) Aristotle (4th Century B.C.)

Conservative who opposed the appearance of markets and money economy.

"Natural" -- leads to realization of thing's final purpose; e.g. Slavery is natural since some people are by nature slaves; also -- trade as a vocation is unnatural since trader is buying goods which he himself will not consume.

Arts of Aquisition: Natural- herding, farming, fishing, hunting, piracy; unnatural- trading.

Exchange for use is natural; exchange for further exchange (i.e., exhange for money) is unnatural.

Money fills legitimate function as measure of value. Exchange for monetary gain is unnatural since desire for money is unlimited (unlike desire for every other good, where one eventually becomes satiated). Money is a means to the end of obtaining anything. Therefore it becomes an end in itself (Aristotle has been followed by Georg Simmel and John Dewey in describing how things valued as means become valued as ends).

Note how "unlimited wants," a basic assumption of modern microeconomics, appeared to Aristotle as something new and awful, associated with money and a market economy.

Aristotle also opposed the kind of communism advocated by Plato:

A community requires diversity, reciprocity, and self-sufficiency; it requires human diversity for self-sufficiency. Reciprocity among the differentiated parts then integrates the community.

In particular, private property is good:

- **productivity** higher where people take care of own property
- **peace** easier to maintain when people need not cooperate closely
- **pleasure** people obtain from feeling a sense of ownership
- **practice** of communal property would have long ago been instituted if it were truly such a good thing
- **philanthropy** only possible when people have own property to give

This last important: "liberality" seen as important virtue of the rich. Typical of pre-capitalist societies, where collective consumption (giving away surplus to fellow citizens) practiced instead of the capitalist conspicuous consumption. Liberality is a reciprocal exchange, tying together community. In determining price of exchanged goods, status of exchanging agents must be considered (essential in reciprocity). Thus "the ratio of shoes to houses should be as the ratio of shoemakers to builders."

Cognitive Dissonance is "Unnatural"?
Aristotle: a trader is neither an enemy nor a friend—someone who extracts (like a pirate) from exchange (what friends do).
Deuteronomy: a pig has cloven feet but does not chew a cud; a camel chews a cud but does not have cloven feet—eat neither of these things.
Cognitive dissonance (things falling between two categories) leads to the imposition of a taboo (Mary Douglas). In traditional economies two kinds of rules:

1) rules setting a framework for reciprocal altruism
2) rules avoiding ambiguity

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3) Medieval Western Europe

Many of the characteristic institutions of Medieval Western Europe were born at the height of the Roman Empire. Michael Grant's *The Climax of Rome* explains the emergence of feudalism and guilds as part of the effort of the Roman state to secure funds for its military efforts against invaders and in civil war. As military needs grew, the appetite for funds increased, which the state met by either debasing the currency or by raising taxes. Both of these techniques were harmful to commerce, and one saw a steady decline in economic activity, which led to even more debasing of the currency, and even further efforts to raise and enforce tax collections. Corporate entities, such as associations of shippers or bakers, began to be encouraged by the state, since these could be made responsible for a determined annual tax payment, increasing the ease of collection and reducing the probability of evasion. Individuals could find a kind of refuge in corporate status from rapacious tax collectors or soldiers, and the state was willing to give these associations special privileges in exchange for regular tax payments. Likewise, large rural estates often served as refuges for peasantry displaced by exigent demands from soldiers and tax collectors; the state, anxious to maintain agricultural production, and eager for the regular tax collections of these large estates, was willing to grant significant rights to the *latifundia*—eventually binding tenants to the estates, so as to form the institution of serfdom.

In eleventh century, feudalism solidified in countryside - medieval manor, nobles (function to fight), peasants (function to work). Organic conception of society: "The Pope is the head, the warriors are the arms, and the peasantry the feet." Ascribed status [compare idea of social contract].

Cities-- guild system -- not to protect workers (apprentices and journeymen), but to protect masters and to protect consumers. Regulate everything (price, weight, quality, production methods, quantity, hours worked, etc.)

Static world -- even prices changed so slowly that people regarded them as constant. Universal influence of Church (e.g., marriage rules defined by Church--erasing local customs, making nuclear family salient economic unit). Nations weak-- many local economies of manor and town. Self-sufficiency valued. Imports of locally unavailable products favored, exports discouraged (similar to Archaic Greece).

Social harmony valued above all. Reciprocal relations among various strata and occupations. "Charity" functions like Aristotle's "liberality." Faith in God major difference from modern times--"age of moral concern."

4) St. Thomas Aquinas (1225-1274)

Wrote for cities. Three sources of economic thought: Roman Law (most liberal regarding markets), Canon Law, and theology (most illiberal). Static, harmonious world-- capitalism a threat-- a hostile attitude in theology appears first in 12th century. Aquinas part of this conservative reaction.

Just price-- Divine value (flea>penny) versus human value (meat>mouse). Just price based on human value: both on usefulness (demand) and on production cost (supply). Didn't need to specify exactly how established, since could regard prices as traditionally given as the just prices (didn't change--embodied in statutes). Overall, the just price protected consumers (policy of "provision"). Traditional, reciprocal exchange.

Property-- God gave Earth to humans, the work of an individual justifies appropriation of this common stock to individual's possession. (sounds much like Locke)

Usury-- motor of capitalism, attitude hardened against usury among scholastics. Main focus of Aquinas' economic writings. Basically sin of "getting something for nothing." [cf modern "rent-seeking" "exploitation" "insider trading"] Legitimate compensation for lending money (payment for risk or late repayment or inflation) was called "interesse." Arguments against usury:

1) Luke 6:35 "Lend, expecting nothing in return."
2) Usurer charges for lapse of time. Time is free gift from God. Thus, usurer sells what he does not own.
3) Money is barren and cannot breed (from Aristotle). Modern: money is capital, use money to buy productive machinery, earn return. Meidieval: money is medium of exchange, nothing more. Loans not for productive purposes, but to pass over crises (workshop destroyed by fire, crop failed, etc.)
4) Two kinds of goods: those which can be used without being destroyed (such as a house or machinery or land or labour--their use can be sold seperately from their substance) and those which are destroyed upon use (such as wine-- its use cannot be sold seperately from substance). Money was seen only as medium of exchange => money was like wine, not a house.

Mercantilism (ca. 1500-1800)

Shift from

- internal to external;
- moral to amoral;
- provision to protection;
- charity to power.

Period of endemic warfare.

- Beginning perhaps with Hundred Years War (1337-1453)—the side which fields its army the longest wins.
- Arms races: crossbows vs. armor, artillery vs. city walls, etc.
- New technology of war very expensive (gunpowder, ships). Beginning with Spanish wealth from American silver (after 1530) dominant powers very rich and able to field large, well-equipped armies. Continual, expensive, and high-stakes warfare→independent cities and small states unable to survive.
- A period of "nation-building," where monarchs unify nation economically—dissolving feudalism and independent power of towns (usually replacing local guild regulations with national bureaucracy--except in England). Kings grab control of the assets of the Catholic church, severing ties with Rome—replacing the universality of the church with nationalism.
- European religious unity begins to disintegrate (Reformation, beginning about 1500). Loss of common European culture. Warfare becomes more unscrupulous.
- For above reasons, state finances extremely important: buy arms, pay allies and mercenaries, outlast the enemy. Hence obsession with the accumulation of gold.

Mercantilism represents:

- A set of ideas explaining how the nation-state can manipulate the economy in order to survive endemic warfare. The objective is survival and power—a departure from the medieval objective to live life in accordance with the wishes of God. The means of reaching that objective are not evaluated from a moral perspective, but only from the perspective of effectiveness.
- An ideology justifying and favoring a newly-emergent class of merchants and manufacturers. This business class was needed to generate gold for national treasuries; the interests of the business class and the nation-state coincided—a fact pointed out in treatise after treatise written by businessmen.

A few typical ideas:

- Focus on accumulated wealth (gold), not consumption, not production.
- Wealth as zero-sum game. (No harmony of interests)
- Exports are way to accumulate gold.
- Money is seen as productive capital.
- Low wages favored—discourages consumption, encourages exports.
- Population growth favored (more soldiers and workers).
- Policies should maintain social harmony.
- Support of industries and activities enhancing military power.
- Favoring of money economy (taxation and borrowing easier with money).
- Quantity Theory of Money (Equation of Exchange): $M*V=P*T$;