

THE EMBEDDED MARKET · CHAPTER TWO

# The Market Was Always Inside Something

*Chapter Two of The Embedded Market*

Ammanuel Santa Anna

Santa Anna, A. (2026). The Market Was Always Inside Something. In The Embedded Market (ch. 2). Luminous Prosperity Inc. https://doi.org/10.5281/zenodo.23989476
Luminous Library Licence 1.0 · business.hautelumiere.life/library/the-embedded-market

## THE LICENCE

The Market Was Always Inside Something
*Chapter Two of The Embedded Market*

The Embedded Market · Chapter Two. The Haute Lumière edition, 2026. © 2026 Ammanuel Santa Anna.

Released under the Luminous Library Licence 1.0 (hautelumiere.life/library-licence): free to read, share, quote, translate and teach, non-commercially, for ever. The Author keeps every other right, including every commercial right.

Published by Luminous Prosperity Inc. for Haute Lumière. Author ORCID 0009-0008-3244-0306.

DOI 10.5281/zenodo.23989476 · this record's page: business.hautelumiere.life/library/the-embedded-market/02-the-market-was-always-inside-something/

Please cite as: Santa Anna, A. (2026). The Market Was Always Inside Something. In The Embedded Market (ch. 2). Luminous Prosperity Inc. https://doi.org/10.5281/zenodo.23989476

Chapter Two of The Embedded Market. The whole book, with every chapter, is at business.hautelumiere.life/library/the-embedded-market (DOI https://doi.org/10.5281/zenodo.23989474).

## A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

## ABSTRACT

In the middle of the 1960s an economist travelling for a study of development projects watched a railway decline. The Nigerian Railway Corporation was losing freight to lorries on the roads that ran beside its lines. That much was ordinary. What held the economist's attention was what did not happen next. In the textbook, a firm that loses customers to a competitor feels the loss and improves. The railway lost customers and stayed as it was. The economist was Albert O. Hirschman, and the puzzle stayed with him for several years. The answer he arrived at, published by Harvard University Press in 1970 as Exit, Voice, and Loyalty , was that the customers who left were the very customers whose complaints the railway most needed. The shippers who cared most about speed and reliability, and who had the means to switch, switched. The ones who remained were the least able to leave and the least likely to make a fuss. Competition had not disciplined the railway. It had removed its most informative critics and left it a quieter, easier decline.

CHAPTER TWO

# The Market Was Always Inside Something



*The Market Was Always Inside Something*

HAUTE LUMIÈRE · THE EMBEDDED MARKET · CHAPTER TWO

## A railway in Nigeria

In the middle of the 1960s an economist travelling for a study of development projects watched a railway decline. The Nigerian Railway Corporation was losing freight to lorries on the roads that ran beside its lines. That much was ordinary. What held the economist's attention was what did not happen next. In the textbook, a firm that loses customers to a competitor feels the loss and improves. The railway lost customers and stayed as it was.

The economist was Albert O. Hirschman, and the puzzle stayed with him for several years. The answer he arrived at, published by Harvard University Press in 1970 as *Exit, Voice, and Loyalty*, was that the customers who left were the very customers whose complaints the railway most needed. The shippers who cared most about speed and reliability, and who had the means to switch, switched. The ones who remained were the least able to leave and the least likely to make a fuss. Competition had not disciplined the railway. It had removed its most informative critics and left it a quieter, easier decline.

That is a small story about freight. It is also the clearest way into a question this book will spend its length on: what is a market inside of, and what happens to it when it forgets?

Twenty-six years before Hirschman's book, a Hungarian economic historian teaching at a small college in Vermont had asked the same question at the scale of a civilisation. His answer was that a market is always inside something, a web of law, custom, family, land and obligation, and that the nineteenth-century attempt to lift it out, to make it the thing everything else sat inside, was the root of the catastrophe his generation was living through. He called his book *The Great Transformation*.

This chapter traces both ideas to their sources, corrects three things commonly said about them, and argues one claim of its own: that Polanyi's embeddedness and Hirschman's voice are one insight seen from two distances. Polanyi describes the membrane from outside, at the scale of a society. Hirschman describes it from inside, at the scale of a single organisation and the people who depend on it. Both are describing how a living economy hears itself.

## Bennington, 1940 to 1943

The book's own front matter settles its origin more precisely than most summaries do. The 1944 first edition, printed in New York for Farrar & Rinehart, carries a note that Karl Polanyi "spent the years 1940 to 1943 in the United States where he was on the staff of Bennington College, and lectured widely." His acknowledgments thank, among his Bennington colleagues, Horst Mendershausen and Peter F. Drucker, and they add a detail that deserves to be better known. Drucker and his wife, Polanyi writes, "were a source of sustained encouragement, notwithstanding their wholehearted disagreement with the author's conclusions."

That sentence is a fair portrait of the book's reception ever since. It was written by a man who had lived through the collapse of the Habsburg world, the Vienna of the 1920s and the rise of fascism, and who wanted to know why the liberal order of the nineteenth century had ended in war. The sociologist Fred Block, who has studied the manuscript's development closely, shows that Polanyi's argument changed while he wrote it, and that the finished book contains tensions he did not fully resolve.[1] It is worth reading as what it is: one forceful historical argument, written fast, by a careful mind under pressure.

The argument, stated plainly, runs like this. For most of human history, Polanyi says, economic life was organised by reciprocity, redistribution and the household, with markets present but subordinate. In his own words, which can be checked against the first edition, "Economic systems, as a rule, are embedded in social relations; distribution of material goods is ensured by noneconomic motives." The nineteenth century tried something new: a self-regulating market system in which land, labour and money were themselves bought and sold as if they had been produced for sale. They had not been, and Polanyi calls their commodity description "entirely fictitious." Labour is human life. Land is nature. Money is a token of purchasing power created by banks and states.

What followed, in his most quoted passage, was a reversal. "Instead of economy being embedded in social relations, social relations are embedded in the economic system." The market was no longer a room in the house. The house had become a room in the market.

His verdict on that reversal is unsparing, and it is worth reading at full length rather than in the fragment that circulates:

> *Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness.*

The word that matters is *utopia*. Polanyi does not say the self-regulating market was a successful system with bad side effects. He says it was an impossible project, and that society protected itself from it before it could be completed. He called that protection the double movement: "the market expanded continuously but this movement was met by a countermovement checking the expansion in definite directions." Factory acts, public health law, tariffs, central banks, trade unions. Some of these protections were wise and some were disastrous. All of them were society pulling the market back inside.

Ammanuel Santa Anna's *Ecstatic Economics* opens its survey of alternatives on the same nerve. "There is a peculiar arrogance embedded in the modern economic imagination," he writes, describing the assumption that the rational self-maximiser is "the natural, inevitable, and universal form of human economic being." Polanyi is one of the scholars he names in that chapter, alongside Mauss, Sahlins, Graeber and Hyde, as part of the long anthropological correction to that assumption.

## Three myths, and what the sources say

Embeddedness has become a word people use without reading the book that made it famous. Three errors are common enough to correct here.

The first myth is that Polanyi said markets were new. He did not. He says markets existed in almost every society he studied, often for long periods. His claim is about their rank. "Never before our own time," he writes, "were markets more than accessories of economic life." A market town, a fair, a merchant guild: all present, all governed by custom and authority. What was new was the attempt to make the market the governor rather than the governed. A reader who comes away thinking Polanyi was against markets has read the summary, not the book.

The second myth is that the free market arose by itself and regulation was imposed on it later. Polanyi argues close to the opposite, and he puts it in one of the most compact sentences in economic history: "Laissez-faire was planned; planning was not." The free market in labour, land and money required deliberate acts of state: the New Poor Law of 1834, the enclosure acts, the gold standard. The protective countermovements, by contrast, arose piecemeal, from many quarters, often from people who agreed on nothing else. Whether every detail of that history holds is the subject of the next chapter. The structure of the claim is clear, and it reverses the usual story.

The third myth is that embeddedness means one thing. The word owes much of its present currency less to Polanyi than to the sociologist Mark Granovetter, whose 1985 paper in the *American Journal of Sociology* used it to mean something narrower: that economic action is shaped by concrete networks of personal relations, trust and obligation, in modern economies as much as ancient ones.[2] Granovetter thought Polanyi and his followers had overstated how embedded older economies were and how disembedded modern ones had become. The sociologist Greta Krippner later showed that the field had come to use one word for two different ideas, a society-wide claim about institutions and a network-level claim about relationships, without always noticing.[3] Both are useful. They answer different questions, and this book keeps them apart.

The question that joins them is the one a leader actually faces: what is this market, this firm, this household budget, held inside, and is the holding healthy?



*Hirschman's three words*

HAUTE LUMIÈRE · THE EMBEDDED MARKET · CHAPTER TWO

## Hirschman's three words

Hirschman's book is shorter than Polanyi's and gentler, and it began as a problem in economic theory rather than a history. Its subtitle names its scope: *Responses to Decline in Firms, Organizations, and States*. Every organisation, Hirschman starts, slips. Quality falls, service decays, a party loses its way. The interesting question is how the slip is noticed and reversed.

He describes two mechanisms. Exit is the economist's mechanism: the dissatisfied customer or member leaves, revenue or membership falls, and management is warned. Voice is the political mechanism: the dis-

satisfied person stays and says so, through complaint, petition, protest or argument, and management is told what is wrong. Exit is clean, impersonal and quick. Voice is messy, costly and informative. Exit tells you *that* something is wrong. Voice can tell you *what*.

The railway story is the hinge. Where exit is easy for the most demanding customers, it can drain away exactly the voice an organisation needs, and leave behind a clientele too captive or too tired to speak. Hirschman's later reflections, published in 1980, extend the point to public services, where the families most able to leave a failing school are often the ones who would have pushed hardest for its repair.[4]

Loyalty is the third word, and the one most often misread. It is not, in Hirschman's account, passive devotion. It is the attachment that holds exit back long enough for voice to work. A loyal member is someone who stays a little longer than the arithmetic says they should, because they believe the organisation can recover and that their voice may help it. Loyalty, in this reading, is the reserve that makes voice possible. Without it, every disappointment is a departure.

Read beside Polanyi, Hirschman's three words describe the inside of the embedding. A market embedded in society is one in which voice has somewhere to go: a court, a parliament, a union, a customer who is known by name, a supplier who is called rather than replaced. A market lifted out of society is one in which exit is the only signal left. Prices move, people leave, and nobody says why.

Santa Anna's book names that loss in a sentence about the commons that could stand as a gloss on both thinkers. Of enclosure he writes: "When shared resources become private property, the relational web of mutual obligation that governed their use is severed. The resource becomes a commodity. The community becomes a market." A community can speak. A market, in the narrow sense, can only clear.

## Why the two belong together

The claim of this chapter is that embeddedness and voice are one idea at two distances, and it is worth testing rather than asserting.

Polanyi's double movement is, at the scale of a society, an enormous act of voice. Workers, farmers, landowners, physicians, even bankers, each in their own interest, refused to let the market treat their lives, their land or their currency as mere commodities, and said so through every institution they could reach. Where that voice found working channels, the countermovement produced labour law, public health and central banking. Where it did not, Polanyi argues, it produced the authoritarian movements of the 1930s, which offered protection at the price of freedom. Voice that has nowhere to go does not disappear. It finds a worse door.

Hirschman's organisation is a market society in miniature. It has members who can leave and members who can speak, and its health depends on the balance. Too little exit and it becomes what he called a lazy

monopoly, safe from complaint because nobody can go anywhere. Too much exit and it loses the people who would have told it the truth.

Santa Anna's book offers a third description of the same mechanism, written from the inside of a person rather than a society or a firm. Of the healthy organisation he writes that "Vitality requires agency," and of the unhealthy one that "Organizations that suppress feedback — through hierarchy, blame cultures, or information hoarding — create the economic equivalent of a body that can't feel pain: they lose the ability to adapt and self-correct." A body that cannot feel pain is a precise image for a market that hears only exit. It can be badly hurt and keep walking.

In the house's Luminous 100, the upgrade of Stafford Beer's Viable System Model describes the same structure as a nesting of living wholes: "holons all the way up and all the way down, each simultaneously autonomous and embedded." That phrase is this book. A firm is autonomous enough to decide, and embedded enough to be told when it is wrong. Lose either quality and it stops being viable. Chapter 4 returns to this reading in full.



*What the founders cannot show*

HAUTE LUMIÈRE · THE EMBEDDED MARKET · CHAPTER TWO

## What the founders cannot show

It would be easy to make these two books carry more than they can. Three limits are worth naming at the start.

*The Great Transformation* is a historical argument, not a measurement. Its account of the English Poor Law relied on sources that later historians found to be partial, as the next chapter sets out. Its larger claim, that a fully self-regulating market is impossible, cannot be tested directly, because by Polanyi's own argument no society ever completed one.

*Exit, Voice, and Loyalty* is a framework, not a finding. It tells you which questions to ask, and later researchers have spent fifty years testing its predictions, with results that are encouraging in places and complicated in others. One of the best tested is in the labour market, where Richard Freeman found in 1980 that union members, who had a formal voice channel through grievance procedures, quit their jobs significantly less often than comparable non-members.[5] That is one setting, a particular era of American labour, and a correlation analysed with care. It is evidence for the mechanism, not proof of it everywhere.

And neither book tells a leader what to do on Monday. Polanyi wrote about civilisations. Hirschman wrote about the logic of decline. The finer points of implementation, how to tell whether your own organisation is hearing its voice or only counting its exits, are the work of this book, and they begin with a simple audit.

## How to read your own embedding

Every organisation and every household sits inside something. The useful question is not whether, but which relationships are carrying information and which have been reduced to price.

Start with the three things Polanyi called fictitious commodities, because they are the three places where a market most easily forgets what it is holding. Labour: the people who work with you. Land: the places and materials you depend on. Money: the credit, capital and cash flow that keep you running. For each, ask whether the relationship is one in which the other party can tell you something, or one in which they can only leave.

A supplier you have dealt with for twelve years, who calls when a part is about to go short, is embedded. A supplier chosen by reverse auction every quarter, who will never call, is not. An employee who raised a concern last month and saw it acted on is embedded. One who has stopped raising concerns is giving you Hirschman's quietest signal, the one that comes before exit. A household that knows its bank manager, its landlord or its neighbours well enough to ask for time is embedded. One that meets every institution through an app is mostly not.

None of these is good or bad on its own. Granovetter's work and the research that followed it show that embedded ties carry trust and information, and that they can also carry obligation, favouritism and blindness.[2] The point of the audit is not to maximise embeddedness. It is to know where your voice channels are, which are working, and where you are learning about trouble only when someone leaves.

Two finer points, learned the hard way by organisations that have tried this.

First, count silence as data. An embeddedness audit that records only complaints will show the healthiest numbers in exactly the places where voice has already died. The railway had very few complaints in its last years. That was the problem.

Second, watch who exits first. Hirschman's sharpest prediction is that the most quality-sensitive members leave earliest. If the customers, staff or partners you would least like to lose are the ones going, your exit signal is also a voice signal, and it is telling you about quality before your averages do.

For a household the same audit is smaller and just as telling. Where does the family learn that something is wrong: from a conversation, or from a bill? Santa Anna's *High Frequency Workbook* puts the household version of Polanyi's point in seven words: "Every financial decision is a values decision." A budget that has become only arithmetic has, in a small way, been disembedded.

## The railway, again

Go back to the station. The lorries are on the road beside the line, carrying the freight that used to travel by rail. The railway's ledgers show the loss, and the loss is real. What the ledgers cannot show is the conversation that never took place: the shipper who would have walked into the office and explained precisely what was wrong with the schedule, and who instead made one phone call to a haulier and was gone.

Polanyi would have recognised the scene. A market relation had replaced a social one, and the information that used to travel inside the relationship now travelled only as a price. Hirschman would have recognised it too, because he was standing in it. Santa Anna's book, writing of the gift economies Polanyi studied, gives the reason in one line: "An economy that destroys relationships in order to produce commodities is destroying wealth in order to create the illusion of wealth."

The railway's real loss was not the freight. It was the voice that had travelled with it.

## The Tool: The Embeddedness Audit

An afternoon's work for a leader, an hour's for a household. Use a single sheet of paper, landscape, with five columns.

1. List the relationships. In the first column, write every relationship your organisation or household depends on, grouped under Polanyi's three headings: *people* (staff, contractors, family members who contribute), *place and materials* (suppliers, landlords, the land or premises, key inputs), and *money* (lenders, investors, banks, major customers whose payments you rely on). Aim for between twelve and thirty lines. Fewer than twelve usually means relationships have been bundled together; split them.
2. Name the last voice. In the second column, write the date and substance of the last time this party told you something you did not already know: a warning, a complaint, an idea. If you cannot remember, write *none recalled*. Do not guess.
3. Name the channel. In the third column, write how that information reached you, or would reach you: a named person, a scheduled meeting, a form, a review, a phone call. If the only channel is that they would stop paying, stop supplying or resign, write *exit only*.

4. Mark the exits. In the fourth column, mark any party who has left, reduced their business or gone quiet in the past twelve months, and note whether they were among those you would least want to lose.
5. Choose one channel to open. In the fifth column, for every line marked *exit only* or *none recalled*, write one specific, small act that would open a voice channel: a call, a standing quarterly conversation, a question added to an existing meeting. Then choose the single line where an opened channel would matter most, and do that one act within seven days.

Reading the sheet. Lines with a recent voice, a named channel and no exits are working embeddings; leave them alone and thank the people in them. Lines marked *exit only* among your most important relationships are where you are learning about trouble last. Repeat the audit in ninety days, and compare the second column. The measure of progress is not fewer complaints. It is more lines where someone told you something in time.

Your page — run the The Embeddedness Audit here, dated.

A note on method

Quotations from Karl Polanyi are taken from the first edition: Polanyi, K. (1944). *The Great Transformation*. Farrar & Rinehart, checked against a full-text scan of that edition (front matter; Acknowledgments; chapters 1, 4, 6, 11 and 12; Notes on Sources). Albert O. Hirschman's argument is paraphrased from Hirschman, A. O. (1970). *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States*. Harvard University Press; no sentence of his is quoted here, because the text could not be checked word for word for this chapter.

# References


1. Block, F. (2003). Karl Polanyi and the writing of *The Great Transformation*. *Theory and Society*, 32(3), 275–306. https://doi.org/10.1023/A:1024420102334
2. Granovetter, M. (1985). Economic action and social structure: The problem of embeddedness. *American Journal of Sociology*, 91(3), 481–510. https://doi.org/10.1086/228311
3. Krippner, G. R. (2001). The elusive market: Embeddedness and the paradigm of economic sociology. *Theory and Society*, 30(6), 775–810. https://doi.org/10.1023/A:1013330324198
4. Hirschman, A. O. (1980). "Exit, voice, and loyalty": Further reflections and a survey of recent contributions. *The Milbank Memorial Fund Quarterly. Health and Society*, 58(3), 430–453. https://doi.org/10.2307/3349733
5. Freeman, R. B. (1980). The exit-voice tradeoff in the labor market: Unionism, job tenure, quits, and separations. *The Quarterly Journal of Economics*, 94(4), 643–673. https://doi.org/10.2307/1885662

The Market Was Always Inside Something

Ammanuel Santa Anna · Luminous Prosperity Inc. · Haute Lumière

Set in Cormorant Garamond and Manrope.

Read the Business Library at business.hautelumiere.life/library.

Luminous Library Licence 1.0 · hautelumiere.life/library-licence

**REQUEST A CONVERSATION**

business.hautelumiere.life/book/?kind=gainshare

The Business Library

business.hautelumiere.life/library/

The packages

hautelumiere.life/pricing/