



TOWARD A POSTCRITICAL ECONOMICS: COMMENT ON MICHAEL POLANYI'S "WHAT TO BELIEVE"¹



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ABSTRACT

“What to Believe” is an important, short Polanyi piece that illuminates fiduciary and postcritical elements permeating various parts of his scholarship. This paper explores how Polanyi’s message about understanding, believing, and belonging developed in “What to Believe” fits into Polanyi’s economic liberalism. It discusses its relevance for his views about agents, markets, and the desirable methods of inquiry into the economy, and ends with reflections on the seeds of this new perspective in his earlier economics film project and its influence on Polanyi’s concept of economics.

Agents

What follows is an attempt to provide a broad overview of Polanyi’s economic liberalism. Of course, such an overview is necessarily sketchy and does not properly address the details of the analyzed ideas. However, to reflect on the importance of a specific piece in the context of Polanyi’s broader economic ideas seems the most fitting. The key message of “What to Believe” (1947) is that the process of knowing consists of three inherently interrelated aspects: understanding, believing and belonging. One knows something when she understands it in a specific way, believes in a specific set of assumptions related to this understanding, and belongs to a community having similar understandings and beliefs. But what does this mean for the Polyanian interpretation

of economic agents? Is there no such thing as an individual economic agent? Or if there is, can she know anything about the economy without cooperating with others?

Polanyi's first economic writings (e.g., *U.S.S.R. Economics: Fundamental Data, System and Spirit* [1935]) offered a glimpse into the 'driving force' (Polanyi 1935, 85-86), 'spirit' (ibid, 86-87), and 'social consciousness' (ibid, 88) of the workers in the Soviet Union. He argued that people had a social need to know how their everyday activity fits into a larger scheme. The Soviet Union abused this craving and instead narrowly cultivated a red spirit, a sentiment of loyalty to the Communist Party. In contrast, Polanyi suggested developing a 'social consciousness' (ibid) for liberalism that would not tie people to party rule but to their own society. Why is this relevant here? In Polanyi's economic thought, agents decide individually, but their decisions are influenced (although not determined) by social factors (e.g., habits, law, religion). In his earliest writings, such as *U.S.S.R. Economics*, Polanyi described these social factors as affecting what is happening through a 'social consciousness.' 'Social consciousness' creates a sense of community which conditions how a person perceives the world and what is considered rational. Agents having this public spirit are inclined towards seeing and acting in a specific way.

In the forties, Polanyi considerably changed the way he addressed the influence of these social factors on the decisions of economic agents. The key message of "What to Believe", (that is, knowing consists of three inherently interrelated aspects of understanding, believing and belonging [Polanyi 1947, 6]), was a novel way to grasp this social influence. Polanyi's new take emphasized that the *theoretical* aspect of knowing cannot be completely separated from *confessional* and *social* aspects (ibid) and this suggests that social factors always already condition how agents comprehend the economy. This *interpretative flexibility* affects the behavior of economic agents. An agent acts according to her *knowing* of the economy. The *knowings* of agents are variously based on their theoretical, confessional and social commitments, therefore their actions and the standards defining the rationality of their actions are various too. Agents are always already embedded in diverse social niches affecting their behavior.

Polanyi was not only concerned about emphasizing such embeddedness. He was also concerned to show different ways of being embedded. He discussed the dichotomy of *corporate* and *spontaneous orders* to explain how the way of embeddedness affects both the individual and the social outcome of an agent's actions (Polanyi 1951). Polanyi therefore contrasted two kinds of embeddedness: the first has the agent embedded in a social structure having one centre and a top-down way of ordering affairs; the second has the agent embedded in a polycentric social structure with a mutual way of ordering affairs. In the first case, the agent's actions are limited by her superior's commands. In the second, the agent's actions are only limited by commonly established and maintained social constraints applicable to everyone. In the first case, the agent has no power

to define the boundaries of her agency (i.e., to define the degree in which she can decide about economic matters without a direct command from her superiors). In the second, she has such power and she is constantly defining the boundaries of her agency by acting as one of the many centres of the system (i.e., she contributes to the working of the system).

Apparently, Polanyi was not satisfied to emphasize the embeddedness of agents and the main types of their embeddedness. He made inquiries into the various forms of embeddedness in the forties. In *The Growth of Thought in Society* (1941a), *The Logic of Liberty* (1951) and several other published and unpublished materials, Polanyi explored the embeddedness of agents through social *institutions*. He saw some institutions fostering public liberties and others impeding them. Polanyi discussed how certain institutions are used to promote liberty (e.g., the market) and how others (e.g., the law) are abused to become coercive tools of authoritarian régimes. Polanyi discussed various kinds of institutions representing diverse forms of social embeddedness, including habits, social conventions, the market, and the legal environment. But how do these manifold forms of social embeddedness affecting millions of economic agents build a complex whole which is still comprehensible for each agent?

Markets

Institutions are representations of specific social embeddednesses. As representations, they help agents to grasp the essence of what is otherwise beyond their individual grasp. Institutions filter and simplify the personal multiverse of a specific social embeddedness. The comprehension of all economic agents' representations (e.g., how each and every economic agent perceives economic transactions) is impossible, but the comprehension of a single representation of a kind of social embeddedness (i.e., the institution which is commonly called the *market*) is much easier to grasp. Agents make *synopses* about the world (Polanyi 1948a, 2). These synopses are various, personal and only concerned about a small piece but not the big picture. Institutions, like the *market* or the *law*, give a glimpse into the big picture, and by doing so, guide the agents in realms which would be otherwise incomprehensible for them.

For Polanyi, the market is a blend of “three interlocking spontaneous systems” (Polanyi 1948a, 3). People compete with each other as *producers*, *traders*, and *consumers*. Producers compete for sales to traders, traders compete both for suppliers and consumers, consumers compete for products. An economic agent is both a producer and a consumer. Traders act as an equilibrating force helping producers and consumers to reach ‘mutually determinate’ (ibid, 4) equilibria. Traders are supposed to have an equilibrium too, which is, unlike the equilibria of producers and consumers, not natural but derived from the latter two. The market has a system of prices and profit. This system helps agents to overcome their imperfect synopses of actual transactions

by suggesting to them what is going on in the economy in general. The market, as an institution, condenses a vast quantity of information and provides an epistemic anchor for the decision-making of individual agents.

Polanyi considered the market to be the most democratic institution guiding human behavior. The market mechanism, if unhampered, tells the agent how she performs compared to others without stressing any specific opinion. Of course, one who has the money (and power) to purchase more, has more influence on the prices. But Polanyi did not seem to have grasped this insight and neither did he emphasize the possible undemocratic influences of a system of prices and profit. For Polanyi, the market was the symbol of liberty. It was constituted by individual acts, but it was not the result of individual design. Contrary to the state, which Polanyi portrayed as being corrupt and full of errors, the market was an institution of integrity and community wisdom. Polanyi was developing a liberal economics which did not focus on the economic performance of markets, but instead their epistemic performance. Of course, making inquiries into this side of the economy required unconventional methods.

Methods

Mathematics can be used to solve completely formalizable problems. But, according to Polanyi, economic problems do not belong to this group. He called economic problems *theoretically formalizable*, by which he meant that one can set up mathematical models and can speculate about solving the problems by using mathematics, but cannot actually solve them in this way (Polanyi 1951, 181). In the case of theoretically formalizable problems, mathematics can only be used to discover ‘certain logical features of the problem’ (ibid, 178), which makes it ‘significant only in theory, not in practice’ (ibid). What agents do when solving economic problems is make comprehensive judgements. And this cannot be described with the sharpest tools of the best and brightest mathematicians. The ‘balanced assessment’ (ibid, 184) solving a specific economic problem is ‘without any calculation at all’ (ibid). An agent is making a judgement based on what she knows. And what she knows is an amalgamation of the way she understands the situation (understanding), her beliefs about the underlying assumptions (believing), and her attachment to a group sharing these practices (belonging).

While mathematics cannot be used to grasp these pivotal elements of economic life, sociological, historical, and anthropological analysis can. Indeed, Polanyi was making several inquiries using these methods (see Jacobs and Mullins 2017). He excavated the various social factors and historical events leading to the disenchantment of Russian people with capitalism and their support for Soviet planning (Polanyi 1935). Polanyi studied the causes of the declining popularity of laissez faire liberalism which he claimed to find in its insensibility to the problems of laypeople (see Bíró 2019, 17-18). He even used sociological arguments against Oscar Jaszi’s proposal of a supra-national

economic and legal entity: it would not work, because people would not know what to do about it (Polanyi 1941b, 1). The lack of customs and conventions, and the artificial character of the institution suggests it would end up being a dead end. The next section explores how this methodological shift in the forties affected Polanyi's notions about economics.

Economics

Like his brother, Karl, Michael Polanyi socialized economics. But the way he socialized economics was significantly different from Karl's. Karl differentiated between a *formal* and a *substantivist* meaning of economics (Karl Polanyi 1944). The first referred to a discipline explaining how to make rational choices with scarce resources having alternative uses. The second referred to a discipline explaining how individuals and society meet material needs. Michael, however, defined economics as the discipline concerned with the problems of polycentric mutual adjustments, or more broadly, with the problem of organisation (Polanyi 1948b, 1). For him, economics should study the ways in which people solve (or fail to solve) problems of polycentric mutual adjustments.

Michael Polanyi centred his economics on a new insight about knowing, which he most explicitly discussed in "What to Believe." Polanyi addressed how local practices of understanding, believing, and belonging shape knowing. Moreover, he emphasized that from the three aspects of knowing (theoretical, confessional, social), eventually it is the social aspect that 'principally determines, which knowledge is true, and which is false' (Polanyi 1947, 154). The community to which we belong has a defining impact on what we consider to be true and what we consider to be false. While Polanyi was writing in "What to Believe" about knowing in general, this idea seems to be permeating his grasp of economic knowing in particular.

Polanyi was busy reforming the social face of economics from the mid-thirties. He criticized orthodox liberal economists for staying in the ivory tower of academia and building abstract models instead of reengineering their relationship with the general public and delving into the problem of how laypeople get to know the economy. Polanyi developed the first economics film, *Unemployment and Money: The Principles Involved* in order to be able to reach out to the wider masses without advanced background mathematics (see Bíró 2017). But he was not just developing a film. He was very concerned about how his film was being used. His manuscripts about the usage of the new educational film suggest that he based his audiovisual project on the threefold concept of knowing discussed in "What to Believe".

Polanyi did not aim to portray the working of the economy as it was, but to portray the working of the economy as it was understood by a specific economic theory, Keynesian economics. He stressed multiple times that his film portrays economics,

not the economy. This might be seen as the theoretical aspect of his economics project (fostering a specific understanding). He also imagined that those learning from *Unemployment and Money: The Principles Involved* (1940) would have the same assumptions about its content (axioms of the specific economic theory). This might be seen as the confessional aspect of his economics project (fostering specific beliefs). And last, but not least, he imagined that the film would be shown to classes of people forming learning communities, that is, groups of people moving towards a common understanding and shared beliefs. This might be seen as the social aspect of his economics project (fostering specific practices of belonging).

Conclusion

In this reflection on the relevance of Polanyi's "What to Believe" in the context of his general economic thinking, I have shown how the key message of this piece (that knowing is a threefold process of understanding, believing and belonging) affected Polanyi's perspective on economic agents. In Polanyi's view, agents cannot completely be separated from the social contexts in which they are embedded. And, because practices of knowing are various blends of these three elements, so too for economic agents. Decisions of agents are influenced (though not determined) by social factors. The way Polanyi addressed these social factors changed from the thirties (when he focused on social consciousness and the public mind) to the forties and early fifties (when he focused on the social aspect of knowing and social institutions).

I have further suggested how Polanyi's new concept of economic agents affected the concept of markets in Polanyi's economic thought. The market was portrayed as a cluster of three spontaneous orders based on a system of prices and profit which solves the epistemic problem of imperfect information (i.e., diverse synopses of economic agents—a single synopsis providing a big picture). Further, I have shown that Polanyi's unorthodox economics required unconventional methods. Polanyi labelled economic problems theoretically formalizable by which he meant that these problems cannot be solved by using mathematics. In his view, solving economic problems requires the 'comprehensive judgement', the 'balanced assessment' of agents, which can only be discerned by using sociological, historical, and anthropological methods. Finally, I have demonstrated how Polanyi's novel concepts of agents, markets, and desirable methods of inquiry affected his concept of economics and suggested how his economics film project contained the seeds of the key message of his later lecture, "What to Believe."

ENDNOTE

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