



REFLECTIONS ON THE ECONOMIC THOUGHT OF MICHAEL POLANYI



Gábor István Bíró, *The Economic Thought of Michael Polanyi*. London: Routledge, 2019; 178 pp. Hardback: 9780367245634, £120.00; eBook: 9780429283178, £22.50.

Keywords: economics, Michael Polanyi, Karl Polanyi, Tawney, Mannheim, Shils, Keynes, Hayek, “Unemployment and Money” (economics film), science and technology studies, *Full Employment and Free Trade*, Geoffrey M. Hodgson, Stephen Turner, Gábor István Bíró

ABSTRACT

Two reviewers summarize and analyze Gábor Bíró’s book, The Economic Thought of Michael Polanyi. The author then responds to each.

THE LIBERAL ECONOMICS OF MICHAEL POLANYI

Geoffrey M. Hodgson

Introduction

It is very gratifying to see that the contributions of Michael Polanyi to the social sciences and philosophy are gaining increasing attention. Long overshadowed by his brother Karl, Michael has become especially relevant in the twenty-first century, as the post-1945 presumptions of liberal democracy are being challenged by illiberal populisms in many countries and the economic rise of undemocratic regimes such as China.

As Gábor Bíró (2019) argues clearly in his book, from the 1930s to the 1960s Michael Polanyi charted a liberal-democratic way forward that differs from both socialism and from laissez-faire, minimal state varieties of liberalism or libertarianism. The differences with socialism are obvious. They lie in socialism’s traditional restrictions on markets and private enterprise, and its incapacity (at least historically) to sustain democracy (Hodgson 2019a).

Polanyi’s differences with laissez faire liberalism are fascinating. Polanyi wrote: “For a Liberalism which believes in preserving every evil consequence of free trading, and objects in principle to every sort of State enterprise, is contrary to the very principles of civilization” (CF, 57). Polanyi further argued that the failure

of a more sophisticated liberalism to gain momentum has helped socialism to gain the moral high ground. “The protection given [by “crude Liberalism”] to barbarous anarchy in the illusion of vindicating freedom, as demanded by the doctrine of *laissez faire*, has been most effective in bringing contempt on the name of freedom; it sought to deprive it of all public conscience, and thereby supported the claim of Collectivism to be the sole guardian of social interests” (*CF*, 57-58).

The differences between Polanyi’s liberalism and *laissez-faire* doctrines are less well explored elsewhere. This is one major reason why Bíró’s book is welcome and important. The distinctiveness of Polanyi’s liberalism is a consistent theme throughout the volume.

To this Bíró adds another major feature. As the title indicates, the volume under review addresses Polanyi’s economics. Trained as a chemist, Polanyi moved into different fields, making major contributions to economics, politics, epistemology, and the philosophy of science. This focus on Polanyi’s *economics* is also most welcome.

Bíró has clearly done extensive work on Polanyi’s unpublished papers, including the major collection held in the University of Chicago Library. Bíró also devotes considerable attention to Polanyi’s experimental film on Keynesian economics, with a fascinating account of his dynamic visualization techniques. This analysis is perhaps the most important contribution of the volume as a whole.

But, unfortunately, Bíró’s account of Polanyi’s economics is deficient. In major part these are sins of omission. In lesser part they are sins of commission, particularly the questionable description by Bíró of Polanyi as a postmodernist. These issues are visited in the following two sections.

Bíró’s Account of Polanyi’s Economics

Bíró makes it clear that Polanyi saw the work of John Maynard Keynes (1936) as the foundation of a liberalism that accepted markets, but with sufficient state intervention to achieve major reductions of unemployment and inequality. But there is relatively little discussion of Keynes in the book, and of why, in particular, Keynesianism rescues liberalism. It is important that Keynes’ liberalism is re-emphasized, particularly as there have been recent (unconvincing) attempts to describe him as a socialist (Crotty 2019).

We gain insight on Polanyi’s (*CT*, 1941, 1945b, *LL*) views in his critiques of anti-Keynesian liberals, such as Friedrich Hayek (Jacobs and Mullins 2016). Polanyi deplored their failure to address problems such as unemployment and inequality, and their crude definition of liberty as the absence of coercion. Polanyi instead underlined the importance of human development and of public institutions that were necessary to guard liberty. There is relatively little on these issues in Bíró’s book.

Other lacunae concern the history of liberalism itself. Keynes was not the only liberal to emphasize the importance of state intervention in the economy and the need for a welfare state. Other liberals of this ilk include Thomas Paine, John A. Hobson, David Lloyd George, and John Dewey, none of whom are mentioned by Bíró. Hobson is particularly important here because he was explicitly noted by Keynes in his *General Theory* as a precursor of his ideas. Writers and politicians such as Hobson, Lloyd George, and Dewey were part of the backbone of Anglo-American liberalism. Their work contributed to a divergence of meaning of the word “liberal.” By contrast, in continental Europe, it became associated with economic liberalism and a lesser degree of state interventions. But even here the German *ordoliberals* emphasized the legal and regulatory preconditions of a market economy (Siems and Schnyder 2014).

Nevertheless, we should not assume—as Bíró seems to—that the original or orthodox liberalism was largely in favour of *laissez-faire*. This historical inaccuracy plays into the hands of Hayek and Chicago

liberals such as Milton Friedman, who claimed repeatedly that their unregulated market doctrines were the true heirs of classical liberalism, and that the liberal tradition had been perverted by Anglo-American liberals and Keynesians. This historical account has been decisively refuted in a book by Helena Rosenblatt, who surveyed the original meanings of the terms *liberal* and *liberalism*, in French and German, as well as in English. Rosenblatt wrote of liberal writings in the early nineteenth century:

Their liberalism had nothing to do with the atomistic individualism we hear of today.... They always rejected the idea that a viable community could be constructed on the basis of self-interestedness alone. Ad infinitum they warned of the dangers of selfishness. Liberals ceaselessly advocated generosity, moral probity, and civic values (2018, 4).

Rosenblatt offered an entirely different, but robustly researched, account of early modern liberalism.

Contrary to what is often said today about nineteenth-century liberalism, early liberals were not doctrinaire about laissez-faire. They did not stress property rights or celebrate the virtues of unbounded self-interest. What today is called ‘classical’ or ‘orthodox’ liberalism did not exist.... Liberals held a spectrum of economic views ... the great majority of nineteenth-century liberals, whether British, French, or German, were not all that adverse to government intervention.... And they certainly did not believe that individuals pursuing their own self-interest would spontaneously create a healthy wealth distribution or social harmony. They denounced selfishness and individualism at every opportunity (2018, 82; 112; 114-15).

Consequently, *classical liberalism* or *orthodox liberalism* do not denote one distinctive type or phase of liberalism. The original liberalism, from the seventeenth to the mid-nineteenth century, contained widely diverging variants. Contrary to Mises and Hayek, the kind of government-interventionist, redistributive, and welfarist liberalism we find today in Britain and North America is not out of kilter with much of the classical tradition. Interventionist liberalism can trace its origins and legitimacy back to variants of liberalism that emerged during and after the French Revolution. Mises, Hayek, and Friedman have no greater claim to the title of *classic liberalism* than twentieth century interventionist liberals such as Hobson, Dewey, Keynes, and Michael Polanyi.

Taking Bíró’s book as a whole, I am disappointed that he did not pay more attention to these following issues:

1. Polanyi (1948, *CF*) participated in the debates about the feasibility of socialism and made original and distinctive arguments about the limitations of planning. This contribution has since been widely neglected (Hodgson 2019a) and it makes no more than brief mention in Bíró’s book. Polanyi’s 1948 article on planning, which appeared in a journal of economics, is missing from Bíró’s references. It is not that he is unaware of Polanyi’s distinctive contribution on planning, as he has discussed it at some length elsewhere (Bíró 2020). But why does this discussion not appear in his book on Polanyi’s economics?
2. There is also no mention that Polanyi (1948, *TD*) adopted the term “spontaneous order” before Hayek, and he also influenced Hayek with his concept of tacit knowledge. Tacit knowledge was also important for Richard Nelson and Sidney Winter (1982), and other evolutionary economists. Yet

Polanyi's brilliant book on tacit knowledge is missing from Bíró's references. "Spontaneous order" does not appear in his index. Again, I am sure Bíró is aware of these issues.

3. There is inadequate discussion of Polanyi's founding role in the Mont Pelèrin Society, of his dispute with Hayek on economic policy as well as on political matters, and his consequent departure from the Society in the 1950s (Allen 1998; Burgin 2012; Stedman Jones 2012). "Mont Pelèrin Society" does not appear in Bíró's index.
4. There is no analysis of a debate among economists on patent reform and Polanyi's 1944 contribution to it in a leading journal of economics. Polanyi's 1944 article is missing from the references and "patent reform" does not appear in Bíró's index.
5. There is no discussion of Polanyi's careful comparison of the organization of science with a market, where the two are seen as very different, but both involve "coordination by mutual adjustment of independent initiatives" and "the coordinating functions of the market are but a special case of coordination by mutual adjustment" (1962, 55; 57; cf. the discussion in Hodgson [2019b, chap. 5]). Polanyi's 1962 article, which is yet another classic, is also missing from Bíró's references.
6. Utilitarianism is at the foundation of orthodox economics (Hodgson 2013, 2019b, chap. 3). Although it is mentioned by Bíró, Polanyi's differences with utilitarianism are discussed more extensively by other authors; particularly by R. T. Allen, whose important book on Polanyi and Hayek (1998) does not appear in Bíró's references. But Bíró elsewhere refers to the Allen book (2020). Also worth reading is Jonathan Aldred's (2019) devastating critique of the utility-maximising assumptions of orthodox economics.

The above six issues are clearly part of Polanyi's economics, but sadly they make no strong appearance in the book.

Errors of Commission

Turning to sins of commission, Bíró characterizes Polanyi's thought in challengeable ways. The first problem is his depiction of Polanyi's thought as *postmodern*—a claim that is made repeatedly throughout the book. Bíró does not acknowledge that there is already a controversy over this particular depiction, with some writers describing Polanyi as a postmodernist (Gill 2000), and others contesting or qualifying this view (Mitchell 2006). Ultimately, this dispute is difficult to resolve, as the concept of postmodernism is so ill-defined.

Postmodernism is a can of worms. It has been defined in various ways, and the word did not become popular until well after Polanyi's death. It has been associated with a rejection of "grand narratives." But what could be a "grander narrative" than to restore a tradition of a morally guided interventionist liberalism, in opposition to both socialism and *laissez-faire*? Polanyi complained that liberalism was sometimes undermined by "the very spirit of radical scepticism which liberalism was committed to foster" (1945a, 2). What is *postmodernism* if not yet another form of radical scepticism?

Postmodernism is also associated with a rejection of philosophical realism—the idea that a reality exists beyond our senses or concepts. In my view, Polanyi was clearly a realist in this sense, despite his complex views on personal knowledge (Allen 1998; Nye 2011). One cannot imagine a 1990s postmodernist writing

this: “If we believe that the world is established in an intelligible fashion and that the experience of our senses makes it possible for us to perceive the laws governing it, then we may respect the pursuit of truth and entrust ourselves to its guidance” (Polanyi 1945a, 5).

Polanyi’s discussion of knowledge relates primarily to epistemology. Philosophical realism relates more directly to ontology. Immense difficulties or impossibilities concerning knowledge of reality do not imply the nonexistence of reality. We may be unable to prove that reality exists, but that lack of proof would not imply a lack of existence.

This issue is important, especially in regard to the so-called “science wars” that broke out after Polanyi’s death (Parsons 2003). In the postmodernist turn of the 1990s, objective truth and reliable knowledge were denied. Although Polanyi stressed that science always carried elements of faith, the postmodernist depiction of science in the “science wars” is far from Polanyi’s vision. Polanyi saw science as an organized engine of enquiry into the real world, generating provisional knowledge of its nature (Polanyi 1962; Allen 1998; Nye 2011).

If Polanyi developed a postmodern economics, and his economics is largely based on Keynes, then we also need to examine the proposition that Keynes was a postmodernist. Bíró does not refer to a brief discussion of this in the 1990s (Amariglio and Ruccio 1995). The debate quickly fizzled out, partly because the definition of postmodernism was elusive and the whole discussion added little to what we already knew about Keynes. In sum, it accomplishes little to describe Polanyi’s work as postmodern.

Another questionable term that appears frequently in Bíró’s book is the description of Polanyi’s thought as anti-mechanistic or anti-deterministic. Neither term is defined by Bíró. They can mean very many different things (Hodgson 2004, 57-62). It would be a strange sort of scientist who denied the causal determination of events. Is that determinism? Once again, Bíró seems to impose his own vague terminological preferences upon Polanyi, rather than to dig more deeply into his thought or into the terms he ascribes to him.

Concluding Remarks

As noted above, Polanyi pioneered a view of science as an organised social system. He further argued that healthy scientific progress required a mixture of diversity and internal authority (1962). Authority is necessary to establish some consensus and for quality control. The social system of overlapping expertise and a spirit of critical appraisal helps and guides each scientist to produce better work.

Once upon a time, book publishers would help this process too. But advisors are now hyper-specialised, and it is often difficult to get hold of one with the appropriate knowledge. Advice is time-consuming and expensive. Colleagues and potential advisors are overwhelmed with bureaucracy and under excessive pressure to publish themselves. Publishing technology and patterns of demand have encouraged a business model favouring low-volume, high-margin hardbacks, to satisfy the globally expanding demands of university libraries.

Authors are also under strong pressure to publish quickly. This system is creaking and buckling. The tragic result are works of importance and potential that have serious shortcomings. All this is explicable in Polanyian terms.

I hope that there is a second edition of Bíró’s book, where the above defects are remedied. If this were possible, some other things could receive attention. First, despite extensive work in the archives, there are relatively few substantial quotes from the archival material. Along with Bíró’s own interpretation of the material, we would like to hear Polanyi speak a little more for himself.

Second, there is a very odd reference system. First, there is a reference to an endnote at the end of the chapter. This gives a Harvard-style reference, such as “Polanyi, 1940k.” Then we must turn to the list of references at the end of the book. If we can overcome this inconvenience, we then find that the name of the item does not necessarily refer to its author. Hence Polanyi (1940k) is not by Polanyi: it is a letter by Oscar Jaszi to Polanyi, found in the Polanyi archives. Numerous other items share this odd, archive-related rather than author-related, reference system. This too could be fixed in a second edition. I very much look forward to that.

REFERENCES

- Aldred, Jonathan. *Licence to be Bad: How Economics Corrupted Us*. London: Allen Lane, 2019.
- Allen, R. T. *Beyond Liberalism: The Political Thought of F. A. Hayek and Michael Polanyi*. New Brunswick, NJ: Transaction Publishers, 1998.
- Amariglio, Jack and David F. Ruccio. “Keynes, Postmodernism, Uncertainty.” In *Keynes, Knowledge and Uncertainty*, edited by John Hillard and Sheila Dow, 234-56. Aldershot: Edward Elgar Publishing, 1995.
- Bíró, Gábor István. *The Economic Thought of Michael Polanyi*. London and New York: Routledge, 2019.
- . “From Red Spirit to Underperforming Pyramids and Coercive Institutions: Michael Polanyi Against Economic Planning.” Unpublished, 2020.
- Burgin, Angus. *The Great Persuasion: Reinventing Free Markets since the Depression*. Cambridge, MA: Harvard University Press, 2012.
- Crotty, James R. *Keynes Against Capitalism: His Economic Case for Liberal Socialism*. London and New York: Routledge, 2019.
- Gill, Jerry. *The Tacit Mode: Michael Polanyi’s Postmodernist Philosophy*. Albany, NY: SUNY Press, 2000.
- Hodgson, Geoffrey M. *The Evolution of Institutional Economics: Agency, Structure and Darwinism in American Institutionalism*. London and New York: Routledge, 2004.
- . *From Pleasure Machines to Moral Communities: An Evolutionary Economics without Homo Economicus*. Chicago: University of Chicago Press, 2013.
- . *Is Socialism Feasible? Towards an Alternative Future*. Cheltenham and Northampton, MA: Edward Elgar Publishing, 2019a.
- . *Is There a Future for Heterodox Economics? Institutions, Ideology and a Scientific Community*. Cheltenham and Northampton, MA: Edward Elgar Publishing, 2019b.
- Jacobs, Struan and Phil Mullins. “Friedrich Hayek and Michael Polanyi in Correspondence.” *History of European Ideas* 42:1 (2016): 107-30.
- Keynes, John Maynard. *The General Theory of Employment, Interest and Money*. London: Macmillan, 1936.
- Mitchell, Mark T. *Michael Polanyi: The Art of Knowing*. Wilmington, DE: Intercollegiate Studies Institute, 2006.
- Nelson, Richard R. and Sidney G. Winter. *An Evolutionary Theory of Economic Change*. Cambridge, MA: Harvard University Press, 1982.
- Nye, Mary Jo. *Michael Polanyi and His Generation: Origins of the Social Construction of Science*. Chicago: University of Chicago Press, 2011.
- Parsons, Keith, ed. (2003) *The Science Wars: Debating Scientific Knowledge and Technology*. Amherst, NY: Prometheus Books, 2003.
- Polanyi, Michael. *The Contempt of Freedom: The Russian Experiment and After*. London: Watts, 1940.
- . “The Growth of Thought in Society.” *Economica* 8:32 (November 1941): 428-56.

- . “Patent Reform.” *Review of Economic Studies* 11:2 (Summer 1944): 61-76.
- . “‘Our Times’: A proposed new quarterly journal to be published by the Manchester Literary and Philosophical Society.” (March 1945a): 1-7. Michael Polanyi Papers, Box 4, Folder 12, Special Collections, University of Chicago Library.
- . *Full Employment and Free Trade*. Cambridge: Cambridge University Press, 1945b.
- . “Planning and Spontaneous Order.” *The Manchester School* 16 (September 1948): 237-68.
- . *The Logic of Liberty: Reflections and Rejoinders*. London: Routledge and Kegan Paul, 1951.
- . “The Republic of Science: Its Political and Economic Theory.” *Minerva* 1 (1962): 54-73.
- . *The Tacit Dimension*. London: Routledge and Kegan Paul, 1967.
- Rosenblatt, Helena. *The Lost History of Liberalism: From Ancient Rome to the Twenty-First Century*. Princeton and Oxford: Princeton University Press, 2018.
- Siems, Mathias and Gerhard Schnyder. “Ordoliberal Lessons for Economic Stability: Different Kinds of Regulation, Not More Regulation.” *Governance: An International Journal of Policy, Administration, and Institutions* 27:3 (July 2014): 377-396.
- Stedman Jones, Daniel. *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics*. Princeton: Princeton University Press, 2012.