



CAUGHT IN THE CROSSFIRE: MICHAEL POLANYI'S ECONOMIC THOUGHT BETWEEN SOCIALISM AND LIBERALISM¹



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ABSTRACT

This response addresses some points raised by Eduardo Beira's review article found in this issue of TAD and suggests new directions for future studies focusing on the economic thought of Michael Polanyi.

Introduction

When one reads a 14-page review article on his book that does not include a single positive comment, one has the impression that the reviewer is not fond of the author, his work, or both. But one must chase away such an impression if one is to write a compelling response. Readers are much more interested in stimulating new discussions that might be helpful for promoting their own understanding and scholarly pursuits than in the ding-dong of rival commentators debating matters. So, instead of responding in detail to each point made by Eduardo Beira, I am going to respond only rather briefly to two crucial points in his review and then broaden the topic to explore new directions in the main part of this text. This strategy also avoids redundancy as some of the points raised by Beira were raised by others that I have previously responded to (Bíró 2020 and 2021 and elsewhere).

The first of Beira's points that I cannot leave unanswered is the generic labeling of my account as revisionist, misleading, partial, unwarranted, and perhaps by implication, non-Polanyian. I categorically reject this claim. The book is based on years of thorough archival research and uses more quotations from Polanyi's published and unpublished materials from the period in question than any before. I did not read anything into Polanyi that is not there. I let Polanyi speak for himself even though it came at the expense of smoothness and consistency. I did not cover up times when Polanyi was inconsistent, or used *topoi* that are uncommon in contemporary economic discourse. The primary aim was to show what Polanyi thought

and not to show what others (including me) think about what he thought. The quotations I used may seem underwhelming, peculiar, or simply unrelated, but I cannot understand how they might be seen as revisionist or unwarranted.

The second point from Beira's review that needs a brief response concerns the purported missing parts. Again, I need to emphasize that the book does not intend to be a comprehensive account of the economic thought of Michael Polanyi. It is primarily concerned with Polanyi's vision for his economics film: "democracy by Enlightenment through film" (Polanyi 1935a, 1), the reception of the two versions of his film and the 1945 textbook, *Full Employment and Free Trade* (hereafter *FEFT*) that he hoped would re-direct public attention to his film. Of course, Polanyi's concepts of spontaneous order and tacit knowing are very important, but they are not strictly related to his film project. Moreover, the fully-fledged versions of these concepts only emerged in the late 1940s, after Polanyi's economics film. A detailed discussion of these concepts is outside the scope of this book. What follows is now a few interesting topics and directions related to Polanyi's economic thought that will hopefully stimulate further studies.

Polanyi, Keynes' Hayekian Follower

Polanyi considered that his film portrayed Keynesian economics with a twist and explicitly stated that *Full Employment and Free Trade* (1945) is a piece of Keynes made easier. He exchanged a few letters with Keynes while he was trying to interest him in his film project, but unfortunately, the Bloomsbury businessman did not pay much attention to this self-appointed pupil, since he had "much else to do" (Keynes 1940, 1). Apparently, some thought that Polanyi was not portraying Keynesian economics, but instead the economics of Keynes' scholarly nemesis. Joan Robinson, a member of Keynes' inner circle, the Cambridge Circus, considered Polanyi to be a supporter of laissez-faire liberalism (Robinson 1944). Also, an anonymous reviewer of the *Church Times* described Polanyi as the "bouyant economist" (Unknown 1946) and Hayek as the "warning prophet" (ibid) of liberal capitalism implying that they were rowing in the same boat.

His fierce opposition to socialism perhaps made Polanyi seem even more Hayekian than Keynesian in the eye of the British reds. Maurice Dobb, a Marxist economist from the University of Cambridge, wrote a heated 1936 review of Polanyi's 1935 article, "U.S.S.R. Economics," several years before the 1938 premiere of the first version of the film and the publication of *FEFT*. Perhaps, this early incident set the tone for readers about what to expect in Polanyi's economic writings: proposals of anti-socialist, anti-authoritarian policies.²

Beveridge, Balogh, and the Boy Who Cried Socialism

The British public in the thirties and forties was not at all hostile to state intervention into the economy. Proposals suggesting that there was a need, perhaps a moral obligation, to defend people from the cruelties of economic life fit into a general trend of demanding a more humane economy. Several scholars, writers, and other intellectuals gave utterance to the hardship of the poor from the mid-nineteenth century forward. One might recall here how Charles Dickens portrayed the insensitivity and the hypocrisy of laissez-faire liberalism with the fictional figures of Thomas Gradgrind and Josiah Bounderby in *Hard Times* (1854). There, he more directly blamed laissez-faire liberalism than in 1843's *A Christmas Carol*, wherein he criticized instead the selfishness and ignorance of the rich by teaching Ebenezer Scrooge a lesson. The increasingly

romanticized *zeitgeist* of the Victorian era (1837-1901) led to the establishment of social movements and political parties in the first part of the twentieth century that spearheaded issues of the poor.

One of the key figures of this transformation might help us better understand the unfavourable reception of Polanyi's anti-socialist, anti-authoritarian economic policies. William Beveridge, in the government report entitled, *Social Insurance and Allied Services* (aka "the Beveridge Report") suggested wide-scale welfare reforms for a mid-war Britain. He proposed confronting the "five giants" of "Want...Disease, Ignorance, Squalor and Idleness" with the help of the government (Beveridge 1942, 8). Polanyi argued against the Beveridge Report in *FEFT* and elsewhere. For him, the kind of state intervention Beveridge proposed was too much and too vulnerable to partiality and corruption. Basically, the Beveridge Report established the welfare state in the UK and apparently Polanyi was against it.

It is worth noting that Beveridge was a researcher for Beatrice Webb, who authored *The Minority Report of the Poor Law Commission*. In that report, she sketched the principles of the welfare state that would "secure a national minimum of civilised life...open to all alike, of both sexes and all classes, by which we meant sufficient nourishment and training when young, a living wage when able-bodied, treatment when sick, and modest but secure livelihood when disabled or aged" (Beatrice Webb 1948, 481-2). Beatrice and her husband, Sidney were immensely wealthy and influential, thanks to Beatrice's family. The couple established institutions such as The London School of Economics and The Fabian Society, as well as the newspaper *New Statesman* and regularly wrote on social issues for a wide readership. They were staunch supporters of the Labour party from 1914 (Sidney even contributed to the Labour Party constitution). But then, disappointed with the first Labour government's political deals and moderate politics (1924, 1929-31, 1931-35), the Webbs began to idolize Soviet Russia. They then published *Soviet Communism: A New Civilisation?* (1935) and *The Truth About Soviet Russia* (1942) in which they celebrated the economic benefits of central planning and portrayed the Soviet way as the most desirable way towards social progress.

After their publication, Polanyi started to correspond with them. On February 25, 1937, he sent a copy of his critique of the Webbs' *Soviet Communism: A New Civilisation?* (1935) to Sidney Webb. In his response, Webb stated that the aim of their book was to show "a picture of the whole social organism" (Webb 1937, 1) to the British and American audience and that only time can tell which aspects of this picture were actually "inaccurate" or "defective" (ibid, 2). He commented how accounts of social issues necessarily are flawed in one way or another and are never "precisely accurate in detail" as an "architect's drawing" (ibid). In Webb's view, focusing on certain aspects, choosing the details, and arranging them were still part of telling the truth. He further explained that, despite what Polanyi's critique suggests, there is a truthful kind of propaganda and he and his wife had been writing this kind of propaganda for 50 years. Polanyi's response to the letter was brief, but he was apparently not convinced. Polanyi acknowledged that science cannot limit itself to "facts and facts only" because this would lead to "boreness" and to "the end of science" (Polanyi 1937, 1). He still thought it important to differentiate between "propaganda which disrupts civilization and truth which is its only hope of resurrection" and emphasized that the standards of truth cannot be relaxed even if one is captivated by a "vision of a more generous society" (Polanyi 1937, 1).³

The Webbs were not the only public intellectuals in Britain whose socialist or authoritarian leanings Polanyi considered to be threatening to democracy. Another was a fellow Hungarian, Thomas Balogh. Balogh became an influential economist in Britain in the 1940s. When Polanyi asked John Hicks to write a Preface to *FEFT*, Hicks refused to do this because he did not want to interfere publicly with the influential Balogh school (Hicks 1943). Hicks wrote to Polanyi that, in his view, Polanyi went against the Balogh

school in two important respects: he aimed for full employment and did not support “thoroughgoing exchange control” (ibid, 1). Polanyi’s anti-Baloghism did not remain unnoticed by Balogh himself, who published an unusually hostile review of *FEFT* in *The New Statesman and Nation*, a newspaper established by the Webbs that was still dominated by influential British socialists. In the 1930s, under the editorship of Kingsley Martin, the newspaper moved even more to the left. Keynes noted that Martin was “a little too full, perhaps, of good will” towards the Soviet Union and Stalin, and that the newspaper mirrored a stance that any doubts about Stalin’s Soviet Union had “been swallowed down if possible” (Beasley-Bullock 2013). When Orwell submitted his scribbles about the Spanish Civil War, Martin did not publish them because they struck a critical note against communism. When H. G. Wells did an interview with Stalin in the newspaper and made a few critical remarks, G. B. Shaw accused him of being disrespectful to the Soviet leader (see Beasley-Bullock 2013). *The New Statesman and Nation* defended Soviet economic collectivisation and gave space for those who wanted to popularize communism. Not surprisingly, Balogh’s review of Polanyi’s economics textbook was full of ideological statements favouring the Soviet Union.

Balogh described Polanyi as someone “engaged on a crusade for *laissez[ic]-faire* economics” and whose “prejudices prevent a logical development of his reasoning” (Balogh 1946, 252-253). Balogh also noted that Polanyi was not being “grateful for the heroic sacrifice of the Russian people” because he dared to criticize the Soviet economic performance (ibid, 252). This last statement shows the deep ideological entanglements of this piece.⁴ Polanyi was seen by left-wing progressivists as the boy who cried socialism, a fellow who worried too much (and too often) about the socialism of certain proposals. But how did he fit into the liberal mainstream?

The Lone Wolf Liberal and His Unexplored Ties to the *Methodenstreit*

While Polanyi was certainly part of the liberal team (as Beira notes), he did not completely conform to any of the mainstream liberal ideas. While he shared several points with Oscar Jaszi, he rejected the idea of a global liberal world democracy as imagined in *The City of Man* to which Jaszi contributed (Polanyi 1941). For Polanyi, neither a top-down transformation, nor an implication that people are exactly the same all round the world, was acceptable. Instead, Polanyi promoted a bottom-up transformation based on small communities of people of different traditions and practices. Polanyi considered nations important because they develop from and develop into traditions which are pivotal for our knowing and being. This does not mean that Polanyi was a nationalist. Instead it means that nations, as instances of traditions, were important for his liberal scheme. But Polanyi was not a radical relativist either. His liberalism did not affirm “anything goes” (Feyerabend 1975). It was about individuals being always already embedded in communities and trying to improve their knowing and being based on what they perceive as objective standards. For Polanyi, there are signposts embodied in traditions that demarcate patterns and a way forward. All “goings” are directed toward, but not controlled by, an objective ideal.

Polanyi participated in the most important liberal gatherings of his time. He attended the 1938 Paris Colloque Walter Lippmann (hereafter CWL) and was also a founding member of the Mont Pelerin Society (hereafter MPS) in 1947. However, he did not simply join forces with other liberal participants. Instead, he attempted to carve out his own way of reforming liberalism. That is why it is problematic to call Polanyi a “neoliberal,” unless we consider this an umbrella term. It is true that many liberals who attended the CWL and the MPS wanted to reform and revitalize liberalism, but they had very different ideas about what to do and how to do it. While a detailed comparison lies outside the scope of this brief response, the controversial

reception of Polanyi's economic ideas (too laissez-faire for Keynesian liberals and not laissez-faire enough for anti-Keynesian liberals) is perhaps enough to hint at the uniqueness of the road proposed by Polanyi.

Another interesting aspect of Polanyi's economic thought is his focus on the role of traditions. One cannot help but recall here the so-called *Methodenstreit* (Methods Dispute) between the Austrian and Historical Schools about the preferable method for use in economics. While theoreticians of the Austrian School studied human action as an individual phenomenon based on the universal operation of atomistic subjective factors, scholars of the Historical School studied human action as a specific and context-dependent social phenomenon. The Austrian School promoted using logical methods (deduction) on a carefully crafted set of statements in order to be able to arrive at novel insights of universal validity about human behavior. The Historical School promoted using empirical methods (statistics and historical records) to interpret a specific human behavior in the context of the cultural and social niche in which it is embedded.

Polanyi's liberal leanings and the central place of the individual in his thinking made his approach akin to that of Austrian economics. His film portrayed an abstract economy that consists of abstract agents who make decisions based on universal principles. Pumping more money into economic circulation is called following a "principle of neutrality" precisely because it is presumed to affect the whole economy and everyone involved in a uniform manner. On the other hand, Polanyi's emphasis on the pivotal role of traditions and communities resembles the central tenet of the Historical School that the meaning of the "idea of justice" is different at different times and places. Polanyi wrote that the economic machinery "can be operated in conformity to any standards of economic justice, provided that these are widely enough accepted by society as a whole" (Polanyi 1948, 146).

Are these two entanglements, one toward the Austrian School (universal principles of operation) and one toward the Historical School (fluidity of social standards) inconsistent? Not necessarily. One can imagine a theoretical approach that presumes the principles of human behavior to be universal and also presumes the social framework within which these principles operate to be contractual. However, defending a claim that Polanyi clearly took this approach would require a much longer analysis. It would be a fascinating scholarly project to analyze the minutia of Polanyi's economic thought by comparing it in detail to the ideas of both the Austrian and the Historical School. Perhaps such an inquiry would help to build some bridges, explicate many inconsistencies in Polanyi's economic ideas, or both. Either way, his economic thought is an intellectual treasure trove waiting to be explored.

ENDNOTES

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²Agnès Festré (2017), Charles Lowney (2020), Martin Beddeleem (2017), and others are working on finding Polanyi's place in various aspects of the Keynes-Hayek debate, so interesting new studies are forthcoming related to this topic.

³This is a sober warning that might offer a useful lesson for those who tried to stay sensible in an increasingly radicalizing political atmosphere not only in the 1930s, but also in the 2020s.

⁴Every free thinker will likely be shocked in reading this outrageous instance of political loyalty overwriting facts and logic. One might ask if political servility has decreased since Balogh's day. Seeing the contemporary polarization of politics and the increasingly radical rejection and punishment of those who do not join either of the two choirs singing fancy, but oversimplified nonsense, one is tempted to claim that it has not decreased at all. The Polanyian approach favouring truth over propaganda is needed today as it was needed in the 1930s.

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