

Between Brothers: Karl and Michael Polanyi on Fascism and Communism

Lee Congdon

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This article explores the Polanyi brothers' publicly-stated views--and private debates--concerning the nature and origin of fascism and communism. In that connection, it examines their rival estimates of the Soviet regime.

Karl and Michael Polanyi were members of a remarkable Hungarian family of Jewish origin. In the early years of our century they participated actively in Budapest's spirited intellectual and cultural life, principally through their association with the Galileo Circle, a radical student organization that chose Karl as its first president. From the beginning, however, the brothers approached the problems of society in different ways. Like many of the Galileoists, Karl looked to socialism for solutions, and, as a result, developed a lifelong interest in the causal effect of economics on historical events.

While by no means underestimating the importance of economics, Michael believed that the causes of the modern social crisis lay elsewhere, namely in the false and subversive ideas that had taken hold of the modern mind. As early as 1917, in an article that appeared in the sociological review *Huszadik Század (Twentieth Century)*, he argued that the Great War was not the result of a clash of economic interests. "The war is bad business," he wrote. "The state, however, becomes engaged in war not as an association of interests, but as an idea; what is bad business for an association of interests is health-giving nourishment for an idea. Business demands rational investments; an idea clamors for bloody sacrifices."¹

Both of the Polanyi brothers served in the Austro-Hungarian army, but in the midst of the revolutionary and counterrevolutionary upheavals that followed the armistice of 1918, they left Hungary. Karl emigrated to Austria, where, eventually, he joined the editorial staff of *Der Österreichische Volkswirt*, a left-leaning weekly modeled after England's *Economist*. From his flat near the Danube, he observed with approving eyes the rapid transformation of the old imperial capital into "Red Vienna"; the wide-ranging socialist experiment was, he often remarked, "one of the high points of western civilization."²

Polanyi was not the only Hungarian emigré intellectual to make his new home in Vienna. In his immediate circle of friends were Oszkár Jászi and Aurel Kolnai, the latter a brilliant young social thinker who eventually made his way from psychoanalysis to phenomenology and from atheism to Catholic Christianity. His childhood friend Georg Lukács, a dedicated communist and author of the widely discussed *Geschichte und Klassenbewusstsein*, was also there, as was Béla Balázs, the communist poet and dramatist who would soon turn to film theory. So too were Paul Szende, the lonely and studious pioneer of *Ideologiekritik*, and Lajos Kassák, leader of a Hungarian avant-garde that maintained close ties to Walter Gropius's Bauhaus.³

Indeed, several Hungarians, including the multi-talented László Moholy-Nagy, gained international reputations as Bauhaus members. For them, Weimar Germany offered greater opportunities than truncated Austria. That was true for Michael Polanyi as well. Having studied in Karlsruhe before the war, he went straight to Germany, where, in 1923, he joined Fritz Haber's Institute for Physical Chemistry and Electrical Chemistry. There he devoted most of his time to his professional work, establishing himself firmly as a respected member of the scientific community. Nevertheless, he maintained his lively interest in social and political questions. With his countrymen Eugene P. Wigner, Leo Szilard, and John von Neumann, he organized a group to discuss Soviet Russia.⁴ That was in 1928, five years before he left Nazi Germany for England and the University of Manchester.

Not long after Michael assumed his new responsibilities in a new country, Karl left Vienna to face a more uncertain future in London. "Teaching and lecturing on the themes well known to you," he wrote to a friend on the eve of his second emigration, "seems my only chance."⁵ Fortunately for him and his family, he was able to eke out a living by conducting extension and tutorial classes for the Universities of Oxford and London and, later, at R. H. Tawney's invitation, for the Workers' Educational Association (W.E.A.). He organized his classes, as well as his contributions to various publications, around the related themes of world crisis and the rise of fascism, the latter a term he applied indiscriminately to the Italian, German, and Austrian regimes, and also, with some reservations, to the governments of Poland, Yugoslavia, Greece, and Portugal.

What had happened, the elder Polanyi informed his students, was this: During the nineteenth-century era of laissez-faire, political democracy and competitive capitalism had maintained an uneasy co-existence, but eventually their incompatibility became manifest and, in an effort to democratize the economy, the state passed social legislation and permitted the organization of trade unions. Recognizing a threat to their interests, capitalists reacted by intervening in governmental affairs; the result was deadlock and a consequent malfunctioning in both the political and economic spheres.

In an effort to break that deadlock, capitalists attempted to subject the political to the economic order, fascism being the result. In Soviet Russia, the communists assayed a different solution; they sought to subject the economic to the political order. Where the fascists preserved capitalism by destroying democracy, the communists destroyed capitalism by limiting democracy. In Polanyi's opinion, the latter had discovered the more promising approach, for in 1935 (on the eve of the Great Terror), he insisted that one could clearly discern "the tendency towards Democracy" in the U.S.S.R.⁶

It was, in sum, Karl's position, first outlined in 1933 in a *Volkswirt* article entitled "Wirtschaft und Demokratie,"⁷ that the divorce between a market economy and political democracy was at the heart of Liberal Europe's crisis. Only during the Second World War, however, did he provide a full statement of that position--in *The Great Transformation*, the major achievement of his long life.⁸ "The great transformation" of his title was that changeover from a competitive (i.e., market-dominated) to a cooperative (i.e., planned) society. According to Polanyi, the former was an historical anomaly. While markets were to be found throughout human history, never before had they constituted the core, the very essence, of the economy. He relied heavily on the researches of Bronislaw Malinowski and Richard Thurnwald to substantiate his claim that in existing primitive societies--which he tended to romanticize--and past civilizations, economies had always been "embedded" in society, had always, that is, been subordinated to broader social (i.e., human) purposes and controls.

With the coming of industrialization and the theory of economic liberalism, however, that arrangement was reversed, society becoming a mere appendage of an impersonal economic mechanism. Indeed, the market could not function smoothly until it completed its takeover by transforming money, labor, and land into commodities. “But labor and land,” Polanyi insisted, “are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists. To include them in the market mechanism means to subordinate the substance of society itself to the laws of the market.”⁹

By that act of imperialism, the market, and those who defended it, set a seal on the institutional separation of society’s economic and political spheres and hence on man’s alienation from himself. For man, Polanyi held, was not an economic but a social being, one who realized the fullness of his humanity only in those cooperative human relationships which preserved but transcended both economic and political activity.

The separation of economics and politics was, then, the outstanding characteristic of market society, but, as the record of the past showed, it was not natural. Even economic liberals conceded as much when they signaled their approval of government intervention to prevent monopolies from driving out competition. More to the point, “society” had from the first sought to protect itself from the threat of disruption, or even complete destruction, by fighting and winning battles for government action in the form of tariffs, factory laws, and the legalization of unions.

Polanyi made much of the failure of the interventionist Speenhamland Law of 1795 to obstruct the coming of market economy. As a government plan to supplement low wages, it had the unintended effect of depressing wages even further and of subsidizing employers. Yet because Speenhamland blocked the way to a competitive labor market, the logic of economic progress dictated that it be swept away in 1834. The law, according to Polanyi, was the last stand of that old-fashioned paternalism which, from its point of view, rightly feared both the market’s revolutionary dynamics and the working class’s consequent self-organization.

Such fears were not exaggerated, for the market was revolutionary in its operation and effect and the working class was destined to become the historical proponent of that epochal recognition which Polanyi attributed to Robert Owen: the reality of society. An atheist, Owen believed that the Christian era had ended and that the individual freedom it conferred no longer sufficed. He “recognized that the freedom we gained through the teachings of Jesus was inapplicable to a complex society. His socialism was the upholding of man’s claim to freedom *in such a society*.”¹⁰

Thus recorded, Owen’s revelation appears to be ambiguous, but what Polanyi seems to have understood it to mean was that the division of society into economic and political spheres could not stand, that society, as a union of persons attempting to live together in harmony by balancing those and other spheres, took precedence over individuals. When a conflict arose, individuals would have to subordinate their will to the will of the collectivity. Unfortunately, according to Polanyi, few people recognized the truth and import of Owen’s discovery. As a result, nineteenth-century efforts to protect society remained unplanned and uncoordinated. Such efforts were not yet the product of that new consciousness that Owen had achieved and attempted to awaken in others.

But as consciousness began to develop, as workers began to understand that even when the market improved their economic condition it disrupted their social existence and hence dehumanized them, they grasped at last that their interests were those of society as a whole and that they therefore bore a special responsibility for the fate of the Western

world. All the more so when the Slump hit and the final remnant of the self-regulating economy, the gold standard, lost its hold. For who, better than working class people, could see that protracted unemployment had exposed the bankruptcy of anti-interventionism?

Because of their unique suffering under conditions created by a market economy and their consequent consciousness of society's reality, the workers embraced socialism, "the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society."¹¹ As matter-of-fact as those words appear to be, they expressed Polanyi's creed, since for him socialism was a religion, or to be more specific, the final revelation of that progressively-revealed Faith which also encompassed Judaism (which brought knowledge of mortality) and Christianity (which offered knowledge of individual freedom).¹²

Not everyone, of course, shared Polanyi's commitment to socialism. Many, particularly those who stood outside the working class, looked to fascism as the best alternative to liberalism and a market economy. Where once he had argued that fascism was capitalism in its death agony, the Hungarian now concluded, more reasonably, that it was anti-capitalist and that, like its competitor socialism, it had recognized the reality of society. It too was a religion, but one that denied the brotherhood of man and reformed the market economy by suffocating political freedom.

If there was hope for a planned and democratic society, one could find it in Soviet Russia. Because that country called itself "socialist" Polanyi continued to admire it, *particularly*, it should be noted, under Stalin's rule. Socialism in one country, according to him, had "proved an amazing success."¹³ The "Second" or "Stalin" Revolution that began with the collectivization of agriculture heralded the great transformation. Whatever his personal failings, Stalin presided over a new society that had transcended the market society of the nineteenth century.

II

Michael Polanyi did not accept the argument his brother advanced in *The Great Transformation*, witness his own contribution to economic theory, *Full Employment and Free Trade*.¹⁴ In that marvelously lucid little book, he offered a carefully reasoned defense of "the principle of neutrality," understood as "a variant of the principle of separation of economics from politics."¹⁵ That principle, which reflected a recognition of the totalitarian danger lurking in an excessive concentration of power, had, he argued, "recently fallen into discredit: partly on account of its abuse by those who upheld it to bar the State from fulfilling its humanitarian obligations; and partly through the influence of Marxist Socialism which has weakened the sense for the ordered division of powers which alone can preserve society from arbitrariness, corruption and oppression."¹⁶

In reaction to that passage, Karl fired off a letter to his brother in which he protested that "separation of politics and economics is not the charge leveled by 'Marxian' socialism against a market economy, but it is mainly **my**--non-Marxian formulation of the characteristic of 19th century society."¹⁷

But if, as Michael contended, one could not explain the rise of fascism as a response to the separation of the economy from politics, how could one account for it? The younger Polanyi agreed with his brother Karl, of course, that the Liberal Europe of their youth had broken down and that fascism was one product of the resulting crisis. In his judgment, though, there were deeper reasons for that crisis--reasons of a spiritual/intellectual nature. More

specifically, he attributed it to the descent of liberalism into nihilism.

Michael's argument was this. Because it failed to recognize its own dependence upon unspecified--indeed, unspecifiable--knowledge, modern science had come to believe that only those claims which could be precisely stated and successfully demonstrated could be held to be "true." At first, he conceded, that belief produced a liberating effect, for the earliest liberals enlisted it in their campaign to discredit a religious authority that had sometimes stood in the way of freedom and progress. Up to a point, that is, skepticism had served a useful purpose.

Once having shown, however, that religious beliefs were not demonstrable, and thus that religious tolerance was necessary, liberals went on to question moral principles as well. When they too proved incapable of demonstration, the specter of nihilism began to haunt Europe. Radical doubt had turned on itself by undermining those very transcendent ideals--Truth, Justice, Mercy--which liberalism had initially attempted to serve. For, as Polanyi pointed out, "you cannot prove the obligation to tell the truth, to uphold justice and mercy. It would follow therefore that a system of mendacity, lawlessness and cruelty is to be accepted as an alternative to ethical principles on equal terms."¹⁸ The political manifestation of such nihilism was totalitarianism, both fascist and communist.

That was so, according to Polanyi, because men's moral passions, which the humanitarian reforms of the past two centuries had done much to intensify, had not disappeared with their belief in moral ideals. Instead, by a process he called "moral inversion," those passions sought clandestine outlets. They disguised themselves as "science," "history," or "national destiny"; castigating the so-called hypocrisy of "bourgeois" morality, they asserted their validity on grounds of their lack of self-deception. On a personal level, this moral inversion produced the bohemian immoralist who, precisely **because** of the totality of his contempt for all moral standards, demanded respect and admiration. That is why, for example, the late Simone de Beauvoir asked us to recognize in the Marquis de Sade our moral superior.

When transferred to the political arena, moral inversion produced fascism, which, according to Polanyi, was nothing other than the operation of homeless moral passions within a purely materialistic framework of purposes. In that sense, though, fascists and communists were brothers under the skin, for Marxism too was the result of a moral inversion. It enabled "the modern mind, tortured by moral self-doubt, to indulge its moral passions in terms which also satisfy its passion for ruthless objectivity."¹⁹ While mocking the acknowledged moral concern of liberal reformers, Marx channeled his far more demanding moral passion into a scientific theory of historical inevitability. Thus Marxism too was a form of political nihilism and could be combatted only if liberalism recognized and assented to moral ideals which could only be upheld on the basis of an undemonstrable faith.

III

It was, then, their differing accounts of fascism and communism and their rival estimates of Soviet Russia that distanced Karl from Michael Polanyi. To the one, the U.S.S.R. had taken the lead in the great transformation to a new society in which the economic and political orders would both be democratic. A return to Liberal--market--society was as undesirable as it was impossible.

To the other, the Soviet Union constituted the best available evidence that the principle of absolute doubt led to moral nihilism and political totalitarianism. He believed that a restoration of the Liberal order was desirable and

possible--if liberalism reaffirmed admittedly undemonstrable moral ideals as an act of faith. That is why he greeted news of the 1956 Hungarian Revolution with such enthusiasm. The essence of the Revolution, he wrote after Soviet forces suppressed it, was the Hungarian communists' renewed loyalty to the moral ideals that had originally induced them to join the Party. If moral renewal could occur in the very heart of darkness--the Stalinist state--it could, he hoped, occur in the non-communist world as well. To that renewal he devoted the remainder of his life.

Endnotes

¹Mihály Polányi, "A békeszerzokhöz. (Nézetek az európai háboru és béke feltételeirol.)," *Husadik Század* (1917), II, 171.

²Hans Zeisel, "Polanyi, Karl," *International Encyclopedia of the Social Sciences*, Vol. 12 (New York: Macmillan and Free Press, 1968), 172.

³On all of these thinkers, see Lee Congdon, *Exile and Social Thought: Hungarian Intellectuals in Germany and Austria, 1919-1933* (Princeton: Princeton University Press, 1991).

⁴Richard Gelwick, *The Way of Discovery: An Introduction to the Thought of Michael Polanyi* (New York: Oxford University Press, 1977), p. 35.

⁵Letter of Karl Polanyi to Irene Grant, October 13, 1933, Michael Polanyi Papers, Department of Special Collections, University of Chicago Library. Quotation used with permission.

⁶Karl Polanyi, "The Essence of Fascism" in Karl Polanyi, John Lewis, and Donald K. Kitchin (eds.), *Christianity and the Social Revolution* (New York: Charles Scribner's Sons, 1936), p. 392.

⁷Karl Polanyi, "Wirtschaft und Demokratie," *Der Österreichische Volkswirt*, 25, 1 (1932-33), 301-03.

⁸Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time* (Boston: Beacon Press, 1957).

⁹*Ibid.*, p. 71.

¹⁰*Ibid.*, p. 258A.

¹¹*Ibid.*, p. 234.

¹²*Ibid.*, p. 258A.

¹³*Ibid.*, p. 247.

¹⁴Michael Polanyi, *Full Employment and Free Trade* (Cambridge: Cambridge University Press, 1948).

¹⁵ *Ibid.*, p. 136.

¹⁶ *Ibid.*

¹⁷Letter of Karl Polanyi to Michael Polanyi, November 1, 1945, Michael Polanyi Papers. Department of Special Collections, University of Chicago Library. Quotation used with permission

¹⁸Michael Polanyi, *The Logic of Liberty* (Chicago: The University of Chicago Press, 1951), p. 97.

¹⁹Michael Polanyi, *Personal Knowledge: Towards a Post-Critical Philosophy* (New York: Harper and Row, 1964), p. 228.

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