

ON POPULAR EDUCATION IN ECONOMICS



Michael Polanyi

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ABSTRACT

“On Popular Education in Economics,” an unpublished lecture that Michael Polanyi delivered in late February of 1937 to the Manchester Political Society, succinctly presents Polanyi’s understanding of recent political and economic history, including the rise of communist and fascist governments. Polanyi argues that new economic ideas need to be better understood by the intelligent layman and that economics education on a wide scale can address the social and political problems of the modern world.

It seems to me that the formation of the Political Society expresses the urge to undertake a greater measure of social responsibility on the part of academic people. In the dictatorial countries the privilege of detached study has been abolished. Thought is there made responsible to the state and is expected to promote its aims. The destruction of freedom of thought has been accomplished without much resistance on the part of those whose profession is science and learning.

The incapacity of the learned professions to defend their privileges seems to be due to the very perfection to which the principle of detachment had been carried. It was forgotten that freedom of thought was originally attained by political struggle and that it had to be defended politically. The formation of this Political Society here seems to show that we at the universities are prepared to give up some of our political detachment in order to meet the danger of political subjection.

If this is true, that the Society arises from an urge to assume more social responsibility, how can an urge, so undefined, be integrated into work? It seems to me that the first thing to do is to find out what ideas are brought into this pool, to learn to know each other and our various aims. I suggest, therefore, that each of us should give a talk on his personal approach to politics. It is possible that in this way we will, in the end, find some common aims for which, this Society will stand. And, if we find no such common aims we will have, at least, put our Society to a proper test.¹

My approach to politics is more intellectual than emotional. Political aims arise from an interpretation of social life and such interpretations are formed by the joint work of taste and understanding. My justification for an intellectual approach to the present crisis lies in my belief that this crisis has not primarily arisen from conflicting tastes, in other words, that it is not primarily a crisis of values. Guns and butter might today represent opposing tastes meaning a preference of violence to reason. But according to the analysis which I will put before you this is only an expression of intellectual despair and not a primary passion for unreason. Nor do I believe that the passion for preferring a manager to an owner which rules the USSR to-day has caused the revolution there. Indeed, there is plenty of evidence that the original intentions of the revolution were of a different nature.

Indeed, in other things than politics there is no sign of great divergence in the tastes of the peoples of the Western world. For example, modern dances, motor-cars, birth control and a hundred other new customs are all spreading regardless of frontiers, and producing everywhere the same changes. Similarly, I believe, the era of progress which has led to the present crisis was actuated originally everywhere by the same motives which were the demands for social justice and freedom of thought and the desire for increased prosperity for all; indeed I think that those tastes still prevail even where they are suppressed.

Why then, if the fundamental impulses are common to all the peoples of Europe, has the continent been split up between Communist, Fascist and Democratic countries? The answer, I believe, is that the original impulses were misguided into various directions by intellectual errors. Man was not intelligent enough to understand the economic system which he brought forth in the 19th century. In consequence, when he tried to apply his endeavours of justice, freedom and prosperity to economic life, the results were to a great extent futile or ruinous. The present divisions of the world represent in this view the various endings of an inadequate effort of common human motives trying to master the economic structure.

I propose to examine in this light the development which led up to the present crisis and to derive therefrom the task which I envisage for the future.

Modern economic thought, started by Adam Smith was based on the theory of the free market. It was incorporated into a social philosophy by the utilitarians. The

utilitarians recognized that the price of labor, capital and commodities provided a just reward to each of these factors of production in an ideally free market and that they guided them into a combination of maximum efficiency. This was a great discovery which inspired public life for a long time and guided the struggle against mercantilism and against the restrictions of economic life by the remnants of feudalism.

The utilitarians, however, made the following great mistakes:

1. They failed to see that the just reward of the factors of production did not lead to a just reward of the people disposing of these factors. Their philosophy never produced an idea as to how the just reward of the various people should be assessed.
2. The utilitarians overestimated the idea of the free market. They thought it to be applicable to all human relationships and, therefore, opposed all legislation regulating labour conditions and objected to free services by the community, as for example, free education. They failed to produce an idea as to the limits to which human affairs should be regulated by buying and selling.
3. The utilitarian economic theory gave no reasonable account of the trade cycle.² It left the unemployed in the depression without even an intellectual consolation and objected to any action to improve their lot.
4. The general weakness of utilitarianism, which includes the above particular failures, is this: that its philosophy makes self-seeking the supreme principle in economic life and assumes that people are happy if their blind acquisitiveness is transformed into a maximum efficiency. In fact, blind acquisitiveness is repugnant to the social instincts of man. If he co-operates with a community he wants to be conscious of a common purpose. Accordingly, he revolts against the idea that the community should refuse responsibility for giving its citizens opportunity to work and live an educated healthy life.

The utilitarian philosophy, later named economic liberalism, became the principal conservative force in the second half of the 19th century, and though it had to give up many of its claims, it still prevails to-day in the democratic countries. The four weaknesses of this philosophy[:]

1. inability to secure justice in distribution of income,
2. inability to define the limits of buying and selling,
3. inability to grasp the trade cycle, and

4. inability to make the community conscious of and responsible for its economic life have made its position critical. We all feel the latent revolt against an economic life based on this gravely deficient philosophy and more or less expect that the revolt might break out as early as at the next slump.

The revolt against economic liberalism is led to-day by two political forces, Communism and Fascism. The meaning of Fascism can be understood only by an analysis of the much older Communist movement. Communism, arising in the middle of the 19th century, attacked utilitarianism at all the weak points to which I have referred. It demanded that exploitation, marketing, the trade cycle should be wiped out and the acquisitive system replaced by a community consciously working for its common needs.

The appeal was powerful but the results were disastrous on account of two fundamental errors. The first error was the idea that an industrial economic system producing a great variety of goods by a wide division of labor could be run without the guidance of competitive prices, wages and profits. The nebulous idea that people should produce directly for the needs of consumers instead of making what Marx called, ironically, 'commodity fetishes' for the impersonal wants of the market was altogether impracticable. The second error, more disastrous even in its consequences, was the theory of class war. According to Communism owners form the capitalist class which is becoming a dwindling minority, non-owners form the working class, the huge majority. The majority should take away ownership from the minority and invest it in the state, which would be the end of exploitation, commodity fetishism and trade cycles.

The class theory included all the managerial and technical staff, the civil service and the learned professions in the proletariat and lumped all the peasants, tradesmen and craftsmen with the rich. The effect was to provide the rich with more powerful allies than they ever had before, because the masses of the lower middle class, seeing their ways of making their livelihood attacked had to join the rich against the workers, while the better off employees and professional men did not merge as the theory would have it into the proletariat but kept up their previous association with the rich. This political theory put the working classes, as carriers of Communism, into a disastrously weak position.

Communism and the class war theory were not taken seriously during the 19th century. They merely formed a remote theoretical background of a progressive labour movement. However, in 1917 in a surprise attack in Russia a Communist revolution won victory because the peasants misunderstood its nature and joined it for the sake of dividing up the estates of the big landowners. But the two fundamental errors of Communism soon led to ruinous consequences. The attempt to abolish prices, wages and profits caused a breakdown of economic life which buried under it the major

propositions of Communism. At the same time an opposition of the professional classes and peasants flared up and continued for sixteen years. At the end of this period of civil war the country was pacified on the basis of a compromise which left a considerable measure of ownership to the peasants and introduced prices, profits and greatly unequal wages. The movement has, however, realized one of its important aims: it established the responsibility of the community for the work and welfare of its members. Prices, wages and profits are allowed to operate only subject to the power of the Government to intervene at any time for the purpose of enforcing the collective aims of economic life. At the same time political dictatorship arose firstly as a result of class war, then [was] perpetuated to insure the subjection of economic activity to collective aims.

The victory of the Revolution and its propaganda abroad spread the theory of class war and convinced the world that this was a reality. So class war came after all and the workers, less numerous and less powerfully positioned than those whom they had welded together in opposition to themselves, were easily defeated.

The victorious social forces consolidated their power in the form of Fascism. This form of counter-revolution has incorporated with a few important exceptions, most of the elements of Communism which survive under Stalin. It accepts the responsibility of the state for the work and welfare of the people and seems decided not to tolerate unemployment; moreover, it claims to give a conscious common purpose to economic life. It differs from Stalinism in that the state rests on the old personnel of owners and professional classes and, in particular, confirms the peasants, tradesmen and craftsmen in their old ways of earning their livelihood. It resembles Stalinism in its dictatorial methods by which it stamps out all resistance arising against the subordination of economic life to a common purpose.

To sum up the situation: We have in the democratic countries a liberal economy holding up precariously the principles of free acquisitiveness, while admitting, out of necessity, a steady growth of public responsibility in its midst; and we see in the other countries the results of a revolt against free acquisitiveness culminating in the institution of governmental responsibility for the work and welfare of the citizens. In these countries dictatorships arose originally to consolidate the victory won in class war, and dictatorships are perpetuated for the purpose of directing the work of the community towards a joint task.

If this analysis is right it follows that if we wish to avoid dictatorship we must revise utilitarian economics by some other means than civil war and must, in particular, find some means to make the community conscious of its collective purpose by means other than dictatorial regimentation.

Obviously, progress by persuasion is possible only to the extent to which our intelligence can guide us. A civilised development of social life is, therefore, only possible if it has a fairly complete understanding of economic matters at its command. This

understanding must, of course, become widespread among educated and public-minded people if it is to direct the minds of a democracy.

This necessary condition of civilized development consisting in a correct popular understanding of economic matters would, I believe, be in itself a remedy to the greatest deficiency of our economic system, which lies in its lack of social consciousness. If people understand the work in which they are participating the community becomes conscious of its purpose. The spiritual advantage of dictatorships lies in their enforcement of an idea of economic life. Democracy can satisfy this craving for economic consciousness by creating a popular understanding of economic matters. It is the only way to obtain economic consciousness while preserving freedom of thought.

Furthermore, I submit that intellectual power is readily and almost inevitably converted into political power. I expect that the spreading of adequate views on economic life would release social forces now entangled in futile issues and would direct them towards reasonable aims. I believe that these forces once they are aiming at reasonable things would easily overcome such vested interests of a minority which might oppose them. I believe, in fact, that an enlightened public would have full power to direct its economic life.

Now what are the practical chances for arriving at an adequate understanding of economic matters? It seems to me that the last few years have brought us a good deal nearer to this aim.

The work of Keynes has brought an understanding of the trade cycle which seems also to lead up to a proper definition of public responsibility in an industrial system. At last we have before us a fundamental criticism of liberal economics which avoids the mistakes of Communism.

The policy of Roosevelt shows us a first indication of social action based on a new interpretation of economics. In various other countries, for example, Sweden and Australia, during the last slump governmental policy was also directed by new economic thought. Since then more progress has been achieved in economic theory and it seems increasingly possible to reconsider the main social issues in its light.

So my approach to politics would be to elaborate the new economic ideas and at the same time to simplify their outlines so as to make them comprehensible to the intelligent layman. After that the ideas might be carried further among people and serve as guidance for the reorganization of popular social forces.

Putting it bluntly, if I had my way this Society would devote itself to the study of economics as an experiment to create a nucleus of educated people who would acquire an understanding of these matters. Such an experiment would be a first step towards popular education in economics. It would qualify the Society for the further task of discovering how such popular education on a wide scale might be attempted.

I might say that I have put myself to some extent through the experiment which I suggest and I find that it gives rise to all sorts of ideas about the possibilities of a popular education in economics. I think that this is quite natural because the layman's approach is guided by the same instincts which would arouse the interest of the general public. These instincts are different from those of the professional worker who seeks to make a substantial contribution to the subject and who must, therefore, become overwhelmingly interested in one section of it rather than in its general outline.

History presents many examples of educated people making a new start to amplify their knowledge. The passionate study of the ancient masters in 14th century Italy, the Bible studies of the 16th century in England are perhaps the most important educational events. The foundation of the Royal Institution at the beginning of the 19th century, the study of Marx in the second half of that century are other examples. My suggestion has, indeed, many parallels in the past.

ENDNOTES

¹Keywords, abstract, and endnotes have been added to the original manuscript. However, Polanyi's spelling and punctuation have been preserved throughout this lecture. "On Popular Education in Economics" is in Box 25, Folder 9 of the Papers of Michael Polanyi in the Department of Special Collections, Regenstein Library of the University of Chicago. Thanks go to John Polanyi, literary executor, for permission to publish this speech. The first three paragraphs here seem to have been intended as an introductory comment and challenge to others at what was perhaps the inaugural meeting of the Political Society at which Polanyi delivered his lecture. The paragraphs provide some insight into the context of Polanyi's lecture but are a separate archival document (titled "Political Society Lecture"), also in Box 25, Folder 9. Apparently, this introduction was not actually included in the presentation to the Political Society. A typed note at the top of one copy of this two-page introduction suggests this. That note also gives the date, "February 22, 1937," next to the title "Popular Education in Economics." There is more than one archival copy of "On Popular Education in Economics" and the one marked "January 1937" was likely used for the presentation) since it has some penciled corrections; most of these are minor changes in wording and are incorporated here. There is also in Box 25, Folder 9 an interesting but undated document, which is apparently a several page outline of Polanyi's argument and a critique by Philip Chantler, titled "Critique of 'On Popular Education in Economics' by M. Polanyi." In its final comment, this document suggests Polanyi's speech is interested in serious "discussion, as distinct from propaganda" and is "more sociology than economics." The speech thus perhaps "falls under the study of *politics*, in its wider aspects."

²In what is apparently the original draft of the lecture, Polanyi here used "laissez-faire" rather than "utilitarian economic."