

# POLANYI'S ECONOMICS AND THE NEW START IN EUROPE



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## ABSTRACT

*Originally presented as a paper at the 1991 Kent State conference, this essay offers Prosch's interpretation of Polanyi's views on social order and economics. It also engages "Popular Education in Economics," which is included in this issue of TAD.*

[**Editor's Note:** This paper was originally published in *From Polanyi to the 21st Century: Proceedings of A Centennial Conference, Kent State University, April 11-13, 1991*, Richard Gelwick, editor (The Polanyi Society 1997), 295-304. Apart from some minor formatting changes and the addition of keywords and abstract, we reprint the paper as is. Unfortunately the superscripts for the endnotes are missing.]

Now that Eastern Europe has discovered from experience the truth of what Michael Polanyi maintained so long ago: it is as impossible to operate a centrally planned economy as it is for a cat to swim the Atlantic Ocean, it might be useful for us all to look again at why he thought this was so, and at how he thought unplanned economies could be managed.

My first introduction to Polanyi's thought was to his views on economics and freedom in my reading of his *The Logic of Liberty*, which had just then come out. The book consists of a collection of his essays which had been published from 1941-50 in various journals. The economic views which he expressed in this book are part and parcel of its larger thesis concerning how a free society is structured. Thus the title: *The Logic of Liberty*.

He held that a free society is not an utterly free libertarian, open society, where everything is up for grabs, including even basic beliefs, the sharing of which made free society possible. A free society, he held, rested on a faith, held by the people in common, in the values of truth, honesty, justice, beauty, and God, and thus also respect for the freedom of the communities, or enclaves, which people have formed in their pursuit of such values, namely their scientific, legal, artistic, and religious communities.

We have a free society, he claimed, when the value of such things as these are respected by people in such a society and are thus held to be of right free from State control, and we don't have a free society when they are not so respected.

The fact, which he went on to assert, that these commitments are and must remain held only by faith, that they cannot be proved to be worthy of commitment, struck me at first as being odd, since they have been argued for succinctly by many of our great philosophers for something like 2,000 years. I knew these philosopher's writings rather well and I knew how cogent their arguments were. I came to realize, of course, after *Personal Knowledge* and other works of his, that by "proved" Michael meant logically or rationally demonstrated beyond any reasonable doubt. His distinction between "proved beyond any conceivable doubt" and "proved beyond any reasonable doubt" made perfect sense to me. A philosopher's *basic* principles could not, of course, be deduced from something more basic and thus could not be logically demonstrated or proved. Thus, "proved beyond any reasonable doubt" was the best I had ever supposed could be done with any philosopher's basic principles.

Polanyi, however, went on to show (beyond, it seems to me, any reasonable doubt) something that should, perhaps, be obvious, but the drastic import of which is often overlooked, viz., that we can have no *explicit* way of showing that *any* decision or judgment we reach is (objectively) beyond any reasonable doubt.

So we Polanyians are and must remain obscurantists in the minds of our contemporary "analytical" friends. For, he held, all our decisions, including, of course, our judgments on our basic principles, are simply our own perceptions that they are sound or true, that they are adequate to our universal intent, and these *focal* perceptions of ours are actually rooted in myriads of *subsidiary* clues, in which, he held, we only *dwell* tacitly when we see, standing in them, that our decisions are right and sound. We do not explicitly *deduce* from these clues the logical conclusions which are our decisions. We cannot even explicitly know all of them.

This distinction between "dwelling in" these clues *to* the decision and "deducing" the decision *from* these clues, is, I presume, well understood by you who are familiar with Michael's thought.

Thus the logic of liberty in a society requires that its liberty rest upon a tacitly and commonly held faith in what Polanyi called our traditional values. Within the bounds of these commonly held values resided the liberty of people to hold diverse views about

policies and actions they think their government and societies ought to take. Their commonly held basic beliefs kept the clashes of their other differences from destroying their society or each other.

The logic of liberty also exhibited the same structure, he held, in communities of people who are bound together by commonly held beliefs [i]n certain standards and principles for the pursuit of other aims or objectives. Therefore he held this same structure existed also in such articulate systems as the sciences, the arts, the practice of law in the courts, and religion. Such basic structure made it possible for people to be free then also within these groups, to make their own contributions to the common task of discovering such things as knowledge or beauty or religious edification or law and justice. It was like in part, Polanyi held, a group of people working on a jigsaw puzzle. The goal and procedures of the task were held in common by the workers, but each was free to pick up and fit in the pieces to the puzzle as he himself saw the feasibility of doing so. And his contribution, if indeed it was seen to fit what had already been put together, opened the opportunity for further meaningful contribution by others or by himself.

The task of each enclave became therefore called a *polycentric* task, i.e., one that was achievable by means of efforts exerted from many centers interacting with each other. To try to organize the working of a task, which was essentially polycentric by nature, through establishing a central authority to direct the actions of each center of action (or worker of a puzzle) would, of course, be an absurdity. The “corporate order,” as he called it, resulting from such an attempted central control would be grossly inefficient, as compared with what he called a “spontaneous order” resulting from the operation of many centers upon each other. He showed graphically in his text how the span of control becomes multiplied in a polycentrically controlled system.

Managing an industrial economy, Polanyi said, is inherently a polycentric task, since resources and changes in resources must be ordered to the production of manifestly varied products, and parts of products, which must also be varied to meet changing needs and desires in consumers in temporal synchronization. A free market situation can meet these changes in a timely manner, he showed, by means of allowing its centers to freely interact with each other, allowing the pricing of all discrete goods and services involved to be set, not by decree, but by the buying and selling of producers and consumers competing in a free market, using their own judgments concerning the value of certain items to them relative to the value of alternative items. And the measure of whether or not a firm did in fact use resources, thus priced, efficiently to satisfy consumer wants would be its ability to make sufficient profits to stay in business—in a system of competition, of course. Central direction, he held, would shortly be at a loss to make such on-going adjustments. As Gorbachev said recently to some members of our congress: prices in the Soviet Union represent only chaos. They reflect

no realities whatsoever. Being set mainly by decree, there is no way, as Polanyi showed, they could reflect either production needs or cost or consumer needs or demands, let alone [all] of these operating together upon one another [*editor's note: a duplicate line has been omitted here!*] Individual, timely, judgments from all participating centers are necessary, and, as Polanyi showed us, in making judgments, subsidiary clues must be dwelt in by minds. So not even a computer could be used by a central planner to render judgments by individual persons unnecessary in the market.

In *The Logic of Liberty* he showed in an amusing fashion the absurdity of trying to do this, even if the planner could attach gauges to persons to show to him when they were all optimally satisfied. The individual judgments of the wearers of these gauges would still have to be made by these persons in order for their gauges to have anything to register!

Polanyi maintained, therefore, that the free market and free competition (the free enterprise or business community) were very essential to the management of an industrial economy, regardless of whether the State or private individuals owned the capital. It was, however, one which he held that differed in a peculiar way from the other enclaves or communities of a free society, i.e., those of science art, law and religion. The ends or goals pursued by such articulate communities as these (and also their freedom to pursue these goals) were respected, Polanyi held, for their own sakes in a free society. For this is what made it free. The economic freedoms to buy, make, and sell economic goods as we producers and consumers see fit to do, by contrast, was something to be respected only for its operative value in managing our economies, not in the way that the freedom to pursue truth or justice or beauty or God is respected. Thus he found that limits or controls put upon such economic freedoms by the State were acceptable in a free society, if there were good reasons for establishing them. And Polanyi did hold there were such good reasons.

The Utilitarians correctly saw, he thought, how the free competition in a truly free market resulted in a just reward of the factors of production. But, he said in a lecture written for The Political Society in 1937 and found among his unpublished papers, "They [the Utilitarians] 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." Thus their philosophy, he held, never produced an idea as to how the just reward of these various people should be assessed.

The Utilitarians also, he wrote, overestimated the applicability of the free market "to all human relationships. They failed to find limits to the regulation of human affairs by buying and selling."

Their theories also, he said, "gave no reasonable account of the trade cycle," leaving the unemployed, in a depression, without help or hope. We still hear some people say that things will right themselves through market operations. There is a joke going

around the campus at the University of Chicago in which one asks, “How many Chicago economists would it take to change a light bulb?” And the answer is, “None. The Market will take care of it.”

But the general weakness of their ideas, Polanyi wrote, was that the Utilitarian philosophy “made self-seeking the supreme principle in economic life” and assumed “that people are happy if their blind acquisitiveness is transformed into maximum efficiency”—by the operation of the market, of course. He held that “in fact, blind acquisitiveness is repugnant to the social instincts of man.” He thus “revolts against the idea that the community should refuse responsibility for giving its citizens opportunity to work” and to have an “educated, healthy life.”

Because of these inadequate ways in which the market was defended, Polanyi pointed out, many intellectuals embraced the Communist movement which demanded that such things as exploitation, marketing, and the trade cycle should be wiped out and the merely acquisitive system be replaced by a community consciously working for its common needs. Marxism did not show how this could be done, nor did it, it is true, present itself as a moral crusade for the abolition of these morally repugnant “things.” Rather, Polanyi pointed out, it presented itself as a science which purported to show how the bourgeois values arose out of merely non-moral economic interest, as did all other values, and how they would be swept aside when the proletarian class attained awareness of its own interests and, through an inevitable class war, seized by [sic] means of production. Thus, to bring the revolution into being it was necessary, they held, to ruthlessly sweep away and repress our “merely” bourgeois values, engaging in whatever lying, cheating, murder, or betrayal (even of one’s friends) which seemed necessary to bring the revolution to success, operating only with deference to “Party Truth” (so called “ideal” truth being always simply a function of some class interest). Such destruction of the old bourgeois values was, in scientific truth (in their view) destroying nothing of real value anyhow, for these values had no transcendental or eternal or rational worth.

In spite of this hard-headed “realism,” Polanyi held, the real fuel which drove the Marxist movements to popularity was, ironically, the emotional fires generated by our traditional morality, only now raised by imagination to the fervor of a perfectionism supposedly required by a secularly transformed ideal of Christian brotherhood—and driven underground in our psyches. Since materialistic scientism had taken over our thoughts, we could only allow ourselves to think of values as mere manifestations of deeper and more animalistic, or even physicalistic, “realities,” not as realities in their own right. Thus was born what Polanyi christened “moral inversion”—a demand for tough minded, ruthless immoralism which was however, subconsciously based upon the subterranean moral values which our conscious thoughts were denying reality to.

Thus the results have been disastrous for the world, Polanyi claimed, not only economically (due to foolish attempts to order our economies without the aids of money, markets and profits) but also in the development of despotic tyrannies due to the destruction of respect for the public liberties exercised in a free society by the communities of scientists, artists, divines, lawyers, etc. A planned, totalitarian society had no need for such enclaves of personal knowledge and action. In fact, they would make planning the society impossible.

Polanyi thus saw a return of private enterprise, free market system was called for. And we now see that it is in fact in the throes of being restored in Eastern Europe and even in the Soviet Union. “Throes” is the proper word. We do not yet know how to *plan* for a *planless* economy.

But Polanyi warned us there were several exceptions we ought to make to the rule of a free market. He named two of them in an unpublished paper entitled “Suggested Headings for Memorandum to the Harris Committee,” probably written about 1943.

1. Where monopoly cannot be destroyed, he wrote, or competition enforced without destroying productivity, the State must remove the industry concerned from the field of Private enterprise either by public ownership or public control.
2. The State must also provide crutches, from the general social fund, for individuals (but not for industries) who are too weak to stand up to competition. From remarks made in his *The Logic of Liberty* we see he would also include in this State aid, provisions for education and essential health care.

But also, as he outlined in some detail in his *Full Employment and Free Trade*, the State must manage the trade cycle through Keynesian principles, by engaging in deficit spending in times of recession and unemployment, and in taxation when the economy is booming. The market is unable, he held, as Keynes showed, to handle this economically and humanely essential task.

He also held in *The Logic of Liberty* that the State has the function of regulating industries producing noxious or environmentally dangerous by-products. Since, he said, there is no market for obnoxious smells and sights or for environmental hazards, the market cannot handle these problems either.

In summary let us note that in all these remarks Polanyi can be seen to maintain that some intervention by the State in the market is required both to perform some economic tasks and to care for people in accordance with our traditional values of humaneness and justice.

Some people have feared that shaking off the yoke of communism with its central planning in Europe might result in an all-out embrace of the old Utilitarian principles of complete trust in the market to do everything, a rabid libertarianism which a

von Hayek, von Mises, or Milton Friedman seem to many to espouse. Polanyi's social philosophy would certainly be an antidote to such a tendency, while still preserving an intelligent dedication to the use of free markets and competition to manage the economy.

"The truth is [he wrote] that universal commercialism is as absurd as absolute collectivism, and that social life cannot be exclusively based on either of these principles. A return to the peaceful evolution of economic life must be based on a system which recognizes that fact and hence states no presumption in favor of either method, but seeks to establish the just measure for applying each of them."

"We cannot expect a division by purely objective criteria" (surely a characteristic Polanyian warning). "There is good reason why the borderline between commercial and collective management should be hotly contested, and constantly fluctuating... It is the task of social philosophy to clarify the issues of the contest, so as to make possible an agreement by compromise over unavoidable clashes, and to establish mutual tolerance..."

Thus the specific points we have seen him mention which should be free of State control, or subject to it, and the fixing of the border between them, are in his opinion always open to our judgements, which cannot be explicitly formulated, and which may indeed change with the time and circumstances, and also which may differ in the honest judgements of different persons.

It is my earnest hope that this sort of social philosophy may come into existence, not only in Eastern Europe, but also in this, our own country, since we ourselves seem, in my opinion, to be getting somewhat muddled about some of these matters.

## End Notes

<sup>1</sup>Paper presented on April 12, 1991, at the Celebration sponsored by the Polanyi Society of the 100th Anniversary of Michael Polanyi's birth, held at Kent State University, Kent, Ohio.

<sup>2</sup>*The Logic of Liberty* (Chicago: University of Chicago Press, 1951).

<sup>3</sup>"[On] Popular Education in Economics." Notes for a Political Society lecture, November 22, 1937, pp. 4-5 (unpublished). Michael Polanyi Papers, Box 25, Folder 9. Special Collections, University of Chicago Library.

<sup>4</sup>*Full Employment and Free Trade* (London: Cambridge University Press, 1945).

<sup>5</sup>The sixth of "Six Conditions for the Operation of Resources Forming Personal Property," dated November 29, 1941, pp. 1 and 2 (unpublished). Michael Polanyi Papers, Box 26, Folder 5. Special Collections, University of Chicago Library.