

LETTER TO THE EDITOR

Congratulations and thanks to Paul Lewis and the contributors to *TAD* 42/3 for the essays on the foundational role of economics in Michael Polanyi's thought. Polanyi's explanations of economic and social organization are as unique as his ideas about the structure of knowledge, but he did not have time to develop all of his ideas generated by his unique awareness of the intellectual crisis of his time, a crisis that has continued into our time. As Polanyi's student to whom he assigned the clarification and development of his economic thought while he focused on his theory of knowledge, I am stimulated to attempt to add to the discussion.

Polanyi's Purposes and Contributions to Economics

By the 1930s Polanyi was established as one of the most important scientists of his time. Some of his students won Nobel Prizes as did his son, John. I remember Polanyi telling me that at one time every section chairman of the Royal Society was his former student.

Polanyi did not leave science because he was unsuccessful or bored with its practice. He left it because he saw that science and liberty itself were threatened by inconsistencies in the intellectual foundations of Western civilization. It was his unique insights into these dangerous inconsistencies that launched his career into economics and epistemology.

It is my contention, expressed in a letter to *TAD* 38/3, that a full understanding of Polanyi requires an understanding of his motives and of Polanyi's unique awareness of the intellectual failures that produced an inverted morality that threatened the continuation of "a society of explorers." For a number of years, I have noticed the tendency on the part of academics to academicize Polanyi, thus removing him from his purposes. Once

removed from his purposes, he becomes lost in academic disputes.

The essays in *TAD* 42/3 by Eduardo Beira, Anne McCants, and Harry Prosch, together with Polanyi's 1937 address, "On Popular Education in Economics," show that the redirection of Polanyi's intellectual energy had moral purpose. Anne McCants, for example, realizes that Polanyi's critique of utilitarian or laissez faire economics is a moral critique and that his film, *The Money Circle*, "is itself a deeply moral project." Polanyi's purpose was to save Western civilization, which he regarded not as a gift from natural law but as a human achievement.

Michael placed in my hands his contribution to macroeconomics, his contribution to understanding the polycentric organizational structure of the modern economy, and his contribution to understanding the Soviet Economy and its motives. I did as he wished, although not as well as he would have done, and here is my report.

Polanyi and Keynes

In his 1945 book, and in his earlier film on the money belt, Polanyi uniquely interpreted Keynes in a way that predated by two to three decades the synthesis of Keynesian economics and the monetarist economics later associated with Milton Friedman.

Keynesians understood from Keynes that unemployment resulted from insufficient aggregate demand for goods and services to fully employ the labor force. Their remedy was for government to spend in excess of its revenues from tax collection, thus adding to total spending by running a budget deficit.

The government's budget deficit would be financed by the sale of bonds. Thus, for Keynesians deficit spending financed by borrowing was the path to full employment.

Polanyi's interpretation of Keynes was very different. Polanyi attributed the insufficiency of aggregate demand to the dearth of money, that is, to an insufficient supply of money for the public to be able meet its demand for cash balances and purchase the goods and services necessary to maintain full employment. For Polanyi, the solution is not to sell bonds, on which interest must be paid and the purchase of which subtracts from consumer spending on goods and services, but to overcome the inadequacy in the supply of money by creating new money with which to finance the government's deficit spending.

I first explained Polanyi's interpretation of Keynes in a paper titled "Michael Polanyi: A Keynesian Monetarist," presented at the annual conference of the Western Economics Association in the 1970s with my colleague Norman Van Cott. I returned to the subject in *TAD* 25/3; in *Emotion, Reason and Tradition*, (ed. Struan Jacobs and R.T. Allen, 2005); in *The Failure of Laissez Faire Capitalism* (Clarity Press, 2013), and elsewhere.

Polycentricity and the Soviet Economy

Polanyi's writings on the polycentric structure of a free society were in large part a response to the idea that science could be planned and that the Soviet Union had achieved a centralized planned economy in which planning authorities replaced the allocation of resources by prices and profits. Polanyi understood that this was not the case. However, at that time it was important to progressive and left-wing intellectuals that an alternative to market capitalism existed. This made it difficult to establish the truth.

Unlike economists, Polanyi understood that the original intent of Soviet central planning was to organize the entire economy as if it were a feudal manor without the intervention of prices and profits and buying and selling. Instead the communist society would produce for the direct use of its members.

This attempt failed. Sovietologists got rid of the failure by describing the attempt as a response to war, designating the attempt at central planning "War Communism." I demonstrated that this explanation was false in my article: "War Communism": A Re-examination," *Slavic Review* (June 1970). In the autumn 1973 issue of *Survey: A Journal of East & West Studies*, I explained the concept of planning in the Soviet Union and how Stalin saw the collectivization of agriculture as a step toward renewing the attempt to achieve a non-market economy.

Polanyi and I understood that although the Soviet economy was not centrally planned, the attempt to plan the economy was infused with Marx's aspiration to have humanity free of commodity production, that is, production for the market, which according to Marx produced alienation and economic crisis. However, investigation into Marx's influence on Soviet economic practices was barricaded by the authority of Sovietologists. In 1968 in his Richard T. Ely Lecture at the 81st annual meeting of the American Economic Association, Harvard's Alexander Gerschenkron concluded: "hardly anything in the momentous story of Soviet economic policies needs, or suffers, explanations in terms of its derivation from Karl Marx's economic theories."

I described the impact of Marx on Soviet economic practice in my book, *Alienation and the Soviet Economy* (1971) which I dedicated to Polanyi. The book was republished in 1990 without a word changed with a foreword by Aaron Wildavsky, professor at the University of California, Berkeley, who asked why no one but Roberts got the story correct.

In my account of the Soviet Economy, Soviet managers organized the economy by interpreting gross output indicators with the result that resources were allocated without regard to consumer wants and needs. The Soviet economy was a polycentric organization with inefficient allocative

signals that produced outputs unrelated to needs—thus, the deprivation of the Soviet consumer. This inefficient use of resources resulted from an attempt to avoid the appearance of commodity production by substituting gross output indicators for prices and profits.

In my book, true to Polanyi's insights, I explained Soviet economic history as a product of the interaction of utopian intentions with a refractory reality, an interaction that ended in the abandonment of the original aims. In my account, economic and historical necessities have to make room for speculative excess as a force in history.

Michael not only understood science better than his contemporaries, he understood all things better. He understood that for Marx and, therefore, for his followers, good will did not exist, only class interests. Therefore, there was no basis for compromise and reforms between social classes or different interests. Marx declared all morality to be expressions of class interest. Therefore, there was no basis except violence for resolving disparate interests. Polanyi understood that the direct implication of Marx's position is that "violence is the only effective force in history."

Polanyi presented this idea in his lecture, "Beyond Nihilism," at a conference in Berlin in 1960 (published as *History and Hope*, edited by K. A. Jelenski, Routledge & Kegan Paul, 1962). Richard Lowenthal, a professor in Berlin and subsequent reporter for *The Observer*, took exception to Polanyi's insight and declared that Polanyi had put words into Marx's mouth that bear no "relation to anything Marx ever wrote, and is indeed in demonstrable conflict with much he did write."

I disposed of Lowenthal and others lost in romantic visions of Marx-the-Moralist in my book, *Marx's Theory of Exchange, Alienation and Crisis* (Hoover Institute Press, Stanford University 1973).

Regulations and the Market Economy

Polanyi regarded the view that there should be no government economic intervention to be both impractical and immoral. He regarded a social safety net and the public provision of public goods such as education and health care as normal components of any social order. He regarded regulation as necessary to restrain monopoly behavior, to protect the health and safety of workers, and to restrain environmental damage. In order to get beyond the "regulation—no regulation" debate, I proposed that regulations should be considered as factors of production. Up to a point, regulation adds to the efficiency of the economy, but beyond the optimum number and quality of rules, "the more stifling the manager's environment and the less his creative activity, the more his time is spent in red tape rather than in productive activity, the more resources are absorbed in enforcement of the rules, and the more contradictory the rules become, eventually producing inefficient outputs." See, for example, my articles: "Idealism in Public Choice Theory" (*Journal of Monetary Economics*, August 1978), and "An Organizational Model of the Market" (*Public Choice*, Spring 1971).

I learned many things from Michael, the best teacher imaginable. Perhaps first and foremost, I learned that even intelligent and highly educated people can hold as truths mutually incompatible ideas. This lesson created my life as a dissident scholar. The one thing that I can say with complete confidence is that if humans in general had Michael Polanyi's moral and public-spirited character, there would be far less strife in the world.

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