

SOME NOTES ON THE EARLY ECONOMIC THOUGHT OF MICHAEL POLANYI

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ABSTRACT

As far as we know Polanyi first encountered economics in a systematic manner during the seminars of Jacob Marschak in Berlin, 1928, where he wrote an essay on the Soviet economy. One year later he found himself organising a discussion group on economic issues at Hahner House (Kaiser Wilhelm Institute) and building a professional network of economists including Toni and Gustav Stolper, Abraham Joffe and others (Nye, 2011).¹ Despite his study of economic issues greatly developed in the 1930-40s, some early characteristics of his economic thought were also mirrored in his later writings. Below we introduce yet unpublished writings of Polanyi on economic issues and economics. The selection was made to present the main topics and the character of his economic thought, but not to provide an all-comprehensive picture on these. There are *Notes on a Film* (Box 25, Folder 10), *British Crisis (1947-)* and *Inflationary Tendencies of Modern Socialism* (Box 31, Folder 3), and lecture drafts titled *First and Second Lectures* (Box 31, Folder 14) prepared for his first two advanced economics classes.² Hopefully, further study of the economic thought of Polanyi might be fostered by revealing some lesser known fragments of his economic scholarship,

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In 1929 Polanyi started to think that a motion picture about economics would be a project of high account to raise social consciousness on economic issues. As he wrote in his early writings the latter is essential to avoid the spread of popular fallacies and misunderstandings about the nature of economy and revitalise political and economic liberalism. Polanyi was aware of the sensitive situation in which the public understanding of political economy might have decided upon the rivalry of

¹ Mary Jo Nye, *Michael Polanyi and His Generation* (Chicago: The University of Chicago Press, 2011)

² The original manuscripts can be found: Polanyi Papers, Department of Special Collections, University of Chicago Library.

political ideologies as saw how the boundaries blurred between political and professional disputes in the eye of the public. He decided to educate people in order to increase their resistance to such harmful effects. By raising the general knowledge on economic mechanisms, he hoped to contribute to the appearance of a well-informed educated strata that is capable of deciding properly on economic issues and making a distinction between accounts of politics and economics. Polanyi thought he found the best way to educate people. But who shall be in charge of this ambitious new agenda aimed to increase social consciousness?

Polanyi primarily considered this economics 'illumination' a task of economists. He was against the abstract, theoretical language in a representation of economic issues and advocated a much simpler language to address a wider range of people. A language which he thought must be developed mostly, but not exclusively by economists. He found what he was looking for in the useage of motion picture for educational purposes. Polanyi also started to realise his agenda himself. He pursued this in his early economic writings including *Notes on a Film* (1936), *Visual Presentation of Social Matters* (1936) and *On Popular Education in Economics* (1937). *Tradition and Discovery*, a sister journal of *Polanyiana* devoted a whole issue to the *Visual Presentation of Social Matters* (Tradition & Discovery: The Polanyi Society Periodical, 41:2). And as *Popular Education in Economics* has also been studied to some extent (and further research is currently in progress), we would like to raise attention to the third mentioned essay of Polanyi on the proposed way of representing and disseminating economic knowledge.

After Polanyi started to write about economy and political economy in the second part of the 1930s he shortly realised that economic thought is related to political thought through public understanding. He also realised that even some sort of trade-off had been imagined between economic success and political freedom by the general public that might influence public understanding in a way he found quite disturbing. This realisation raised his attention to the complexity of the crisis that was - as he found out - not purely economic in its nature. He began to cut through this complexity of interrelated economic, political, social and even theoretical aspects to find out what crisis he and his contemporaries faced, and eventually to find out how the solution should be transmitted to the general public in order to influence public understanding. In the *British Crisis (1947-?)* Polanyi argued that a new fundamental social agreement is needed to avoid society being divided into irreconcilable camps. In his view there is no freedom without social coherence, and no social coherence without revisiting some principles conducting our public life. According to Polanyi such a revisit was needed, because unlike the phantasy of planning and similar public misunderstandings, Keynesian theory had not been easily understood by the public, that if not handled properly, might have caused a great deal of tension in society with the menace of a possible revolution resulting in a complete cultural collapse.

In *Inflationary Tendencies of Modern Socialism* (1947) Polanyi described both the “natural process” which manifested in modern economies and the patterns in governmental actions in the 1940s intended to respond to this phenomenon. Polanyi emphasised that the key is a balanced monetary circulation, thus governments need to focus on how and when to infuse more money into the circulation, and if money overflows, how to handle the excess of money. Paul Craig Roberts and T. Norman van Cott stated that “*Polanyi synthesized Keynesian economics and the monetary school of economics*” and by doing so preceded the bests and brightest in the field with two or three decades (Craig Roberts - van Cott, 1999)³. In this short article Polanyi summarised how unbalance occurred and he offered multiple alternate solutions for the situation at hand.

Why is it important to study the notes Michael Polanyi made during the preparation for his advanced economics classes? Because it gives us a general overview on what he deemed important in economics and how he imagined to structure the learning material. And for at least one more reason: the content of the course does not necessarily fit into the picture we currently have about his economic thought. It is much broader, and less Keynesian. In his *First and Second Lectures* (1948) he wrote about different kinds of orders and new theories of business management, and he even provided his own understanding of span of control. Why this is so unexpected? In his first two lectures he focused on how economic agents relate to each other, while Keynesianism - what he explicitly considered as the closest to his economic thought - rather focused on what is happening on a macro level, and how to influence economy based on this big picture. It is quite unusual even today to start an economics course with a perspective which is not microeconomic nor macroeconomic in its scale but somewhere between. Polanyi framed his lecture notes at the end of the 1940s which means that further study might be needed to identify his unique contribution to economics that is more complex than we thought based on his economic books, *U.S.S.R. Economics: Fundamental Data, System and Spirit* (1936) and *Full Employment and Free Trade* (1945).

³ Paul Craig Roberts - T. Norman van Cott, “Michael Polanyi’s Economics,” *The Independent Review*, v.III, n..4, (1999) 575–580.