

BRITISH CRISIS (1947-?)¹

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On the face of events it might well seem that our main difficulty lies in an insufficient understanding of our economic troubles. We hear the government complaining of too much money chasing too few goods, and exulting at the same time over the unprecedented fall of unemployment - without realising that these two are simply complementary results of the same situation. A minister boasts of the extreme degree of employment achieved and then tells us that we must increase our savings, which of course would automatically reduce the degree of employment. Though the hurried statements of politicians need not be taken literally, such contradictions do suggest that our economic problems are not fully understood by those in charge of them.

The intellectual task that modern society has shouldered by committing its welfare to the use of a circulating stream of money is no doubt a very difficult one. It took us from the days around the year 1800 (when the problem was first fully discussed by Jean Baptiste Say) till about ten years ago, when the matter was finally cleared up by Keynes, to discover that a general state of overproduction was merely an expression of an insufficient volume of monetary circulation. Yet even today, after the event, it is not clear that our progress could have been quicker. Preoccupied as we were throughout the past century with so many other urgent questions - such as tariffs, wages, labour conditions, taxation - which obscured the mechanism of monetary circulation and overlaid the origins of mass unemployment, it is not really surprising that the solution of the riddle should have so long eluded us.

It takes a course of six to ten lectures to explain the Keynesian theory to students in any detail, and even the experts are as yet unable to apply its conceptions readily to new sets of economic difficulties. Remember how the loud lament of "labour shortage" went on from the summer 1945 till about February 1947, before any of the experts realised that the mystery of "general underproduction" was but the counterpart of the earlier paradox of "general overproduction" - that it merely reflected an excess of monetary circulation instead of a deficiency. Remembering my own slow realisation of this at the time, and the conversation which I had with people during that period, I feel certain that the delay was mainly a matter of intellectual difficulty.

¹ Box 31, Folder 3, Polanyi Papers, Department of Special Collections, University of Chicago Library.

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1/ Time and Tide, ~~September~~ 1947.

Yet it is clear enough that the crisis of our days is not only due to a lack of intellectual power. The true diagnosis of our ills and their proper cure have by now been widely propounded and clearly set out for everybody to understand. We have been told that we are suffering from a state of “repressed inflation”, that is an excess of monetary circulation held precariously within bounds by an elaborate system of governmental restrictions, and were shown how in these conditions maldistribution of labour and an adverse balance of payments must follow. We have been given workable prescriptions for the elimination of the monetary excess and the restoration of a proper distribution of labour. If understanding were all that is needed today, this advice should be received with joy throughout the country. But instead of such eager welcome it has met, and is still meeting, with widespread stubborn hostility. For the first six months or so - since February 1947, when the idea was first launched till well into August of the same year - the idea of a deflationary policy, though repeatedly put forward by a number of writers, seemed hardly to gain any serious attention. The suggestion of a policy which would deliberately raise - and perhaps as much as double - the existing level of unemployment remains too monstrous to contemplate. When finally, during the past few weeks, the issue forced its way into the arena of politics, both Mr. Shinwell and Mr. Bevin have thundered against any idea of restoring the distribution of workers through the labour market by building up an adequate reserve of unemployed persons. This is the more remarkable since the harm done by the excessive circulation of money had by this time been quite generally recognised and it had become the declared policy of the government to reduce that excess. Yet no politician on either side of the House cares to declare it in public that this means putting an end to the “sellers’ market” for labour and deliberately making employment less certain and the finding of a new job more difficult².

Such reluctance is obviously not due to mental inflexibility, but to a very natural apprehension of popular resentment. After all it is only two years since a “Sellers’ market for labour” was acclaimed by the nation almost without objection, on publication of Beveridge’s “Full Employment in a Free Society” (1945).

Here we approach the deeper roots of this crisis. They are nurtured - like the roots of so many other troubles of our time - by a flood of reckless expectations, springing from the minds of authors more generous than critical. It was not difficult to recognise, even at the time when Beveridge’s book was published, that residual unemployment must not be reduced beyond the point at which the effects of infla-

² At the time of editing this collection of essays (7th Nov. 1949) the Manchester Guardian shows that politicians are still refusing to admit the inevitable. At a conference of conservative party speakers Lieutenant Colonel R.M. Freser said “that any member who clung to the idea that unemployment was necessary or possible as a sanction in industry had better change his views rapidly. Such opinions were morally wrong, industrially impossible and meant political suicide. No government with such ideas would last for a minute - and rightly so. The same policy would bring about industrial standstill.”

tionary pressure become harmful. In my book *Full Employment and Free Trade* I outlined this and gave warning of the seriousness of the issues involved:-"The annual parliamentary decision to fix the level of national money income (I wrote) should express the popular balance between the desire for fuller employment and the reluctance to accept further restrictions on contractual freedom." "when choosing a level of circulation to aim at, the public will have to resign itself to the fact that a certain residue - perhaps an important residue - of unemployment will have to be tolerated... The question of residual unemployment is likely to be the greatest challenge to clear thinking and responsible action in the future handling of economic affairs - and to become, in case of failure, the most dangerous stumbling block to social peace."

That threat to social peace is upon us now. Let us try to face it squarely.

We have to accept the necessity of achieving public agreement on some level at which residual unemployment shall be fixed, and must realise that in the present circumstances a reasonably effective labour market can be achieved only by raising the level of unemployment - say from 1,5% to 3%.

The first resistance we meet against such an adjustment comes from those who believe in "economic planning". Who believe that direct physical controls consciously applied from the centre can in general replace monetary incentives spreading automatically through the network of economic relations. Such a belief is widespread in Europe, where it forms the central fallacy of Socialist convictions and is shared in milder forms also by most of those who oppose the Socialists; it is indeed accepted in a somewhat paradoxical manner even by the most rigorous school of free traders, whose warnings against the danger of enslavement by economic planning imply that they believe economic planning to be feasible, though only at the price of liberty.³ Thus in Europe today it is almost universally agreed that there exists an alternative system of distributing economic resources, as distinct from that operating through the market - some writers insisting only that it involves the loss of political freedom. There are then no grounds left why, if we are prepared to risk losing some of our liberty, we should insist on restoring an effective labour market and not try some kind of "direction of labour" instead.

I believe that this line of thought is completely fallacious. I affirm that no modern economy ever functioned, nor ever can function, unless its enterprises are allowed to adjust themselves effectively to direct mutual arrangements on a commercial basis; which I definitely mean to apply also to the Russian system. I maintain therefore that powers to direct labour - however draconic - cannot and will not appreciably restore the correct distribution of labour. That they will fail for precisely the same reasons why all the King's horses and all the King's men could not put Humpty Dumpty together again - once Humpty Dumpty has been smashed to pieces.

However, the escape into the phantasy of "planning" is so automatic today that

³ see page 2-3.

we must wait till “direction of labour” has manifestly failed in practice, before we can obtain serious consideration for the readjustment of the level of unemployment. And just so long no rational distribution of labour can be achieved, nor the balance of payments be redressed.⁴

When the fancies of planning will have evaporated, the hard core of our critical situation will lie open in all its dangerous implications. While a shift of the level of unemployment, say, from 1.5% to 3% would be in itself a serious matter, it would not need to appear intolerable. There are over 4% unemployed in the United States today - and similar figures are recorded in a number of other countries - without causing complaints about unemployment. The sharp opposition to the raising of the level of unemployment would spring more from its effects on the balance of power between workers and employers within the industrial system; for it would radically upset this balance to the disadvantage of the workers. We must realise that a sellers’ market for labour is preferred by the workers not in spite of its damaging influence on the discipline of labour, but precisely for the sake of weakening the power which wields the discipline. The maintenance of the inflationary pressure is an instrument of revolt in the hands of the working class. There is today in this country - as in other parts of Europe - a revolutionary temper which maintains that pressure and so long as that temper lasts, there can be no agreed fixation of unemployment at the level that would be required for the effective operation of the labour market.

Nationalisation is not a primary aim of the workers’ revolutionary movement, nor does it provide it with genuine satisfaction. The working class rebellions of 1918-1920 - in Russia, Hungary, Italy - have all started in a “syndicalistic” fashion, with an aim at establishing the control of the workers over the plants in which they were employed. It was the pathetic illusion that they would be free of all bosses which made the Russian workers conquer power for Lenin, who then proceeded to suppress, not without struggle, the system of “Workers’ Control” which the revolutionary masses had first established in industry. The present strikes in the coal industry of Britain represent a similar struggle for “workers’ control” against the authority of public ownership. The revolutionary forces of today and the inflationary pressure which they generate are, in fact, directed indiscriminately against all managerial authority, whether public or private.

But even so, this movement is only one wave of the broad revolutionary tide which is sweeping over our part of the world. Throughout Europe the leadership of the families hitherto owning and transmitting wealth, educational advantages, political influence and hereditary intelligence - possessing in short the collective hereditary privileges of a ruling class - have been challenged by masses of industrial workers, who are putting forward their own leaders in place of the old bourgeoisie.

While the gradual renewal of ruling classes is inevitable and forms part of their

⁴ This was written a few days after the Control of Engagement Order, 1947 was introduced, Today (Nov. 1949) its ineffectiveness has been generally recognised, The maldistribution of labour and the unbalance of foreign payments persist as before.

own functions in society, their sudden removal must result in a breakdown of society. The effects of a forcible displacement of the traditional bourgeoisie could be observed under the rule of Hitler and Mussolini, and its consequences are still with us in Russia. They fall little short of a complete cultural collapse. If this is to be avoided, the bourgeoisie must try to regain the confidence of those who would reject its leadership. By willingly abandoning its unjustified privileges it must prove its sense of justice. By a rigorous self-discipline it must set up standards for all to obey. And by recognising its responsibility for the values entrusted to it, it must achieve the capacity to rule. More humane, more tolerant and more firmly principled than today, it must go out to overcome the spirit of class war and restore the fundamental agreement on which society is based. At home, at the office, in business, in politics, everywhere the bourgeoisie should surrender its unpaired privileges, reconcile disaffected followers and reassert its leadership.

The inflationary crisis of today calls, in particular, for a reconstitution of an agreed government of industry and cannot be solved without such agreement. No rational financial policy can be carried out unless the consequent reinforcement of managerial authority will be accepted by the workers; agreement on the level of employment must include agreement on the powers of the management.

The situation is dangerous; not because freedom is infringed by direction of labour and the like, but because freedom depends on the agreed coherence of society. A society which is split into irreconcilable camps can be maintained only by violence. The fight for freedom must aim at the unending task of those who value liberty. For life in society can never cease to produce new dissensions and the citizens of a free society can never pause in their search after new harmonious solutions to ever recurring conflicts.