

## **Capitalism with a human face: a comment on Michael Polanyi's "Social Capitalism"**

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### **1. Introduction**

On an initial viewing, Michael Polanyi's short piece "Social Capitalism" appears to be a comment on the now outdated quarrel between Capitalism and Socialism. The article is an attempt to show that, at the time when it was published (1946), the alleged contrast between Capitalism and Socialism didn't exist anymore and, accordingly, it invites readers to get over "a conflict between a fiction and a fable and turn to deal again with real problems." Polanyi's article is an important historical document. The piece puts forward a provocative and disregarded thesis which advocates a reconciliation between Capitalism and Socialism. At the time of writing the piece, the tension between the two was actually higher than ever: the Iron Curtain descended upon Europe which marked the beginning of the Cold War. In this respect, the piece is testimony of a cosmopolitan intellectual's commitment to overcoming an emerging, dramatic worldwide division. However, below the surface of the recent historical circumstances, Polanyi's article deals with some questions lying at the core of contemporary political philosophy. In this comment, I attempt to make these contemporary questions clearer and then to give Polanyian answers. As I shall show, this essay's lesson goes beyond its specific historical context and the contrast between Capitalism and Socialism and addresses problems still compelling for us several decades after its publication.

### **2. The Contrast between Capitalism and Socialism: What is the Guide to Economic Decisions?**

At the beginning of his short essay, Polanyi states that "at the end of a long quarrel it is difficult to remember what it was all about" and so there is not "much purpose in recalling the original issue unless to show what progress has been made by fighting it out." However, the reader is not informed about the original reasons for this conflict, but just about why it does not exist anymore. In order to disclose the underlying questions lying behind the article, we should ask what this quarrel is about. Indeed, even though the conflict between Capitalism

and Socialism is introduced as something at its end, it was a conflict anyway. Thus it is crucial to understand the reasons for the conflict in order to assess its solution.

Polanyi expounds the reasons for the conflict between Capitalism and Socialism in another piece published in the preceding 6 April 1946 *Time and Tide* issue, "Soviets and Capitalism: What is the Difference?". There, Polanyi argues that the conflict between Capitalism and Socialism concerns the answer to this question: what is the proper guide to economic decisions? According to the capitalist's stance, the answer is "profitability,"

<sup>1</sup> while the socialist looks to "public interest" as determined by the state.<sup>2</sup> In other words, what is at stake in the conflict between Capitalism and Socialism, for Polanyi, is the guidance for economic life. While Capitalism advocates for an economic life guided by the forces of the market that distribute losses and profits, socialism supports the intervention of the public authority (i.e., the state) in order to regulate, or, in the extreme case of the Soviet Union, to plan, the economic life according to the needs of society, without any reference to profit.

In the article "Social Capitalism," Polanyi shows why neither capitalism nor socialism provide a satisfactory answer to the problem. According to Polanyi, the failure of both capitalism and socialism is due to a "conception of society based on scientific pretensions" that rules out "mercy," "sympathy," and "generosity" in the organization of social life and replaces these

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<sup>1</sup> Discussing a thought experiment describing the Red Dawn factory asking for a million rubles for the expansion of its plant by 20 per cent, Polanyi reports the capitalist reply as follows: "One half of humanity asserts that the proper criterion for granting the request of the Red Dawn works is whether they are making a profit, and that in fact no responsible decision can be taken in this matter on any other grounds. It admits that various kinds of public considerations may come in to modify this decision - such as the effects of the Red Dawn plant on the scenic beauties of Puklowo or the effects of an increased production of rubber balls for tennis and golf on the general health of the community - yet it maintains that the only test which can normally be used for all the day-to-day decisions concerning the Red Dawn plant, and the millions of similar day-to-day business decisions made all over the country, is the test of profitability". Polanyi (1946), *Soviets and Capitalism: What is the Difference?*, in: *Time and Tide*, 6 April 1946, p. 317.

<sup>2</sup> Polanyi's paraphrase of the socialist reply is colorfully articulated: "The other half of humanity hates profitability as a guide to economic decisions and would wreck the whole world to prove that it can impose the public interest on economic decisions centrally, without reference, to profit". Polanyi (1946, 317).

values respectively with the "Desires of Man," "greed," and an emphasis on "mathematically progressive breeding" or "planning." Thus, for Polanyi, a "scientific travesty of society" is the common root of the failure of both capitalism and socialism, although they have different strengths and weaknesses that Polanyi analyses individually.

### **3. Capitalism**

At first sight, Polanyi seems to criticize some "theories" of capitalism more than capitalism itself. In particular, in the first part of the article, Polanyi argues against Bentham, Ricardo, Malthus, and others who describe the capitalist system as "a mere machine of interlocking appetites; as a cruel and inexorable robot." Against this view, Polanyi sets Adam Smith's invisible hand "allocating economic resources to a delicately adjusted, infinitely complex pattern" that shows how the capitalist system is rather "a great vision of a harmonious human co-operation," far from the "cruel and inexorable robot" described by Bentham and others. This last picture covers up the "generous and liberating" motives that led up to capitalism, while Smith's view vindicates the positive role of the capitalist system in realizing the free modern society. As Polanyi writes: "[The] true motives of the movement which led up to capitalism were generous and liberating. It had fought lawless feudal oppression. It had eradicated parasitical privilege and opened to each man access to economic opportunities. It had replaced a hierarchy of hereditary bonds by a network of voluntary responsible obligations. It had helped to discover and proclaim the Rights of Man". Incidentally, it is worth noting how this paragraph echoes Marx's tribute to the revolutionary role historically played by the bourgeoisie: "The bourgeoisie, historically, has played a most revolutionary part. The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. It has pitilessly torn asunder the motley feudal ties that bound man to his natural superiors...".<sup>3</sup>

On closer inspection, however, Polanyi's criticism does not aim to just debunk "the fatefully wrong theory which capitalism had given of itself at the opening of the 19th century". Indeed, Polanyi surreptitiously criticizes capitalism itself, acknowledging "the horrors of early 19th century conditions". For example, he mentions the miserable wages, the barbarous use of child and female labor, the lack of protective regulations and inspections in the industry, the ban on strikes and pickets, the inadequacy of sanitary conditions, and the lack of cheap general education. Surprisingly enough, Polanyi's description of early capitalism echoes

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<sup>3</sup> Cf. K. Marx, F. Engels, *The Communist Manifesto*, ed. G. S. Jones, Penguin, 2002, pp. 222 ff.

Engels' analysis of the condition of the working class in England.<sup>4</sup> In this regard, early 19th-century capitalism was actually a "cruel and inexorable robot" demanding "the whole life of society be governed by the laws of the market." For these reasons, "laissez-faire capitalism," as Polanyi identifies 19th-century capitalism, cannot be considered an advantageous guide for economic life.

#### **4. Socialism**

The horrible injustices suffered by workers and the working class's condition were the basis and point of departure of all the socialist movements from the 19th-century forward. In the present piece, Polanyi focuses on the Marxist version of socialism, i.e., communism, and expounds, as in the case of capitalism, both its strengths and weaknesses.

According to Polanyi, Marxism is built on two main pillars. The first one is the idea of the inescapable fall of the capitalist system. As in the case of the early theories of capitalism, this Marxist conviction stems from the "scientific travesty of society" as well, because the alleged fall of the capitalist system is grounded in the "inexorable laws of economic science." These laws establish the impossibility of a "reform under capitalism" and guarantee "the automatic advent of a Millennium." Accordingly, the second pillar of Marxist theory is the idea of a perfect society following the "dead and rotting"<sup>5</sup> capitalist system. This perfect society will be "planned and classless" in order to escape the two fatal flaws of capitalism. On the one hand, it will be planned to put an end to the anarchy of production characterizing laissez-faire capitalism and cyclically producing crises of over-production and under-consumption. On the other hand, the perfect society will be classless in order to promote the optimal development of productive forces, restrained under the system of exploitation of one social class-by another constituting capitalism.

In "Social Capitalism," Polanyi rejects both the idea of an inescapable and imminent fall of capitalism and the rise of a planned and classless society. In the last part of the article, for example, he demonstrates that the elimination of unemployment in Russia was not due to the planned economy and that the same result could be reached under the capitalist system through "the issue of new money, carefully regulated so as to fill the gap between Saving and Investment." At the same time, Polanyi rejects the idea of a classless society because it could

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<sup>4</sup> Cf. F. Engels, *The Condition of the Working Class in England*, Tradition classic, 2012.

<sup>5</sup> Polanyi, *The Socialist Error. Review to "The Road to Serfdom" by F.A. Hayek*. In: *The Spectator*, March 31, 1944, p. 293.

be realized only "if one class mercilessly devoured the other." Even though Polanyi appreciates the "social solidarity" cultivated by Marxism, he points out how, in a socialist country such as communist Russia "a measure of social reform, educational progress and industrial expansion" was gained only through "a maximum of violence, hatred, suspicion and oppression." As in the case of capitalism, thus, Polanyi's analysis of socialism aims to show both its merits and its demerits to conclude that it cannot provide a satisfactory answer to the question about the guide of economic life.

## **5. Polanyi's Solution to the Dilemma**

As discussed above, the underlying problem of the article is the opposition between "profitability" and "social interest" as guidance for economic life. Seen in this light, Polanyi's piece transcends the historical context and addresses a problem still compelling nowadays. Indeed, more than 70 years later, contemporary societies still face this problem.

According to Polanyi's analysis, when we come to the question about the guide for economic life, we face a dilemma. The first horn of the dilemma is "the shackles of laissez-faire," that make capitalism "a mere machine of interlocking appetites, a cruel and inexorable robot" overruling humanity and social justice. The second dilemma concerns the submission of the economic life to the public interest through comprehensive planning, which, Polanyi contends, also entails "a maximum of violence, hatred, suspicion and oppression." In other words, an economic life guided just by forces of the market or just by the State's power and planning always produces undesirable outcomes.

Polanyi's solution is a midpoint between capitalism and socialism. Indeed, according to Polanyi, the guide for economic decisions should not be one-sided. Economic decisions should not be guided only by profitability, nor exclusively by public interest. Consequently, the whole life of society should not be governed by the laws of the market nor by the central planning of the state. "Social Capitalism" advocates exactly the kind of economic life organization that avoids both the horns of the dilemma. Against laissez-faire capitalism, it introduces a measure of social reform aiming to improve the social solidarity of the capitalist system. For this reason, Polanyi praises British capitalism for putting an end to the horrors of early 19th century conditions: the doubling of the wages, the introduction of protective regulations for workers, the legal recognition of the right of Trade Unions to strike and picket, etc. All these are steps of the transition from laissez-faire capitalism to modern social capitalism. At the same time, Polanyi rejects the socialist solution. As he writes in "Social Capitalism," "the monstrous complacency and callousness of Marxism [...] must be radically dispelled" because it is based "on a mechanical theory of history and an empty conception of

economic planning."<sup>6</sup> This conception is "empty" because none of the success ascribed to economic planning is actually due to the planning itself. Indeed, any kind of economic planning at this scale is unfeasible, Polanyi notes in his companion 6 April opinion piece, because "the potency of administrative action is actually very limited and vastly inadequate to the task of rationally distributing coal, labour, etc., between a busy network of thousands of enterprises." This "impenetrable barrier" sets up an insuperable difficulty for the implementation of an economic plan.<sup>7</sup> Any success in the allegedly planned economy in Russia is actually due, Polanyi contends, to "the existence of a commercial network providing effective guidance for the economic system," even though this fact "can be thoroughly obscured and even altogether concealed."<sup>8</sup>

## **6. Afterword. Social Capitalism vs. State Capitalism**

Polanyi's analysis supports the conclusion that "there is little difference left between the workings of State ownership in Russia and Social Capitalism in the West." On the one hand, in fact, "Russian practice has submitted to the necessity of conducting the day-to-day affairs of economic life mainly by the pursuit of commercial profit." On the other hand, "Capitalist practice in the West indicates that all requirements of social justice can be met under private ownership". In other words, in the socialist country *par excellence*, the guide of economic life is the market, while in the capitalist countries, the market can fulfill the socialist aim to guarantee public interest and social justice. Thus, both socialist and capitalist *practice* clash with the *theories* describing them as contrary. Indeed, as Polanyi states in the opening of the article, over the last one hundred years, capitalism has been moving towards greater social solidarity, while socialism has been withdrawing its earlier claims about—planning. Accordingly, here we can see "a continuous process of mutual instruction, crowned by fundamental reconciliation."

Polanyi's conclusion is evidently ambiguous. If we took his solution literally, we should conclude that social capitalism is a system existing both in the West and in the USSR. But this

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<sup>6</sup> Polanyi does not seem to grasp notions about the "dialectic" in Marx but interprets Marx in connection with "mechanism." Moreover, he interprets Marx as an utopian which is likely akin to the "mechanism" he finds in some predecessors.

<sup>7</sup> Polanyi (1946, 317). This is a practical argument against economic planning. However, Polanyi also developed a theoretical argument against it, based on the distinction between planned order and spontaneous (or dynamic) order.

<sup>8</sup> Polanyi (1946, 317).

is not the case. In fact, in his early companion article "Soviets and Capitalism: What is the Difference?", Polanyi defines the USSR system as "State capitalism." State capitalism is a system in which "savings are not allowed to accumulate in thousands of little pools, each serving an individual enterprise, but are collectively stored in one central tank and sluiced from there under public supervision into the little pools of individual enterprises".<sup>9</sup> Here, the state replaces private investors. Instead of letting the market distribute profit or loss to the private investors, under State capitalism, "the investing public of the country bears all risks jointly and dividends are paid to all in the form of cheaper market prices, social services, etc". At the same time, however, "each enterprise might be charged with conducting its business simply for commercial profit and the State might distribute capital on the same lines". In this sense, State capitalism is "very much like private capitalism" even though it could be "sluggish and perhaps sometimes corrupt".

The "little difference left between the workings of State ownership in Russia and Social Capitalism in the West" is thus the difference between State capitalism and Social capitalism. But what is this difference? From an economic point of view, the difference is only a matter of degree. Indeed, both State capitalism and Social capitalism employ, to a different extent, a mix of market economy and public control in order to regulate economic life.<sup>10</sup> Is Polanyi's preference for social capitalism over state capitalism merely a distinction without a difference or does the difference lie somewhere else?

Even though Polanyi does not deal with this problem in the article, here we can try to sketch an hypothesis. Based on Polanyi's discussion about "the organization of society" in *Personal Knowledge*, we could say that social capitalism is preferable to state capitalism because the former is an expression of the "reformist dynamism" in modern society, aiming at "a more gradual approach to perfection" (PK 226), while the latter is a demonstration of the "revolutionary dynamism" in modern society, whose goal is "a sudden complete renewal of itself" (PK 226). In turn, reformist dynamism (social capitalism) is preferable because it refrains "from any radical action towards the establishment of justice and brotherhood" (PK, 260), while revolutionary dynamism (state capitalism), in the attempt to "demolish [the unjust

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<sup>9</sup> Polanyi (1946, 317).

<sup>10</sup> As Polanyi (1946, 317) put matters: "The State can do many useful things in economic life. It handles about one quarter of it under private capitalism. When it owns all means of production it can probably do even more to reasonably good purpose; and some more again without doing excessive harm".

privileges prevailing in a free society] overnight," erects "greater injustices in their place" and "inevitably precipitate men into abject servitude" (PK 260). In this regard, the difference between state capitalism and social capitalism is not simply about economics, but also politics, and Polanyi's preference for social capitalism is ultimately due to his "allegiance to a manifestly imperfect society" (PK 260).

In conclusion, Polanyi's idea of "social capitalism" attempts to find a solution to the problem initially posed by Tocqueville: the problem of the balance between freedom and social justice and equality. In this respect, this short piece is interesting for evaluating the place of Polanyi's thought in the liberal tradition.

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