

From Countering Utilitarianism to Countering Planning: Michael Polanyi's "Social Capitalism" and Its Place in His Social Philosophy

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1. The *Time and Tide* Connection: An Introduction

This short Polanyi article of about 2200 words was an opinion piece published in the British weekly *Time and Tide* which discussed literary and cultural matters but also political and economic topics. The article appeared in the “Notes on the Way” weekly column that had a prefatory note from the editor advising that authors are given “an entirely free pen” (341) and views are not necessarily those of the journal.¹ Like many other editorials and short articles in this and other British weeklies, this short essay is rhetorically well groomed, witty prose and is full of sarcasm. It quickly moves to conclusions at times dramatically stated. Although the era of British weekly publications like *Time and Tide* has now past, these were, until later in the twentieth century, important instruments of public discourse in UK. They were read by an intellectual circle who often had a significant influence in shaping cultural and political affairs.

“Social Capitalism” was published in the 13 April 1946 issue but Polanyi also wrote the “Notes on the Way” column titled “Soviets and Capitalism: What is the Difference?” (about

¹“Social Capitalism” (1946c, 341-342) appears on only two pages in the 13 April 1946 issue of *Time and Tide*. After the first parenthetical citation indicating page 341, subsequent quotations are also from page 341 until there is a parenthesis indicating page 342 and thereafter quotations are from 342. Thanks go to Walt Gulick for reading an early draft of these remarks on “Social Capitalism” and providing helpful suggestions.

1600 words) for the preceding 6 April 1946 *Time and Tide* issue (1946d, 317). The last line in this short essay alludes to the essay coming up in the 13 April 1946 issue. How did Michael Polanyi come to write these brief opinion pieces for *Time and Tide*? In fact, Polanyi wrote many interesting short articles, letters to the editor, and book reviews for journals and newspapers in addition to longer, more scholarly articles. He was actively engaged with the issues of his day and made his ideas known in popular journals like *Time and Tide* that were read by many educated citizens. For several years in the forties and early fifties, *Time and Tide* seems to have been a favorite place Polanyi sent shorter written material. Sometimes, such shorter articles were abbreviated versions of longer talks or essays or, alternatively, shorter essays eventually grew into longer publications. These two April 1946 opinion pieces were preceded by “The Value of Pure Science” (1945d, 1057-1058), published in 15 December 1945, and followed by “The Policy of Atomic Science” (1946b, 749) in the 10 August 1946 issue. There were four publications here in 1947: “Old Tasks and New Hopes” (1947a, 5-6) in January, the companion pieces titled “Organization of Universities I” (1947b, 777) and “Organization of Universities II” (1947c, 802-803) followed in July, and “What Kind of Crisis” (1947d, 1056-1058) was in an October *Time and Tide*. There is then a gap of a few years before Polanyi published another “Notes on the Way” column, “Totalitarianism” (1951, 801-802) in 25 August 1951, and this was followed two years later by “Protests and Problems,” (1953a, 322, 340), and then “Hide-and-Seek” (1954, 886-887), a 3 July 1954 review of Koestler’s *The Invisible Writing*. In total, there were eleven short pieces published in *Time and Tide* over a nine-year period.

The number of Polanyi publications in this journal was in part due to Polanyi’s friendship with Veronica Wedgwood, an editor at *Time and Tide* from 1944 to 1950.² Wedgwood eventually became a celebrated English historian and a long-term friend of Polanyi. She contributed an essay, “The Scientists and the English Civil War,” (Wedgwood, 1961) to the festschrift *The Logic of Personal Knowledge* presented to Polanyi on his seventieth birthday 11 March 1961, and Scott and Moleski (2005, 244) say Wedgwood and Marjorie Grene arranged a grand dinner party for Polanyi to present the book. Polanyi met Wedgwood at the

² The *Encyclopedia of Historians and Historical Writing*, Vol. 2, p.1288 identifies Wedgwood as “literary editor” in this period but she was a “director” of *Time and Tide* from 1948-1958, so her affiliation with this journal continued after she was no longer an editor. On Wedgwood see also Elizabeth Pakenham’s memoir in *Proceedings of the American Philosophical Society*, vol. 143, No. 2 (June 1999), 352-356 and the entry in the 1998 *Contemporary Authors*, vol. 67, 403-407; for additional details about *Time and Tide* see Clay 2018, 273-278.

first meeting of the Mont Pelerin Society in 1947 (Scott and Moleski, 2005, 203), and they began corresponding soon after this April 1-10 meeting. Polanyi's first letter dated 17 April 1947 promises to send a copy of *Science, Faith and Society* (1946) and invites Wedgwood to respond to the book or have it reviewed in *Time and Tide*.³ But Polanyi had already published three short essays, including "Social Capitalism," in *Time and Tide* before he met Wedgwood. Wedgwood likely was familiar with Polanyi because of these earlier publications. After Polanyi began to correspond with Wedgwood, he did mention to her some of his writing projects which eventually led to *Time and Tide* publications. A letter in May 1947, for example, directly asked "Would you please let me have the first half of your Notes on the Way?" (Polanyi to Wedgwood, 6 May 1947, MP Letters-223).

In the following brief discussion of "Social Capitalism," I comment upon a few interesting points in Polanyi's abbreviated argument, linking its perspective to his other writings from the same period.

2. Polanyi's Historical Sketch

In his 6 April 1946 piece, "Soviets and Capitalism: What is the Difference?", Polanyi noted that the Soviet Union has seemingly eradicated unemployment, which was often taken to be the major weakness of British capitalism. But this eradication has been done not through planning but through "the inflationary bias inherent in a system in which the State pays up all

³Although some of the Polanyi-Wedgwood correspondence is in the Michael Polanyi Papers (MPP), some is not. I am indebted to Marty Moleski, S.J., the surviving Polanyi biographer, who kindly sent to me (Moleski to Mullins e-mail 3 February 2020) copies of some letters that the late William T. Scott collected directly from Wedgwood early in Scott's work on a Polanyi biography. Polanyi to Wedgwood, 17 April 1947 is one of these letters and was simply listed as MP Letters 221-222. Scott interviewed Wedgwood and reviewed the collected letters to and from her; after the completion of the biography, Moleski returned letters and other materials collected by Scott to John Polanyi or they were sent to the William T. Scott archive at the University of Nevada, Reno Library. Although the University of Nevada, Reno Library staff is still organizing the William T. and Ann Scott materials, inquiries can be directed to Jacque Sundstrand, Archives/Manuscripts Librarian (jsund@unr.edu). Subsequent references to Polanyi-Wedgwood letters are cited in foreshortened form in parenthesis using Scott's simple system.

loses” (1946d, 317). “Social Capitalism,” Polanyi suggested, will explain this point in the next weekly issue.

Like the preceding week’s opinion piece, “Social Capitalism” began with a general claim that later details in the discussion are intended to clarify and affirm. Referring to the players in the emerging Cold War, Polanyi wrote, “At the end of a long quarrel, it is difficult to remember what it was about.” There is little point in “recalling the original issue unless to show what progress has been made by fighting it out.” Polanyi’s general claim here leads into a brief characterization of British and recent Russian social and political history and to his conclusion that some elements of both British capitalism and the recent Soviet experiment (once regarded as a radical alternative to a market economy) have evolved from their antagonistic origins. The article’s title “Social Capitalism,” as Polanyi later points out, suggested a movement toward reconciliation after what has been previously taken as absolute differences.

This editorial was thus a discussion of the “conflict between Socialism and Capitalism” that contended that both have been significantly transformed in recent history.⁴ Capitalism has acquired “greater social solidarity” and socialism has withdrawn or modified some early claims (and Polanyi mentioned claims of *The Communist Manifesto* of 1848). There has thus been a “process of mutual instruction, crowned by fundamental reconciliation.” Some earlier Polanyi writings which did not directly treat historical transformations of socialism and capitalism nevertheless focused on criticisms of both camps. Polanyi located his own position as one between these two extremes that dominated the political discussion (Mullins, 2013, 162-169). In “Popular Education in Economics” (1937/2016, 19-22), Polanyi bluntly stated the shortcomings of “utilitarianism,” Polanyi’s term for the approach of later figures like Bentham who adapted Adam Smith’s ideas into British social philosophy. In Polanyi’s account, “utilitarianism” became a radical form of economic liberalism. In *The Contempt of Freedom*, Polanyi also sharply criticizes “extreme liberalism” (1940/1975, 56-59).

With respect to socialism, Polanyi appreciatively noted the “social solidarity” that Marxist ideas cultivated and that seemed lacking in British capitalism (1937/2016, 20-22).⁵ However,

⁴ Polanyi later emphasized a similar idea in the September 1955 Milan conference, “The Future of Freedom,” sponsored by the Congress for Cultural Freedom. Polanyi was one of the main organizers of the conference and he focused attention on the false dichotomy between socialism and capitalism. See Coleman’s discussion (1989, 109-111).

⁵ Polanyi strikes the same note in his remarks at the 1938 Walter Lippmann Colloquium in Paris, which focused on Lippmann’s *The Good Society*. Polanyi showed an early version of his

he roundly condemned Marxist ideas about history and class warfare and “the nebulous idea” that in an industrial society “people should produce directly for the needs of consumers instead of making what Marx called, ironically, ‘commodity fetishes’ for the impersonal wants of the market.” This approach Polanyi dubbed “altogether impracticable” and claimed it brought as a “ruinous consequence” what he considers “a breakdown of economic life” in Russia after the revolution (1937/2016, 21).⁶

In “Social Capitalism,” Polanyi affirmed that both sides embraced “some basic errors” which “took their origin in the fatefully wrong theory which capitalism had given of itself at the opening of the 19th century.” Clearly, Polanyi saw Marx’s critique of capitalism as directed toward the earlier wrong account of capitalism as bound up in immutable laws. The root problem seems to be the way in which the early accounts of capitalism focused on ideas about “the unfailing principle of self-interest” and the way in which “supply and demand settled the tasks of all human endeavor and the laws governing profits and wages fixed everyone’s proper share and reward.” Although the share of labor “tended toward the minimum of subsistence,” there seemed to be laws that were “inexorable, as they formed part of the great arrangements preserving the order of nature.” Polanyi thus provided a succinct (and sarcastic) overview of Benham, Ricardo and Malthus and their account of capitalism “at the gate of the 19th century.” Essentially, Polanyi contended that these figures provide a scientific account of the “laws” of the economy.⁷

economics education film and suggested that the “invisible hand” could now be better understood by ordinary citizens (using the new medium of diagrammatic film). For ordinary citizens, the market economy has been perplexing and misunderstood and it offered no significant way to promote social solidarity (which Polanyi appreciated in Marx and in the Russian experiment). This created fragility in modern British society. Now, thanks to Keynes, the market could be de-mystified and better regulated (Reinhoudt and Audier, 2018, 163-166).

⁶ Interestingly, in the Lippmann Colloquium, Polanyi more sympathetically explains Marx’s claims about “commodity fetishism” and “production for needs instead of a production for the market” as an effort to address the “spiritual weakness” of capitalism (Reinhoudt and Audier, 2018, 165).

⁷ “Scientism” is a term Polanyi used in a 2 January 1953 *Manchester Guardian* review of Hayek’s *The Counter Revolution of Science: Studies in the Abuse of Reason* (1953, 3) implying it was Hayek’s term. But he likely used the term earlier than this and, if it is Hayek’s term, Hayek may himself have borrowed the term. Polanyi’s 1953 review suggests “scientism” is a term Hayek first used in 1941 in material published in *Economica* that

This thumbnail sketch of economic history is part of Polanyi's developing grand narrative about how the ideal scientific standard of deterministic law morphed--especially in the hands of social scientists--into something dangerous in modern European politics and culture. This narrative (i.e., Polanyi's critical perspective on critical philosophy) Polanyi has already begun to flesh out more fully about the time this 1946 editorial was published. This is a story that focused on how the development of pervasive modern skepticism about anything less than scientific objectivity soon unites with the increase in modern moral passions, thereby supercharging social expectations. This is "moral inversion" (1951, 4, 106; see also Yeager, 2002, 22-48) which has brought nihilism, violence and totalitarianism in the twentieth century. This crisis of modernity was rooted, for Michael Polanyi, in the misreading and misapplication of science.

It is also worth noting that Michael Polanyi's acerbic account of emerging economic ideas and practices dominant in Britain in the late 18th and 19th century was written soon after the publication of Karl Polanyi's detailed social and economic history of British capitalism, *The Great Transformation* (1944). Correspondence with his brother mentions this book as well as Michael Polanyi's *Full Employment and Free Trade* (1945b) published a year later (Dale, 2018, 166-174). Although Michael almost certainly did not agree with all his brother's conclusions in *The Great Transformation*, in this short opinion piece, Michael Polanyi seems to have absorbed some of Karl Polanyi's insights and passion.

sharply criticized Saint-Simon's theories and projects as pseudo-scientific forerunners of modern ideas about "planned" science. Polanyi likely saw this material in 1941 since he and Hayek were then corresponding about the literature on "planned science" and its origins and particularly about Polanyi's forthcoming *Economica* review article "The Growth of Thought in Society" (1941: 428-456) that criticized a Crowther book promoting "planned" science. However, Polanyi in his 1953 review was somewhat critical of the way in which Hayek seems to construe the term "scientism." In "Social Capitalism," Polanyi was sharply critical of "a new conception of society based on scientific pretensions" (341). Eventually, Polanyi seemed to include under the rubric "scientism" a range of things including narrowly reductionist, materialistic, mechanistic and objectivistic accounts of science. "Scientism" was closely aligned for Polanyi with "positivism" and "empiricism," terms he used somewhat loosely and pejoratively. Polanyi later argued in essays like "On the Modern Mind" (1965, 12-20) that scientific views have shaped modern notions of the mind and have misrepresented the nature and importance of thought. These problems he considered to be important elements of the larger set of general political and cultural problems of late modernity.

Interestingly, Polanyi did not include Adam Smith in his indictment, but suggested that “the discovery of the invisible hand allocating economic resources to a delicately adjusted, infinitely complex pattern was true,” and the invisible hand remained “a great vision of harmonious co-operation.”⁸ Polanyi seems to have recognized both certain virtues and limits of markets and saw Smith as an early theorist who appreciated complexity but one who must be seen against an earlier historical context (see discussion below).⁹ Polanyi’s writing generally reflects his sense of the importance of markets reliant on money for the operation of a rational, large scale, modern industrial system for production and distribution. But he situates this importance in a larger context focusing on the broader values and problems of social organization and public life.¹⁰ Polanyi seemed to have understood Smith primarily as an

⁸ In a lecture “From Adam Smith to Keynes: Full Employment and Free Trade,” (1946a) apparently given in early November 1946 (Scott and Moleski, 2005, 202), Polanyi made interesting summary comments about Smith’s ideas in his opening paragraphs. The focus of the lecture was on Keynes’ views and trade which Polanyi also treated in his book *Full Employment and Free Trade* (1945b) published in the preceding year. But what he said about Smith in his 1946 lecture placed him as an early important figure advocating free trade instead of an economy organized and controlled by the state. According to Polanyi, Smith believed that a free enterprise system could best use resources in production and was a system that was good at adapting to changing situations. Polanyi viewed such a system as having many individual centers and as relying on the individual’s independence and initiative. Smith’s attack on protectionism was in part motivated by a desire to eliminate commercial exploitation and corruption. This account of Smith was one that fits with several Polanyi concerns (see discussion below).

⁹ In his short editorial published in *Time and Tide* the week before “Social Capitalism,” Polanyi briefly analyzed “nationalization” in the Soviet Union (1946d, 317) and he discussed the hypothetical case of the many unanswerable (and not purely “economic”) questions about costs and benefits that economic planners must face regarding a potential expansion of a Soviet rubber manufacturing operation. This was the problem of complexity, a problem which is central to the modern industrial economy. Polanyi at least implied that Smith had somewhat recognized this kind of complexity.

¹⁰ In an unpublished 1945 proposal to establish a new journal of liberal thought, Polanyi said “the fundamental aims of society are of the moral and intellectual order; to foster charity, justice and truth among men. The main practical task of society, and its most prominent activity, is to provide a framework for its members to make a living“ (1945a, 1). Polanyi

early figure who appreciated complexity and much of Polanyi's effort to conceptualize a changing modern social order seems to be focused on reckoning with complexity. Complexity, for Polanyi, was linked to developing specialization in science and social and technological change as well as to the scale and interdependence of modern societies. Smith was interested in specialization in production and distribution. Polanyi's interest in specialization seems to be broader than this and he was particularly concerned with developing knowledge or the "growth of thought" in modern society shaped especially by

presented these basic claims about the nature of society as his starting point for thinking about the economic and political order. Polanyi's effort to rehabilitate liberalism he believed should be grounded in clear thinking about the aims of society and the best way to organize society to promote these aims. In 1946, Polanyi also twice published (1946e, 4-13; 1946f, 197-208) a lengthy scholarly article "Why Profits?" which in great detail (with mathematical analysis) discusses the "poly-centric" problem of the modern economy. This longer article was first published in July in *The Plain View*, a publication of the Ethical Union and then re-published in *Humanitas* (a new but short-lived liberal journal which Polanyi had a hand in creating) as part of a symposium on the profit motive. This longer discussion (likely written about the same time as these April editorials) seems to lie in the background of both "Social Capitalism" and "Soviets and Capitalism: What is the Difference?" Polanyi made a case for the fundamental rationality of the market system reliant on money (i.e., a numerical system). But he clearly recognized that the operation of markets requires some government involvement and such a system would at best never meet utopian expectations. Polanyi re-published "Why Profits?" in a slightly revised form as "Profits and Polycentricity" (1951, 138-153), the penultimate chapter of *The Logic of Liberty*. His last paragraph summed up his perspective as follows:

. . . there exists no fundamental alternative to the system of money-making and profit-seeking. Our modern high-standard economy was built up on this system and its elimination would reduce our economy to the level of subsistence farming. In practice, this would mean the extinction of all the highly industrialized nations of the West. Instead of hankering after the myth of "planned production for community consumption", we must proceed further with the reform of our commercial system. The last century of reform has already humanized capitalist society far beyond earlier hopes. We shall advance even more rapidly and smoothly in future, if we fully recognize at last that we must take our stand on this system and improve and develop its possibilities (1951, 153).

science. This is clear in his important 1941 article “The Growth of Thought in Society.” Polanyi took a special interest in the problems of organizing modern society in a way that fosters the growth of thought and particularly scientific thought; that is, he was interested in the organization of a modern society that can underpin the growth of thought. Science, Faith and Society, his 1946 Riddell Lectures, also reflected this predominant interest. He strongly resisted the “planned” science movement in Russia and Great Britain in the thirties and forties, when “Social Capitalism” was written.¹¹ Polanyi developed ideas about “supervision” in *The Contempt of Freedom* (1940/1975, 36) as a horizontally oriented organizational strategy relying on many centers; in “The Growth of Thought in Society,” he similarly emphasized the importance of society’s many “dynamic orders” (1941, 438) . This horizontal approach was an alternative to the approach of comprehensive planning which he portrayed as a more vertical organizational strategy (1940/1975, 30-35; see also Mullins, 2013). Also, some of Polanyi’s later discussions about corporate order and the management of polycentric problems in Polanyi’s collection of essays from the late forties published in 1951 as *The Logic of Liberty* further developed these ideas (1951, 112-114, 170-184). Complexity seems to require, according to Polanyi, not primarily more careful and comprehensive planning, but a system in which as many decisions as possible can be localized.¹²

In “Social Capitalism,” Polanyi dubbed the original motives of capitalism “generous and

¹¹ In his first *Time and Tide* essay published 7 December 1945, Polanyi linked (1) the movement to abandon pure science in favor of “planned” applied science, and (2) the rise of a “new destructive skepticism” which has fused with “a new passionate social conscience” and together has undermined ideals and produced “extravagant moral demands” in modernity (1945d, 1054). Polanyi made clear that he understands the contemporary destruction of earlier civilization, marked by the watershed Russian Revolution and the emergence of fascism, as “one coherent process of upheaval” rooted in the linkage of radical skepticism and the rise in moral passions (1945d, 1054; see also discussion below). In this essay, Polanyi called for scientists to reject this coupling and the philosophy that goes with it; scientists should return to the “scientific ideals which have fallen into discredit under the influence of the modern philosophical movement” (1945d, 1055).

¹² The preference for comprehensive planning through the work of a bureaucracy Polanyi seemed to regard as a common preference in modernity. Polanyi linked assumptions about comprehensive planning with Marxist and fascist ideas and, more generally, Polanyi implied that ideas about planning grew out of a misreading of science that promulgated certain ideas about knowledge as fully objective and exhaustively predictive.

liberating” and a counter to “lawless feudal oppression” and “parasitical privilege.” Capitalism provided “economic opportunity” and replaced “hereditary bonds” with “a network of voluntary responsible obligations” and “helped to discover and proclaim the Rights of Man.” Like his preceding comments about the evolving history of economic ideas, Polanyi here sketched a broad, historical perspective on the transformation of feudalism. By the mid-forties, Polanyi was clearly attempting to make sense of the way ideas and practices evolved and shaped modern European history and culture, and he frequently articulated views outlining broad historical generalizations. In 1943, Polanyi compared the way Enlightenment ideas were appropriated in England and on the Continent (1943, 372-381). He argued that the British held to their own strongly habituated political traditions and relied particularly on religion to guide social reform whereas on the Continent the “logic of the Leviathan”(Polanyi’s terminology used in 1945c, 116) was more important in shaping ideas about society and in shaping violent political developments. In “Science and The Modern Crisis” (1945), Polanyi more sweepingly argued that the recent upheaval on the Continent commencing early in the twentieth century was “one coherent process of upheaval. The rise of a totalitarian regime in Russia and the growth of Fascism in other European countries will be seen to arise from joint sources” and they represent a “breakdown of a previous system of public life and its replacement by a new one” (1945c, 107).¹³ Liberal civilization in which free institutions were gradually established in many places was being replaced by modern “totalitarian” regimes; such secular regimes (which he distinguished from earlier authoritarian regimes) insisted upon a heretofore unheard of “conformity of views” (1945c, 107).

In “Social Capitalism,” Polanyi very pointedly attacked the neoclassical economists and Bentham’s utilitarian views. They offered utopian visions that Polanyi characterized as in practice dystopian frameworks. These figures demanded “that the whole life of society be governed by the laws of the market” and thus Smith’s appreciation of complexity “was turned into its own travesty” and capitalism became “a mere machine of interlocking appetites, . . . a cruel and inexorable robot.” Importantly, Polanyi identified this “self-debasing deception” as coming from a “new conception of society based on scientific pretention”—this is scientism

¹³ “Totalitarianism” as Polanyi discussed in a 1951 *Time and Tide* editorial, was a late modern development which “represents the culmination of Western critical thought within a social milieu lacking the political restraints imposed by a liberal tradition” (1951, 302). He argued that contemporary Western societies were “unsupported by any philosophically respectable doctrines” and even democratic societies were permeated by a “bookish nihilism” (1951, 302).

turned loose on society. Such an account was reductionistic and it undermines ideals underlying the democratic experiments that arose soon after the scientific revolution. Polanyi thus noted, tongue in cheek, that Bentham did not support the Rights of Man but hoped to build a good society on the “Desires of Man.”

Polanyi was generally more critical of the way mis-readings of science have been used in philosophy and the social sciences than in the natural sciences. He often suggested that bogus social scientific interpretations have disastrously affected modern politics and culture. In fact, Polanyi’s close friend Edward Shils, an eminent social scientist and something of a mentor to Polanyi in the social sciences, was at times critical of Polanyi’s tendency to blame much of the malaise of modern politics and culture on the social sciences.¹⁴ In “Social Capitalism,” Polanyi characterized Ricardo and Malthus as enthusiastically “defining society in terms of greed and of mathematically progressive breeding.” This produces the “scientific travesty of society” in which “mercy becomes unscientific” and sympathy was indicted as “the enemy of welfare.” This rhetorical flourish is a *reductio ad absurdum*. In a final turn, Polanyi concluded his brief account of Bentham, Ricardo and Malthus by invoking the names of two unsavory Dickens characters from *Hard Times* who he proposed stand guard against “any outburst of unscientific generosity.”¹⁵

3. Marx and British Social Reform

Polanyi’s brief and colorful description of the unfolding history of ideas moved from his characterization of the dominant interpretation of capitalism as “unrestrained smash and grab” (342) to equally damning characterizations of socialism and the ideas of Marx who Polanyi

¹⁴ The following Shils’ comment appears in a 5 April 1951 letter to Polanyi (Michael Polanyi Folder, Box 4, Series III, Edward Shils Papers): “I hate to appear to be such a persistent proponent of this poor, weak creature called social science, but just as its more intellectual pretenses cannot stand careful scrutiny, so I also think that excessive charges against its pernicious consequences at least on the basis of its record thus far, must also be moderated.” See the discussion of Shils as a mentor in Mullins, 2019, 97-99.

¹⁵ See Biro, 2019, 17-18 for an illuminating discussion of these Dickens characters. Polanyi criticized *laissez-faire* views that assume there is only one “economic optimum” that the market can achieve. In *The Logic of Liberty*, again invoking Dickens, he affirmed the nineteenth century was a time of “continuous social reform” and that “there exists an indefinite range of relative optima toward which a market economy can tend” (Polanyi 1951, 187).

portrayed as another later version of the mechanistic, scientific and utopian vision underlying extreme laissez faire. Marx emphasized class warfare and anticipated movement in history toward a perfect, planned society: “mechanical laws,” like extreme laissez-faire, guaranteed “the automatic advent of the Millenium.” But Polanyi insisted that while Marx was writing up his indictment of the capitalist system, that system was changing through the “axe of reform” and he cited several concrete nineteenth century British social reforms that he also thought were opposed by “authoritative opinions horrified at the unwisdom of flying in the face of economic necessity.” Apologists for the social repercussions of the factory system appealed for their defense of the status quo to the “inexorable laws’ of economic science.” However, these appeals were overruled.

Polanyi noted a general uneasiness in the period which grew out of the sharp tensions between the strict laissez faire recommendations and the recommendations of Marxists who saw any reform as an attempt to “becloud the issue of class war.” Thus “Social Reform came into its own apologetically, with an uneasy intellectual conscience, among the misgivings of the friends and the jeers of the enemies of the capitalist system” (342). The abbreviated characterization here of nineteenth century British discussions about social reforms is, in a very general way, akin to the “double movement” thesis of Karl Polanyi. Karl Polanyi described how industrial capitalism became more firmly established in Britain in the nineteenth century, and, at the same time, how a counter movement emerged to protect human beings from the harmful effects of this industrialization.¹⁶

¹⁶ Karl Polanyi argued that the kind of mediation of forces in the 19th century ultimately culminated in the modern economic and political crisis of the thirties and forties in the 20th century, linked to the breakdown of the international financial system and the rise of fascism (Dale, 2010, 58-72). “Social Capitalism” is, of course a painfully short essay that is more focused (see especially the last paragraph) on (1) moving beyond “false theories which perpetuate the apparent conflict between Socialism and Capitalism” and (2) Michael Polanyi’s claim that the “machine” of the market is “indispensable” but “need not overrule respect for humanity and social justice.” Nevertheless, Michael Polanyi did, like his brother, posit a “modern crisis,” although it was not a crisis that Michael Polanyi describes largely in terms of the way the market system developed in the nineteenth century in the European context. Michael Polanyi’s “modern crisis” was the outgrowth of the way in which science came to be misinterpreted. This produced scientific views that indeed did have devastating effects on economic and political development, as “Social Capitalism” briefly suggests. But Michael Polanyi was more focused on the way science itself has been mis-represented and was being

4. Recent Russian History and Politics and Unemployment

The last section of “Social Capitalism” shifted from British social history to the case of recent Russian history and politics. Polanyi emphasized that Marxist ideas about class warfare have undergirded the violence and social disruption in the period after the Russian Revolution. However, the Marxists “brought a measure of social reform, educational progress and industrial reform,” although, he ironically noted, the same social reforms had been “quietly achieved” elsewhere without “Marxist guidance.” Polanyi generally identified Lenin with the arrival in modernity of revolutionary political violence and in another *Time and Tide* article, “Old Tasks and New Hopes,” published the next year, he contrasted Lenin’s actions with Wilson’s proposals for world peace at the end of World War I: the “conflict between two rival impulses, of Wilson and Lenin, has dominated history since 1918” (1947c, 5). Lenin’s innovation was that he provided a practical application of Marxism and Marxism held true social progress could be achieved only with the abolition of capitalism. Lenin’s actions showed that this was done with force:

Real progress can therefore be achieved only by preparing for a revolutionary situation and then applying force to the utmost. There is no need and no use then for any appeal to reason or justice, and no occasion for relying on the machinery of self-government. Any talk about the rule of law, about organized world opinion or about a peaceful association of nations stands exposed as an empty pretense. One sentiment only matters: the hatred of capitalism (1947c, 5).¹⁷

In his comments on recent Russian affairs, Polanyi also noted that despite the “great display of vigorous economic action” by the Russian government, that government was “guided in

destroyed along with the democratic political foundations of modernity which ground science and modern life. Michael Polanyi contended that the moderate political and economic liberalism he supported has been undermined by critical philosophy and this was undermining democratic liberalism everywhere and has opened the way for totalitarianism.

¹⁷ Later in *Personal Knowledge*, Polanyi discussed “modern dynamic societies” as of two types, those in which the “dynamism is revolutionary” and those in which “dynamism is reformist”. The former were modern totalitarian societies that subordinate “all thought to welfare” and the latter were modern free societies that “accept in principle the obligation to cultivate thought according to its inherent standards” (1958/1964, 213).

most of its day-to-day decisions by the pursuit of commercial profits.” This is a point he came back to at the very end of the essay. Polanyi consistently argued from the thirties forward that Stalin-era improvements in the Soviet economy were achieved by incorporating market mechanisms, though these were not acknowledged (1937, 29-30).

Polanyi argued in the last several paragraphs of his short essay that it was not in fact economic planning in Russia that eliminated unemployment, as was frequently assumed. He scoffed at the idea that real economic planning in a capitalist context could be used to eliminate unemployment. But Polanyi did outline how a Keynesian approach can be used in a market context to address unemployment. Thus, Polanyi returned, at the end of “Social Capitalism,” to the point he had promised to clarify at the conclusion of his preceding 6 April 1946 *Time and Tide* opinion piece, “Soviets and Capitalism: What is the Difference?”

The Soviets announced unemployment had been eliminated on 9 Oct. 1930 in a period of “unparalleled economic chaos.” In such turmoil, it was not economic planning that addressed unemployment but “an entirely unwanted inflationary expansion” that absorbed the unemployed. This expansion “originated in the wholesale paying up by the Soviet Government of all losses incurred by its enterprises” and this “inflationary bias” continued to produce a demand for labor. What Polanyi then pointed out was that a similar approach to addressing unemployment could be used outside Russia. Keynesian theory made clear that unemployment is not inherent in capitalism but is “an incidental defect” that

can be eliminated without any other ‘planning’ than is involved in the maintenance of an appropriate budgetary deficit. What is needed is the issue of new money, carefully regulated so as to fill the gap between Saving and Investment.

This is, of course, what Polanyi argued in *Full Employment and Free Trade* (1945b), Polanyi’s primer on Keynes’ insights that was published the year before “Social Capitalism.”

Issuing new money fills “the gap between Savings and Investment.” Polanyi acknowledges that such a policy might be inconvenient and might “involve dangers” but such a policy is “the same under public and private ownership.” He admits that a certain “severity” may be required, and totalitarian governments may have a “doubtful advantage” in imposing severity that “no free country would tolerate.” Polanyi insists, however, this strategy for expanding the money supply to address unemployment, whether inside or outside the Soviet Union, has nothing to do with comprehensive economic planning. His more general point is that there is “little difference left between the working of State ownership in Russia and Social Capitalism in the West.” The term “social capitalism” thus becomes, in Polanyi’s hands, a term that

describes a more aggressive Keynesian monetary policy in the West where he believes the “indispensable machine” of capitalism can be made to operate with a certain “respect for humanity.” He contrasts this potential for respecting persons with the demonstrated “monstrous complacency and callousness of Marxism” with its “mechanical theory of history and an empty conception of economic planning.”

He ends his piece by suggesting that the contemporary understanding of the Cold War conflict between radically different free enterprise capitalism and socialist communism rests on a double mythic misunderstanding. By understanding how capitalism and socialism have evolved, “we shall be rid of a conflict between a fiction [capitalism’s self-correcting markets] and a fable [Soviet rejection of markets] and turn to deal again with real problems.”

This short editorial with its provocative title raises an interesting contemporary question. “Social Capitalism” hints at the outline of Michael Polanyi’s mid-20th century vision of a capitalism with a human face. Although today the term “social capitalism” is not used in contemporary public conversation, the term “social capital” now has importance. In fact, the Nobel Laureate Joseph Stiglitz wrote in his Foreword to the 2001 reprint of Karl Polanyi’s *The Great Transformation* that Karl Polanyi’s book was an early one in the history of economics and political theory that paid attention to “social capital” and suggested its importance for today’s economics. Karl Polanyi was a figure who made clear that markets by themselves do not produce efficient or equitable outcomes. Stiglitz noted that by the end of the century almost all economists “recognize both the power and limitations of markets, and the necessity that government play a large role in the economy, though the bounds of that relationship remain in dispute” (Stiglitz, viii). Karl Polanyi focused on the economy and society and how this shapes the way persons relate to each other and Stiglitz argued (see also Stiglitz, 2019) a perspective attentive to the concerns of “social capital” is sorely needed to counter the ideas of neoliberalism that have dominated after the end of the Cold War. Those interested in the thought of Michael Polanyi will, hopefully look more closely at his social, political and economic thought and see that he too was interested in “social capital.”

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