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Author(s): Lewis E. Hill and Eleanor T. von Ende

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# **Towards a Personal Knowledge of Economic History:**

## ***Reflections on Our Intellectual Heritage from the Polanyi Brothers***

By LEWIS E. HILL *and* ELEANOR T. VON ENDE\*

**ABSTRACT.** Our intellectual heritage from the Polanyi Brothers: Michael, the scientist-philosopher, and Karl, the economic historian, is explicated. Michael Polanyi's *post-critical philosophy* of personal *knowledge* is explained and analyzed.

*Michael Polanyi* applied his *philosophy* to develop a powerful historical epistemology and methodology. The classic economic history, *The Great Transformation*, by *Karl Polanyi* is analyzed and interpreted as a prototypical example of a historical work which utilized and applied Michael Polanyi's historical *epistemology* and *methodology*. It is concluded that the Polanyi Brothers have developed a powerful *historical epistemology* and have applied their methodology to expand historical knowledge beyond the limits of the "new" *economic history*.

### I

#### **Introduction**

DURING THE 1950S AND 1960S the "new" economic history emerged to dominate historical scholarship in the United States. According to Douglass C. North, this new economic history consists of the use of quantitative analysis to test and to verify hypotheses concerning economic growth and economic welfare. The hypotheses are always drawn from economic theory; the verification always involves the use of statistical tests (North, 1966, 1-14). While the testing and verification of hypotheses may be useful in specific research situations, it is our opinion that this usefulness is extremely limited and that, therefore, the statistical testing of theoretical hypotheses lacks general applicability in historical scholarship.

The "old" economic history seeks to achieve a broader purpose: to compile a broadly humanistic and insightfully interpretative record of past human experience in order to increase our understanding of the present and to secure greater control over the future course of human development for the purpose of enhancing human welfare. In short, the old economic history uses the past

\* [Lewis E. Hill, PhD., is professor and chairman of economics, and Eleanor T. von Ende, PhD., assistant professor of economics at Texas Tech University, Box 41014, Lubbock TX 79409-1014.]

in the present for the purposes of the future, in order that humankind can achieve a better quality of life in the future than that which existed in the past. These more general, and therefore more important purposes, can be achieved only through the application of the old economic history to the course of human experience.

Karl Polanyi, the older of the brilliantly insightful Polanyi brothers, has written one of the best of the old economic histories. In his classic book, *The Great Transformation* (1944), he traces the rise and fall of the politicoeconomic system which was based on the dogmatic belief in the infallibility of the self-regulating market. He elucidated the dangerously urgent problems which grew out of this system, and he explained how the efforts to solve these problems ultimately undermined the absolute acceptance of the self-regulating market.

Michael Polanyi, the younger brother, was a distinguished scientist who became an even more distinguished philosopher. He formulated his broadly phenomenological and intensely anti-rationalistic post-critical philosophy of personal knowledge, which he offered as an alternative to secular rationalism, logical positivism, cultural relativism, and philosophical nihilism. Then, Michael Polanyi extended his system of thought to include a post-critical philosophy of history and historiography. His purpose in doing so was to justify and to authenticate the historical scholarship of his older brother, Karl Polanyi.

Although *The Great Transformation* (1944) was published more than a decade before Michael Polanyi's major philosophical works, this chronology will be reversed in order to facilitate an easy and clear exposition of this subject matter. First, Michael Polanyi's post-critical philosophy will be offered as a model historiography for the writing of economic history; then, Karl Polanyi's masterpiece will be proposed as an excellent example of an economic history which conforms to this model.

## II

### **The Post-Critical Philosophy and Historiography of Michael Polanyi**

MICHAEL POLANYI, the younger of the two brothers, was first a physician and a medical officer in the Austro-Hungarian army, then a distinguished physical chemist of international repute, and finally an even more distinguished philosopher who may be remembered as the greatest epistemologist of the twentieth century (M. Polanyi, 1966b, 91). His obsessive concern for freedom of thought led him to develop his post-critical philosophy of personal knowledge (M. Polanyi, 1946, 7-19). This philosophy was broadly phenomenological in the sense that he believed that no person could acquire a real knowledge of acquaintance of anything without experiencing that thing in a uniquely personal manner (M.

Polanyi, 1966a; Farber, 1966, 11). Polanyi was intensely antirationalistic because he believed that secular rationalism had undermined the moral values, which are fundamental to Western Civilization (M. Polanyi, 1960 and 1966c).

Michael Polanyi clearly distinguished between two fundamentally different kinds of knowledge: explicit knowledge and personal or tacit knowledge. Explicit knowledge consists of that knowledge which can be expressed symbolically in words, numbers, diagrams, and other symbols, and which can be communicated and taught to other people through the verbal and mathematical articulation of these symbols. Conversely, personal or tacit knowledge consists of that knowledge which cannot be expressed explicitly and which cannot be communicated or taught to others through the verbal and mathematical articulation of words, numbers, diagrams, and other symbols (M. Polanyi, 1959, 12–13).

The ability to acquire or learn and to communicate or teach explicit knowledge is a unique quality of the human species which elevates humankind above all other species and creates the power for men and women to dominate the earth. One person can quickly and easily share explicit knowledge with other people in such a manner as to contribute mightily to the accumulation of a tremendously large stock of pure and applied knowledge. This knowledge can then be used to establish and maintain humankind's mastery over the earth and over all of its creatures. Indeed, civilization is simply our heritage of explicit knowledge which each older generation has passed down to each younger generation throughout the long history of humankind on this small planet (M. Polanyi, 1959, 11–27).

But most of the things that we know, and the most important things that we know, fall into the classification of personal or tacit knowledge. Personal or tacit knowledge includes all nonverbal or preverbal knowledge which precedes and underlies explicit knowledge. Personal or tacit knowledge ranges from knowing the most basic pre-verbal skills that are necessary for the functioning of the body, such as breathing, eating, elimination, vocalization, and locomotion, and extends through the acts of genius that are required for the discovery, the comprehension, and the application of all genuine novelty. Personal or tacit knowledge is always involved in learning: learning to comprehend and to understand the meaning of language; learning to interpret and to understand all explicit knowledge; and learning all complex skills, such as swimming, driving an automobile, reading, and playing a musical instrument (M. Polanyi, 1958, 69–131, and 1966a, 3–25).

The distinction between explicit knowledge and personal or tacit knowledge transcends another fundamental distinction between focal awareness and subsidiary awareness. Polanyi believed that the comprehension and understanding of reality requires the integration of a subsidiary awareness of the parts of reality

into a focal awareness of the whole of reality. This process of integrating a subsidiary awareness of the parts into a focal awareness of the whole can be illustrated by analyzing any complex skill. In order successfully to perform complex skills, such as riding a bicycle or playing tennis, a person must very precisely coordinate an extremely large number of mental, sensory, and muscular activities. The skilled person will always have only a conscious or focal awareness of the integrated whole of the skill; he will always have only a subconscious or subsidiary awareness of the particular parts of the skill. This integration of the subsidiary awareness of the particular parts into a focal awareness of the integrated whole is always absolutely necessary for the acquisition of knowledge and the achievement of understanding (M. Polanyi, 1958, 55–65).

Michael Polanyi utilized the distinction between subsidiary and focal awareness in his explanation of the cross-sectional or epistemological dimension of learning. This dimension of learning always consists of integrating a subsidiary awareness of the particular parts of some aspect of reality into a focal awareness of the integrated whole of that aspect of reality. In some respects, this analysis is similar to gestalt psychology, but there is one great difference. The gestaltists always conceived perception to be entirely passive; but Polanyi always insisted that the learner must participate very actively in the act of learning, which consisted of integrating subsidiary awareness into focal awareness in order to know and to understand reality (M. Polanyi, 1959, 27–9).

Another dimension of learning, which includes a substantial axiological content, is chronological or historiographical. This dimension of learning requires a very careful evaluation of historical experience, and the extrapolation of the lessons of history from the past, through the present, and into the future. The evaluation of past historical experience must be based on some theory of normative value. Michael Polanyi warned his readers to avoid the rationalistic fallacy of dogmatic logic, the relativistic fallacy of cultural relativism, and the deterministic fallacy of cultural determinism. Rather, Polanyi advocated the acceptance of and compliance with Western Civilization's traditional moral values, such as truth, justice, and charity (M. Polanyi, 1958, 71–99; 1959, 71–9; 1961, and 1966c).

According to Michael Polanyi's post-critical epistemology, the active participation of the learner in the act of learning always involves two great creative forces: creative imagination and emergence, both of which are vitally important components of personal or tacit knowledge. Creative imagination is the psychological force which empowers the learner to leap across the logical gaps in the learning process to ascend from lower to higher levels of awareness. Creative imagination empowers the learner to comprehend and to understand the hidden relationships among the particular parts of a reality and between the particular parts and the integrated whole for that reality (M. Polanyi, 1959, 27–39, and

1966b). Emergence is the epistemological force which intervenes between the cause and the effect to introduce into the effect some element of true novelty which was not implicit in the cause. In the learning process, the element of true novelty is the comprehension of the hidden relationship which had not been comprehended previously. At a higher level, creative imagination and emergence are always involved in scientific discovery and technological innovation (M. Polanyi, 1966a, 29–52).

Michael Polanyi insisted that the personal participation of the learner in the act of learning does not impair the validity or the authenticity of the knowledge. The calling of literate man is to seek the truth through disciplined and responsible inquiry. The personal commitment of a literate person which follows and results from this disciplined and responsible inquiry validates and authenticates knowledge as true. Truth, therefore, is always based on faith or belief which results from a disciplined and responsible personal commitment; truth is never based on reason or rationalism (M. Polanyi, 1958, 249–354, and 1959, 41–70).

Michael Polanyi's post-critical philosophy of personal knowledge implies a historiography or historical epistemology and methodology. The purpose of history can be conceived to be the interpretation of the past experience of humankind in such a manner that it can be used to control the future and to make the future better than the past. If Polanyi's historical epistemology is to be utilized for this purpose, then the historian should seek to acquire a personal knowledge of history by proceeding through three initial stages. First, the historian should conduct careful research to collect and to evaluate all of the relevant historical facts in order to acquire a subsidiary awareness of these historical facts. Second, the historian should evoke his creative imagination in order to integrate his subsidiary awareness of these historical facts into a focal awareness of the historical process as an integrated whole. Third, this historical process should be evaluated carefully according to the norm of traditional moral values, and the lessons of history should be extrapolated from the past, through the present, and into the future (M. Polanyi, 1959, 71–99, and 1961).

The craft of the historian also includes the talent and the responsibility to translate his personal or tacit knowledge into an explicit knowledge of history through the use of words, numbers, maps, diagrams, pictures and other symbols. This responsibility of the historian extends to sharing his talent by communicating his explicit knowledge of history to other people and by teaching the craft of the historian to his students.

It is our conviction that Michael Polanyi's historiography or historical epistemology and methodology would increase the validity and usefulness of historical scholarship. If more historians were to apply Polanyi's epistemology to historical scholarship and to utilize his historiography, then perhaps future gen-

erations of the human species might cease to be the victims of their fate and become the masters of their destiny.

### III

#### **Karl Polanyi's Interpretation of Economic History**

MICHAEL POLANYI'S PHILOSOPHY of personal knowledge implies that history should be conceived as an interpretation of society's past experiences to understand the present and to influence the future. Karl Polanyi's commitment to such a conception of historiography is evident in all of his works. In particular, in the opening pages of *The Great Transformation* (1944), Polanyi describes his undertaking:

Ours is not a historical work; what we are searching for is not a convincing sequence of events, but an explanation of their trend in terms of human institutions. We shall feel free to dwell on scenes of the past with the sole object of throwing light on matters of the present; we shall make detailed analyses of cultural periods and almost completely disregard the connecting stretches of time; we shall encroach upon the field of several disciplines in the pursuit of this single aim (K. Polanyi, 1944, 4).

In this brief passage, Karl Polanyi reveals that his purpose in this work is not "history for history's sake." Even though his immediate objective may have been to describe the nineteenth century expansion of the market institution and the deleterious social consequences of that expansion, his ultimate concern was clearly with the relevance of that expansion to the present—at the time of publication, the midst of the Second World War—and the future. Polanyi fervently believed that the rise of twentieth century fascism was a somewhat predictable outcome of the social and economic dislocation caused by attempts of world economies to adhere to a self-regulating market system. According to Polanyi, society simply could not survive the complete fracture of social relations necessary for a self-regulating market system:

Our thesis is that the idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society. . . . Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way (K. Polanyi, 1944, 3).

As such, *The Great Transformation* is really a theory of the conflict of social and economic institutions—in particular, the expansion of the market institution—and the social consequences of this expansion. At the core of Karl Polanyi's theory is his belief that the essence of humankind has been and will always be his social existence. While Polanyi conceded that economy was a natural part of any society, he emphasized the unnatural character of any economy that relied on the motivations of self-interest and the pursuit of individual gain:

No society could, naturally, live for any length of time unless it possessed an economy of some sort; but previously to our time no economy has ever existed that, even in principle, was controlled by markets. In spite of the chorus of academic incantations so persistent in the nineteenth century, gain and profit made on exchange never before played an important part in human economy. Though the institution of the market was fairly common since the later Stone Age, its role was no more than incidental to economic life (K. Polanyi, 1944, 43).

Polanyi argued that the abrupt change in the type of economy that occurred in the nineteenth century had overwhelming ramifications for the whole organization of society because it divorced the individual's social existence from his economic existence. This transformation was hastened by the "discovery" of economics and the subsequent sheer dominance of the market economy in society:

. . . it mean[t] no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system [K. Polanyi, 1944, 57].

Even though the story of the Industrial Revolution had already been told many times, Karl Polanyi's work offered a sharp contrast to traditional economic histories. The differences in methodology serve to illustrate Michael Polanyi's philosophy of history, in which the historian evokes his creative imagination to fuse all relevant facts into an integrated whole. Traditional analyses were confined to the relatively "recent" period of history in which the propensity to truck, barter and exchange were found on a considerable scale. This narrow perspective could falsely persuade us that these "new" motivations were the result of a natural evolution of humankind. On the contrary, Polanyi asserted that: "Mankind was in the grip, not of new motives, but of new mechanisms." (K. Polanyi, 1944, 219). Furthermore, he wanted to call our attention to the danger of insisting that the true beginning of the history of our civilization coincided with the publication of Adam Smith's *Wealth of Nations*:

Unconsciously, this led to a weighting of the scales in favor of a marketing psychology, for within the relatively short period of the last few centuries everything might be taken to tend towards the establishment of that which was eventually established, i.e. a market system, irrespective of other tendencies which were temporarily submerged. The corrective of such a "short-run" perspective would obviously have been the linking up of economic history with social anthropology, a course which was consistently avoided (K. Polanyi, 1944, 44-5).

A long-run perspective would underscore that the so-called "inevitable" evolution of *homo economicus* was not natural at all; these individuals were instead unwilling maximizers, driven by the fear of starvation. Karl Polanyi believed that the key to a cognizance of the "lessons of history" was the search for aspects of human behavior which were universally applicable to market and non-market economies, modern and primitive societies, and for this he acknowledged



the influences in his own research of economic anthropologists (Stanfield, 1986, 27–33).

Yet in spite of all its wealth and variety, the flow of history has its recurrent situations and alternatives which account for the broad similarity in the texture of the events of an age. We need not trouble about the fringe of unpredictable eddies, if we can account to some degree for the regularities which governed currents and countercurrents under typical conditions (K. Polanyi, 1944, 218).

Karl Polanyi would argue that the modern economists' willingness to disregard the characteristics of primitive and preindustrial economies as "irrelevant to the question of the motives and mechanisms of civilized societies"—in particular, the community as the common economic, as well as noneconomic, reference point—has distorted the understanding of our own economic life (K. Polanyi, 1944, 45). Even though traditional historians were aware of these "facts", the failure to integrate this awareness into their accounts of the economic development of the nineteenth century has invalidated their scholarship. Further, it is not so much that either Karl or Michael Polanyi would disagree with the work of the new historians, but rather they would argue that the fundamental construction of the economy itself must first be understood prior to attempts to describe or explain incidental economic "happenings" in historical isolation such as the determination of specific commodity prices—that is, to comprehend the "economic phenomenon"—historians must first understand the social laws which are the operative forces. It is our conclusion that if historians today place the developments of the modern world economy into perspective following the lead provided by Karl Polanyi in *The Great Transformation*, a true evaluation of the historical process may be made so that future generations may truly benefit from this retrospective wisdom.

#### IV

#### **Conclusion<sup>1</sup>**

Any scientific or historiographical methodology consists of two phases. The first phase is affirmative and creative; it involves the logic of discovery which produces new ideas and hypotheses. The second phase is negative and destructive; it involves the logic of verification which tests the validity and usefulness of ideas and hypotheses in order to confirm them as true or to disprove them as false. The first phase is by far the more important of the two because it creates all of the new ideas and original hypotheses which scholars utilize in their search for scientific or historiographical truth. The second phase is much less important because its function is limited to the destruction of the false ideas and wrong hypotheses which are produced by a misuse or a malfunctioning of the creative

phase of the methodology. Clearly, creation is more important than destruction, and the creative logic of discovery is far more vitally essential in the quest for scientific and historiographical truth than the destructive logic of verification.

Douglass C. North, a pioneer cliometrician, has defined the new economic history in terms of the logic of verification. He excludes the logic of discovery from cliometrics and assigns this important function to economic theory:

It is impossible to analyze and explain the issues dealt with in economic history without developing initial hypotheses and testing them in the light of available evidence. The initial hypotheses come from the body of economic theory that has evolved in the past 200 years and is being continually tested and refined by empirical inquiry. The statistics provide the precise measurement and empirical evidence by which to test the theory. *The limits of inquiry are dictated by the existence of appropriate theory and evidence* (North, 1966, 1–2).

Verification is a necessary part of the scientific method. The logic of verification performs an essential function in the quest for scientific or historical truth, but it is important to inquire into what any verification procedure can and cannot achieve. A valid verification procedure can provide evidence which would tend to confirm or to contradict a hypothesis, but it can neither prove nor disprove any hypothesis conclusively.

Sir Karl Popper has demonstrated long ago that verification can never prove a hypothesis (Popper, 1965, 27–48). No one can prove that all crows are black by examining the color of the crows that he has empirically observed because the next crow that he sees may be white. No amount of empirical testing will assure a scientist that his hypothesis will pass the next test to which it is subjected. More recently, Professor Emile Grunberg has argued that empirical testing and verification can never disprove an economic hypothesis (Grunberg, 1966, 148–165). In order to test an economic hypothesis, it is always necessary to assume that the parameters remain constant during the period of the testing. If the results of the test contradict the prediction that has been made from the hypothesis, then it can never be determined whether the contradiction resulted from a defect in the hypothesis or from a failure of the *ceteris paribus* assumption to hold with respect to the parameters.

The Polanyi brothers used their post-critical philosophy of personal or tacit knowledge to extend historical knowledge beyond the limits of the new economic history. First, they emphasized the creative logic of discovery and ignored the destructive logic of verification. Then Michael Polanyi placed explicit and personal knowledge into the right perspective by emphasizing that personal or tacit knowledge is not only the basic foundation of all human knowledge but also the ultimate essence of truth. This basic knowledge and this essential truth can never be verified, but it can be authenticated by the responsible personal commitment of a dedicated and disciplined person. Finally, Karl Polanyi used

this historiographical method to broaden the concerns of economic historians beyond the limits of the market economy and extend this concern to the full range of cultural anthropology. Moreover, he pushed the chronological limits of history back beyond the beginning of literacy. In this manner, Michael and Karl Polanyi have explicated a methodology through which responsible and dedicated scholars can discover and authenticate the truth. It is to be hoped that more scholars will use this powerful methodology in the future as they seek to know the truth.

### Note

1. Lewis E. Hill, who wrote part IV of this essay, assumes full and exclusive responsibility for the ideas and opinions expressed or implied in this "Conclusion." Eleanor T. von Ende wishes to disassociate herself from this material and to disclaim all responsibility for these ideas and opinions.

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