

# THE GREAT LIE: MARKETS, FREEDOM AND KNOWLEDGE<sup>1</sup>

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## 1 INTRODUCTION

A central feature of neo-liberal thought is the twin claim that firstly, markets are more efficient at resource allocation than centralised government planning, and secondly that central planning leads to infringements on the freedom of individuals. The first argument is often justified through Hayek's 'problem of knowledge' – the problem of co-ordinating all the diverse knowledge required for central decision-making. This connection between markets, co-ordination and knowledge has apparently become a deeply-held belief, even on the part of some left-leaning academics (Wainwright, 1994, Hodgson, 1999). This chapter challenges this connection by suggesting that its history reveals the social and political context for two significant and related intellectual inventions – Hayek's 'problem of knowledge' and Michael Polanyi's 'tacit knowledge'. These inventions will both be shown as politically-motivated intellectual devices, as opposed to the reasoned advancement of thought. The story emerged during my research into the relationships between the history of computing and the parallel changes in

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<sup>1</sup> Versions have been presented to a number of audiences and I am grateful for all comments: – “**Knowledge, Economy & Society**”, **ESRC Seminar, LSE Information Systems Dept., 14/6/02**; internal research conference, Dept. of Human Sciences, Brunel University, 12/1/02; “The world wide web of neo-liberalism”, Rosa Luxemburg Foundation & Berlin Social Science Centre, 1/12/01; “Knowledge Management: Concepts & Controversies”, conference at Warwick University, 10/2/00.

social, economic and political theory<sup>2</sup>. One part of that research entailed uncovering exactly how 'knowledge' had come to be seen as an entity that could be studied and managed to such an extent that people would start talking about 'managing knowledge', and about a 'knowledge economy' or a 'knowledge society'<sup>3</sup>.

This chapter will suggest that the emergence of the notion of 'knowledge as a unit of analysis' can be traced through two separate problematisations<sup>4</sup>, that were however closely connected in terms of the ideas, concepts, political critiques, and the personnel involved. In the early years, from the 1920s to the 1940s, these connections were especially evident in their political positions with respect to the Russian Revolution, the varieties of Marxism, and concerns about totalitarianism, especially couched in terms of 'freedom versus planning'.

In the first strand 'knowledge', and specifically the sociology of knowledge, emerges as a pivotal issue in debates within political and social theory about questions of science, culture, ideology and the role of intellectuals in social change.

In the second strand, new 'problems' of knowledge are mobilised in debates within economics and political economy over 'scientism' in methodology, about the relative merits of markets versus planned economies, and about the character of complex markets which rely on the distribution of data and information.

Crudely speaking, both strands have at their heart the opposition between 'knowledge and freedom' versus 'ideology and totalitarianism'. More specifically, there is a determination to develop critiques of, and alternatives to Positivist

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<sup>2</sup> This chapter is a drastically shortened version of Ch. 4, "The Emergence of 'knowledge' as a unit of analysis in economic, social and political theory, 1900-1979", in Hull, 2001.

<sup>3</sup> See also Prichard *et al*, 2000, and Hull, 2000.

<sup>4</sup> See Castel, 1994, for discussion of 'problematisation' as an object of historical study

methods in social science, philosophy and the natural sciences. In the course of this, the understanding of knowledge is transformed from the traditional Analytic and Positivist position that it is something that is only of interest in terms of whether it is true or false, into something that can take an increasingly wide range of forms and types, and can additionally be mapped and measured.

The two problematisations became more closely linked in the UK between the 1930s and late 1940s, as the ideas of four key refugee intellectuals – Michael Polanyi, Friedrich Hayek, Karl Mannheim and Karl Popper – moved closer together. We have described in detail elsewhere (Hull, 2001) the ways in which the ideas of Polanyi, Popper and Hayek became even further bound together as they each worked within the Mont Pèlerin Society, and we have described how the notion of ‘knowledge as a unit of analysis’ was helped into the public policy sphere through the (unwitting) involvement of Daniel Bell. Here, however, we are principally concerned with the earlier history.

## **2 KNOWLEDGE, THE STATE, SOCIETY & THE ECONOMY**

We start with the first decades of the 20<sup>th</sup> century, for it is here that we begin to see extensive debates about the ‘problem’ of knowledge in relation to firms, society, the economy and government. Whilst some might suggest that contemporary debates are merely rediscovering the insights of Thorstein Veblen, published at the turn of the century, it is clear from close reading of the relevant texts that Veblen’s discussions of “knowledge” and economics was a part of his argument about the role of institutions within ‘socio-economic evolution’, it was not an argument about ‘knowledge’ *per se*. Later however, Austrian economists began in the 1920s in Vienna to debate the possibilities for ‘socialist calculation’ which centred around the determination of ‘value’. The debates (without explicitly citing Veblen or other ‘institutionalists’) accepted the unorthodox role of institutions, and accepted Veblen’s notion of “habitual knowledge” or rather “technique of thought” (Hayek, 1935, page 210), but the debates problematised the use of “knowledge” within the economic calculations made by individuals and by ‘socialist planners’. However, before discussing those debates we shall

sketch developments in Budapest which were essential elements of the intellectual and political background<sup>5</sup>, namely the debates between Lukács and Mannheim, and the close connections to both Michael and Karl Polanyi.

## 2.2 Budapest - Lukács and Mannheim

In Budapest the Syndicalism of George Sorel had been transposed to Hungary by Ervin Szabó, the “leading Marxist of the time”<sup>6</sup>, with *Syndicalism and Social Democracy* (1908) calling for a ‘moral-cultural revolution’ and for “‘direct action’ against those parliamentary and party activities within which the working class movement had seemed to lose its ‘revolutionary spirit’” (Nagy, 1994, 85). Two groups of intellectuals were inspired by Szabó’s work:- the Gallilei Circle, which formed in 1908 and included Karl Polanyi and Michael Polanyi, with Karl as first ‘president’ (Szabó was first cousin to the Polanyi brothers<sup>7</sup>); and The Szellemek (The Sprites) which existed between 1916 and 1919 and included Bela Bartok, Karl Mannheim, and George Lukács<sup>8</sup>. Whilst the Gallilei Circle were focussed on the ‘moral-cultural’ and the Hungarian Nationalist aspects of Szabó’s work, and hence became a somewhat fashionable educational circle both for ‘workers’ and for radical liberal literary and cultural figures, The Sprites were focussed around determined intellectual opposition to what they saw as the ‘mechanical materialism’ of Orthodox Marxism, and advocated a distinct “‘revolutionary culturalism’”. An additional forum was the journal *The Twentieth Century*, which became a focus for debates about Fabianism, Marxism and Syndicalism.

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<sup>5</sup> All discussions of the Vienna ‘socialist calculation debates’ that we have seen (e.g. Hodgson, 1998c; 1999; Wainwright 1992; 1994; Murrell, 1983) unfortunately ignore these earlier aspects of the background.

<sup>6</sup> Nagy, 1994, p85. Further details, especially of Szabo and his relation to Lukács, can be found in Lichtheim, 1970, although it should be noted that there is some disparity between Lichtheim’s accounts and those of Nagy, 1994, and Jay, 1974. See also Mucsi, 1990.

<sup>7</sup> See Annex E, The Pollacsek/Polanyi Family Tree, in Polanyi-Levitt, 1990.

<sup>8</sup> Details of The Sprites are drawn from Jay, 1974.

In addition to the works of Szabó, The Sprites took as their 'manifesto' an essay by Mannheim titled "Soul and Culture" which was the source for "revolutionary culturalism". However, when Lukács joined the Communist Party this apparently came as quite a shock to The Sprites, and especially to Mannheim<sup>9</sup>. Up to this point Lukács had maintained an intellectual position that pointed away from such a political move. In 1910 *The Soul and the Forms* had reflected his involvement with the Heidelberg School and Dilthey's utilisation of the concept of *Geisteswissenschaft*, or 'science of the spirit'. From 1913-14 Lukács moved explicitly towards Hegel intellectually, and towards Sorel politically, and this was reflected in his 1916 *Theory of the Novel*.

From 1919 to 1922 he wrote a series of essays for journals such as *The Twentieth Century* and the journal of the Gallilei Circle, then edited by Karl Polanyi, which were published together in 1923 as *History and Class Consciousness: Studies in Marxist Dialectics*. These marked his final break with the Romantic and 'aestheticist' elements of *Geisteswissenschaft*, but also his notorious break with the dialectical materialism which had become the official line of the Marxism-Leninism of the Second International and its attempts to 'Bolshevise' the various national sections. The break with earlier formulations of *Geisteswissenschaft* came in the form of asserting that only the proletariat could possess the *total* vantage point required of *Geisteswissenschaft*, because only they were both the subject and object of history through their position within the labour process. The break with dialectical materialism came with the argument that Engels had misunderstood Kant and Hegel, that Marxism had no bearing on the natural sciences, and that the materialism of the Enlightenment (and the natural sciences) was 'the ideological form of the bourgeois revolution' – in other words, he repudiated the Orthodox Marxist doctrine which, in opposition to

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<sup>9</sup> Details on the debates between Mannheim and Lukács are from Jay, 1974, and Lichtheim, 1970.

Hegel's supposed 'idealism', understood 'materialism' as meaning that 'matter' was more fundamental than 'spirit'. However, following Lukács' acceptance back into the mainstream folds of the Second International, he refused to defend this position, especially from the attacks from Mannheim, until 1962, and that defence fell instead to the early proponents of Critical Theory in the Frankfurt Institute.

Jay (1974) argues that Lukács' intellectual and political shift, especially after the 1923 publication of *History and Class Consciousness*, had a decisive effect on Mannheim's thinking and writing. Prior to 1924 he had argued in an unpublished essay "On the Peculiarity of Cultural-sociological Knowledge", that there was no relation between the validity of values and their social origin, and that sociological analysis could neutrally judge values. In 1924, though, he argued in "A Sociological Theory of Culture and its Knowability" that "conjunctive" knowledge - by which he meant the moral, cultural, practical knowledge of *Geisteswissenschaft* - was indeed linked to social origin. He also argued, as did many at that time, that the rise of bourgeois society had meant the unfortunate domination of what he called "communicative" knowledge (i.e. that arising from the natural sciences). However, *contra* Lukács, he argued that "conjunctive" knowledge was the preserve of intellectuals, whereas Lukács had argued it was only the proletariat who could gain the proper vantage point. At this point, then, Mannheim was only somewhat adrift from Lukács, and explicitly acknowledged his indebtedness to him. By 1929, however, with Mannheim's *Ideology and Utopia*, Lukács was relegated to a footnote, and with the 1931 essay "Wissenssoziologie" which was appended to later editions of *Ideology and Utopia*, he singled out Lukács for attack, saying he failed "to distinguish between the problem of unmasking ideologies on the one hand and the sociology of knowledge on the other"<sup>10</sup>. Mannheim had also in *Ideology and Utopia* developed his thesis that it was the intellectuals as a 'collectivity' who were able to gain totalistic knowledge. By this he meant that the partial validity of individual

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<sup>10</sup> Mannheim, 1936, page 310, quoted in Jay, 1974.

perspectives, gained from their diverse social origins and engagements with the world, and hence their 'relativism' individually, could be overcome and a truth appropriate to the period would be gained through what Jay calls a "dynamic synthesis of partial truths" (Jay, 1974, p178).

This, to my mind, bears a striking resemblance to Hayek's concept of 'spontaneous order', which was echoed by Polanyi<sup>11</sup>, and which gave rise to the neo-Liberal notion that the 'market' synthesises partial perspectives on prices into an overall perspective that is appropriately 'true' to its time. However, staying with Budapest, we have seen so far that the emergence of 'knowledge', explicitly as a unit of analysis, was intimately bound to a particular set of critiques. It was firstly a critique, shared by the Sprites, of the Hungarian Social Democratic Party, the Second International, and their 'mechanistic' forms of organisation and government. It was secondly a critique of Lukács' particular later ideas about who, exactly, was able to gain the best view of the 'social totality'. However, these critiques had also emerged in the context of debates about what we will call here 'the ethics of intellectual activity', and debates about science. The Analytic philosophy of Bertrand Russell had assumed a particular ethics of intellectual activity, a positive<sup>12</sup> ethics about which one could validly speak, just as one could validly speak about science, supported by Russell's 'theory of knowledge'. This analytic and 'pro-science' tradition was challenged in Germany by both the neo-Kantians and the Heidelberg school, and Wittgenstein, Lukács and Mannheim each responded in particular ways. Wittgenstein used

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<sup>11</sup> Polanyi wrote "Planning and Spontaneous Order" in 1946 as a paper for the Manchester School of Economic and Social Studies, and which later formed a chapter in *The Logic of Liberty* (1951). However, the substantive aspects of his concept of 'spontaneous order' are quite distinct from Hayek's.

<sup>12</sup> 'Positive' in the sense used by Rose, G. (1981) when discussing Adorno's critique of 'methodologism', which she describes as "any neo-Kantian kind of pure logic, which grants validity to an autonomous method and its objectifications, which is 'positive' in the general sense of suppressing the social and historical preconditions of its own possibility" (p.32).

logic in opposition to science and the ‘theory of knowledge’ to argue that ‘ethics cannot be put into words’ and that it was possible to clearly establish what science could and could not say about the world; Lukács essentially abandoned the notion of any ethics of intellectual activity, and abandoned science, just as he abandoned his intellectual colleagues in favour of the Party; and it was left to Mannheim to attempt to preserve and maintain a valid role for intellectuals, and in other words to preserve a positive ethics of intellectual activity, whilst developing what was, in embryonic form, a ‘post-positivist’ sociology of knowledge.

### **2.3 Budapest - The Polanyi Brothers**

The Polanyi family was a radical, intellectual and influential family, hosting many drawing-room salons up till 1919, entertaining many of the leading intellectuals including Lukács and Oszkár Jászi, the founder of the journal *The Twentieth Century*. Between the establishment of the Gallilei Circle in 1909 until well into the 1930’s the brothers shared a similar outlook. At first ‘free-thinking, atheist, and anti-clerical’, they both became interested in Tolstoyan Christianity in the aftermath of the 1914-18 war. However, Karl became more directly involved in politics with a 1909 essay in *The Twentieth Century*, “The Crisis of our Ideologies” (which prefigured his notions of stages of capitalist development), and then helped to establish the National Radical Bourgeois Party with Oszkár Jászi in 1914. Michael, on the other hand, moved towards what he called “The New Scepticism”, publishing an essay of that title in the Gallilei periodical in 1919. This argued that “scientists and artists, ‘men of spirit’, must ... erect the church of the new scepticism, and await the coming of those enlightened ones who no longer believe in politics. It was politics which had entangled the world in war”<sup>13</sup>.

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<sup>13</sup> Nagy, 1994, pp 88-89, paraphrasing Michael Polanyi’s essay,.

Michael visited the Soviet Union in 1933 and became concerned that state control was “corrupting” the sciences, and in 1935 published an attack on the economic policies of the USSR<sup>14</sup>. In 1934 a serious rift opened with Karl, initially over relations between Michael's wife Magda, and Karl's wife Ilona Duczynska, who was a scientist and political activist, and had been expelled from the Hungarian Communist Party for “Luxemburgist deviation”<sup>15</sup>. The rift became more serious with Michael's 1935 paper on the Soviet Union. Before that, they still shared an interest in the ‘Christian Left’, and we can surmise that it was Karl who introduced Michael to J.H.Oldham, editor of the *Christian Newsletter*, who later formed a discussion circle called The Moot, which Michael attended, and which included Mannheim. Mannheim had by now also moved to the UK and begun “his growing movement to the right” (Jay, 1974, page 183), and the specific translation of *Ideology and Utopia* into English in 1936 “had moved it in a far more pragmatist direction than the German original” (*op cit*). The rift between the Polanyi brothers deepened along with the increase of Karl's sympathies towards the Soviet Union during the 1930's.

We shall return to the development in Michael Polanyi's political and philosophical thinking, his involvement with Hayek, and his invention of the concept of ‘Tacit Knowledge’. For the moment though we can already see the glimmerings of a reflection, in this divergence of the brothers' views, of the debates between Mannheim and Lukács<sup>16</sup>. Michael and Karl were re-presenting and re-posing the necessarily inter-related arguments about who, exactly, was in the best position to gain valid understandings of the ‘social-totality’ – was it science, intellectuals, faith, or the proletariat – and how could political

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<sup>14</sup> See Prosch, 1986; Nagy, 1994. Additional details of Michael Polanyi's papers and correspondence are drawn from Cash, 1996.

<sup>15</sup> Dalós, 1990, page 38.

<sup>16</sup> McRobbie (1994) suggests that Lukács was “a friend of Karl's” (p50) and that they had corresponded since 1908, although it is not clear how long this continued. In 1918 he invited Lukács to contribute to a special issue of a journal he edited (Litván , 1990, p33).

commitments and actions be integrated with particular positions about those valid understandings?

### 3 VIENNA, CALCULATION, AND KNOWLEDGE

We now turn to the Vienna of the 1920s, site of one of the most famous experiments in Municipal Socialism, and also of the emergence of the Logical Positivism which Michael Polanyi (along with Karl Popper and Hayek) later reacted so strongly against. It will be here that we see the origins – once again within political debates – of a quite separate problematisation of ‘knowledge’, where it becomes mobilised within debates about the possibility of a centrally-planned economy, and the consequences of such an economy for ‘freedom’.

Rosner (1990), introducing his discussion of Karl Polanyi’s work on ‘socialist accounting’, argues that :

“[After] the collapse of the political order in 1918 ... the quest for a new economic order arose; but it could no longer be confined to abstract concepts of a better society without exploitation. It had to demonstrate the feasibility of the economic organization of a socialist society. Unfortunately, there did not exist any basis for such a discussion.” (*ibid*, p55).

Wainwright (1992) lends some support to this diagnosis. She points first to the earlier *privatseminars* in Vienna, most famously those of Ludwig von Mises and Bohm-Bawerk, in which prominent intellectuals would debate problems and issues about liberalism, social democracy and socialism. She then argues that the ascension of ‘socialist economists’ to the first Austrian Republic in 1918 together with the ‘socialisation programme’ proposed by Bauer and Schumpeter, “in effect made public the debates of the *privatseminar*” (page 8). Another key element was the work of Otto Neurath, advocate of a Logically Positivist brand of scientific Marxism, who served as Head of the Planning Department of the brief Munich Soviet Republic, and in 1919 argued, from the ‘lessons of the war

economy', for a centrally planned economy (or more precisely a 'natural economy' - *Naturalwirtschaft* - one without money or prices) in which economic calculations could be made without reference to prices, and could instead rely solely on *in natura* calculations based on statistics, technical production relations and input coefficients: "Neurath considered the planned organization of the economy to be a purely technical question, not a political one" (Rosner, 1990, page 56).

Against this background Ludwig von Mises, then Secretary of the Vienna Chamber of Commerce and organiser of one of the most prominent *privatseminars* which included Friedrich Hayek and Fritz Machlup, wrote a paper arguing that "rational economic activity is impossible in a socialist commonwealth" and that "he who expects a rational economic system from socialism will be forced to re-examine his views" (von Mises, 1920, page 130). The paper was a detailed and lengthy argument against Neurath, Bauer, Engels and Lenin, but it was also an argument against *any* state intervention in the economy, on the grounds that such intervention would inevitably lead to a completely centrally-planned economy, which would in turn be devoid of any 'rational economic system'. Many commentators have suggested that this paper held a pivotal role in subsequent debates about 'socialist calculation' and central planning of the economy<sup>17</sup>, and Keizer (1994) suggests that its translation and publication in English in 1935 "transposed the hitherto Central European

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<sup>17</sup> Wainwright, 1992; Rosner, 1990; Keizer, 1994; Desai, 1994; Mendell, 1990. Hayek certainly considered the paper to be central, and reprinted it in *Collectivist Economic Planning*; and both Hayek and Mises considered Karl Polanyi's responses to be among the most important - see Appendix B of *Collectivist Economic Planning*, 'Selected Bibliography'; and Hayek, Mises and other founder members of the Mont Pèlerin Society considered Polanyi's *The Great Transformation*, 1944, to be one of the four books at the time requiring a response from 'liberals' - see Hartwell, 1995.

calculation debate to the Anglo-Saxon economic forum” (*ibid*, page 209)<sup>18</sup>. Keizer also argues that Hayek’s subsequent 1937 paper “Economics and Knowledge” arose directly from his involvement in those debates.

Von Mises (1920) argued that under ‘simple conditions’ it was possible to make a judgement of the value of goods and that theoretically a ‘labour theory of value’ and a socialist system would be feasible. However, when there are a variety of lengthy processes of production and “a bewildering mass of intermediate products and potentialities of production” (*ibid*, page 103) other methods are required for the valuation of goods and the means of production. These other methods can only be based on private property, the personal incentives that bestows, and an “exchange economy” because “the human mind cannot orientate itself properly” around that ‘bewildering mass’ (*op cit*).

This question of the “bewildering mass” was later to reappear as a central theme of Hayek (1937), as was von Mises’ argument about the benefits of an exchange economy in terms of making calculations about future uncertainty.

Karl Polanyi responded to the von Mises paper, and then again to the replies from von Mises, between 1922 and 1925<sup>19</sup>. He argued firstly, in common with von Mises and *contra* Neurath, that “accounting” would be impossible in a centrally planned economy but he did not accept their common assumption that socialism implies a centrally planned economy, instead focusing on a decentralised society with multiple units of decision-making. His aim was to

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<sup>18</sup> In addition, Cockett (1994) quotes Lionel Robbins' description of his 'conversion to economic liberalism' from his previously-held belief in Guild Socialism:

"In reaching this conclusion I was considerably influenced by the examination by von Mises of the possibilities of economic calculation under total Collectivism" Lionel Robbins, *Autobiography of an Economist*, (Macmillan, 1971) page 106; quoted by Cockett (1994) page 26.

<sup>19</sup> See especially Mendell (1990) on these debates, but also Rosner (1990).

introduce the guild-socialist ideas of G. D. H. Cole and Robert Owen (Rosner, 1990) whilst maintaining a “principal focus on the means to satisfy individual needs: the basic human needs of Marx, not the narrow material needs implicit in neoclassical economic theory” (Mendell, 1990, page 68). He was in essence trying to effect a “moderate” balance between the excesses of a rigid adherence to either Marx’s theories of value, or those of classical political economy<sup>20</sup>.

There are two reasons for mentioning Polanyi’s intervention. Firstly, his method of achieving this difficult balancing-act was to strictly separate accounting from economic theory, which prompted a criticism from Hayek in terms of the ‘knowledge’ element in both accounting and economic calculation. Secondly, his later book *The Great Transformation* (1944) was seen as one of the four main challenges to ‘liberalism’ that prompted the establishment by Hayek in 1947 of the Mont Pèlerin Society. Although Polanyi’s ideas had relatively little influence on the socialist calculation debates, which were eventually ‘settled’ through the responses of Lange, Lerner and Dickinson and ideas about ‘market socialism’<sup>21</sup>, his arguments clearly nettled von Mises and especially his ardent student Hayek. In 1935 Hayek published *Collectivist Economic Planning* which included Mises’ original paper, two other papers on “the problem of value” and “the possibility of adequate calculation” in socialist societies, together with a long introduction and concluding essay by Hayek. And in the concluding essay we see the first move to delineate what others have since called “the Hayek knowledge problem”<sup>22</sup>:-

“In a centrally planned society this selection of the most appropriate among the known technical methods will only be possible if all this knowledge can be used in the calculations of the central authority. This means in practice that this knowledge will have to be concentrated in the

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<sup>20</sup> Polanyi’s idea of socialism was in fact attacked by a prominent Marxist of the time, Felix Weil, in 1924 (Rosner, 1990, page 61). Weil had by then financed the establishment of the Frankfurt Institute for Social Research in 1923 (Kellner, 1973, page 44).

<sup>21</sup> See Wainwright (1992) and Keizer (1994).

<sup>22</sup> Keizer, 1994, page 215, citing Kirzner, 1984.

heads of one or at best a very few people who actually formulate the equations to be worked out. It is hardly necessary to emphasize that this is an absurd idea even in so far as that knowledge is concerned which can properly be said to 'exist' at any moment of time. But much of the knowledge that is actually utilised is by no means 'in existence' in this ready-made form. Most of it consists in a technique of thought which enables the individual engineer to find new solutions rapidly as soon as he is confronted with new constellations of circumstances. To assume the practicability of these mathematical solutions, we should have to assume that the concentration of knowledge at the central authority would also include a capacity to discover any improvements of detail of this sort" (Hayek, 1935b, pp 210-11).

Hayek has here 'translated'<sup>23</sup> the arguments about calculation, accountancy and planning into questions about 'knowledge' – its nature (whether 'ready-made' or as 'technique of thought', which clearly resembles Veblen's discussion of 'technological', 'habitual' and 'commonplace knowledge'), its distribution (whether 'concentrated' or not), and its utilisation (whether the central authority is capable of continually acquiring the required knowledge). Hayek then builds on this argument in order to turn his attack on ideas, principally from Dickinson between 1930 and 1933, about introducing competition and pricing into a socialist society.

To summarise this section then: commencing with debates in Vienna about the possibilities for 'socialist calculation', we have seen the emergence of our second strand in the problematisation of 'knowledge as a unit of analysis', the strand that poses 'knowledge' as an issue for economists, and more specifically those economists and other scholars with an active interest in the governmental

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<sup>23</sup> To use a term from Actor Network Theory (Callon 1986, 1992), in which actors translate between the interests of others and their own through devising intermediary terms and concepts.

questions of 'freedom and planning'. We now move to the UK between the 1930s and 1950s, then home to so many of the intellectuals who had fled from Central Europe.

#### **4 LONDON & MANCHESTER**

Those émigrés arrived to find a Britain still curiously locked into the Logical Positivism they had thought moribund. As Magee (1973) notes, the 1936 publication of Ayer's *Language, Truth and Logic* 'imported' the Vienna School's Logical Positivism which then came to dominate philosophical and metaphysical thinking in the UK (and indeed the US) at least until the 1953 publication of Wittgenstein's *Philosophical Investigations* and the turn to 'linguistic analysis'. We might speculate then – with some justification, as we shall see below – that the people which concern us – Michael Polanyi, Friedrich Hayek, Karl Mannheim and Karl Popper – found themselves in a situation which they perceived as potentially dangerous, intellectually and politically, for they associated Positivism with Marxism and Totalitarianism, and they saw danger in the contemporary and closely related 'scientism' which attempted to apply positivist scientific methods to social and economic spheres. To allow Positivism and its cousin 'scientism' to go unchallenged was to open the door to the 'scientific Marxism' they had experienced in Budapest and more strongly in Vienna.

Their responses differed in some respects, but they stemmed from the same problematic – how to develop meta-theoretical positions (about Science, Economics, Sociology and Philosophy, respectively) which could challenge Positivism whilst retaining the validity of 'positive' (in a weak sense) understandings, descriptions and prescriptions for the world. In brief, the responses of Polanyi, Hayek, Mannheim and Popper were cast in terms of, respectively:- the central role of 'tacit knowledge' in science; how 'problems of knowledge' repudiated central planning; how the 'sociology of knowledge' proved the importance of free intellectuals; and how scientific objectivity could be gained

through falsification rather than Positivism. The fact that these four men shared the same problematisation, the same dilemma, meant firstly that they were more inclined read and borrow from each other's work. Secondly, it meant that their responses provided, by the late 1950s, a particular set of intellectual resources (such as 'tacit knowledge', the 'sociology of knowledge', the 'distribution of knowledge', and 'science's requirement for open societies') that could then be mobilised by those such as Daniel Bell and Fritz Machlup, who more firmly cast 'knowledge' as a unit of analysis, within the overall separation of 'knowledge and freedom' from 'ideology and totalitarianism'.

In grouping Polanyi, Hayek, Mannheim and Popper in this way, we are not implying that they formed any sort of explicit group, of the form which had been so popular in Budapest and Vienna, and there is no evidence of such a gathering or network. Nor are we implying that they were in agreement on all matters, and indeed some significant disagreements over the respective roles of the State and markets emerged later. They were however obviously known to each other, they did correspond, they did write publicly about each others work, they were each sometimes funded by similar 'foundations' and similar sources of grants, and they did meet – each of these in various configurations of sub-groups. Mannheim is perhaps the most 'outside' of the four, and we have only found evidence of close contact with Polanyi, although Hayek and Popper were evidently well aware of his work. Polanyi met with Hayek and Popper in the early Mont Pèlerin Society meetings from 1947, and had earlier joined Hayek in 1938 in the 'gathering of liberals' in Paris<sup>24</sup> and invited Popper to speak in Manchester, whilst Popper encountered Hayek in 1936 at the Hayek-Robbins seminar at the London School of Economics<sup>25</sup>. Hayek was the first to move to the UK, in 1931, taking a chair at the LSE; Michael Polanyi moved to Manchester in 1933, whilst Popper arrived at

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<sup>24</sup> 'Le Colloque Walter Lippmann', 1938 – see Plehwe & Walpen, this volume

<sup>25</sup> Cockett (1994) page 80, citing Popper's *Unended Quest: An Intellectual Autobiography*.

the LSE in 1945, taking a post that had been 'secured' for him by Hayek<sup>26</sup>, and Mannheim moved to the UK in the mid-1930's.

A number of strands run through their intellectual development in this period. There was first what Cockett (1994) calls the 'crisis of liberalism' during the 1930s – the perception by liberal economists that Keynesian notions of planning dominated government policy and economic thought – and the various post-war activities directed at promoting the intellectual foundations of liberalism and combating Communism. It was in this period also that Hayek began explicitly to discuss the role of 'knowledge' within economic theory, which we shall discuss in more detail below. Finally there were Michael Polanyi's concerns about science being directed and planned by the State, and the consequent intellectual attempts to separate science from scientism, which we also discuss.

## **4.2 Economics and knowledge**

In 1936 Hayek presented his paper "Economics and Knowledge" as his Presidential Address to the London Economic Club. This was later published in *Economica*, and reprinted in Hayek (1949). It is focussed on the assumptions made by economists about the knowledge 'possessed' by members of society, but is also a discussion of the knowledge conveyed by economic analyses, and hence of the philosophy of economics. In other words, the paper mobilises arguments about the role of knowledge in (economic) society in order to argue for a radical shift in economic theory away from its preoccupation with equilibrium analyses. First of all we see Hayek's acknowledgement to Popper in the very first paragraph, clearly signalling support for his attack on Positivism by replacing verification by falsification as one of the key principles of scientific method. With this critique of Positivist methods in economics, the direct assault on equilibrium analyses, and the context of Hayek's other arguments against socialist and Keynesian economists – who all at that time relied essentially on Positivist

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<sup>26</sup> Cockett (1994) page 85.

methods and equilibrium analyses – the paper is clearly an attempt to undermine the very foundations of prevailing mainstream economics.

The discussion first turns to foresight, planning, risk and uncertainty, to argue for a significant difference between analysis of the plans and actions of an individual, and analysis of the actions and plans of a group of individuals. With constant reference to the assumptions of equilibrium analysis, Hayek argues that the assumptions of such analyses are only a special case of “the more general problem of how knowledge is acquired and communicated” (page 46), with passing reference to different views on this between economists and sociologists. In the course of this discussion he executes a manoeuvre which shifts consideration of ‘correct foresight’ to consideration of ‘relevant knowledge’.

Having made a distinction between ‘knowledge’ and ‘relevant knowledge’, he turns to ‘the conditions under which people are supposed to acquire the relevant knowledge and the process by which they are supposed to acquire it’ (page 48), and from there to discussion of “how much knowledge and what sort of knowledge the different individuals must possess” (page 50). Here we see Hayek making an enormous interpretative leap from von Mises’ discussions of the ‘mental division of labour’, to Hayek’s formulation of the ‘problem of the division of knowledge’. Asking the question “what is this relevant knowledge?”, he states “Clearly, there is here a problem of the *division of knowledge* which is quite analogous to, and at least as important as, the problem of the division of labour”. The italicised ‘division of knowledge’ is accompanied by a footnote “Cf. L. v. Mises” followed by a quote from von Mises in German:

“Die Verteilung der Verfügungsgewalt über die wirtschaftlichen Güter der arbeitsteilig wirtschaftenden auf viele Individuen bewirkt eine Art geistige Arbeitsteilung, ohne die Produktionsrechnung und Wirtschaft nicht möglich wäre”

We have had this translated<sup>27</sup>, making reference to the linguistic sense in use in Austria at the time von Mises was writing:

“In a Social Economy, functioning on the basis of the division of labour, the distribution, among many individuals, of the power of disposition over economic goods, effects a kind of mental division of labour (‘geistige Arbeitsteilung’ – translator’s note) without which the calculation of costs and the operation of the economy would be impossible”.

So here Hayek *creates* and *invents* the ‘problem of the division of knowledge’ from what are very flimsy foundations – the distinction between ‘relevant’ and other knowledge, and speculations about the ‘mental division of labour’ – and along with this problem he offers a number of solutions. Some have already appeared, by posing the questions of ‘how much’ and ‘what form’ of knowledge is required for particular situations. Others appear later, as Hayek briefly suggests that the correspondence between ‘subjective knowledge’ and ‘objective facts’ can best be addressed by “*verstehende* social science” (signalling support for Mannheim) rather than the “behaviourist approach”<sup>28</sup>; this suggestion is broadened to argue that a key problem is how the combined operation of collected “fragments of knowledge existing in individual minds” can achieve superior ‘results’ to any individually developed plan; and finally that this combined operation of collected fragments, this “spontaneous action of individuals”, provides an answer to the ‘problem’ of the ‘social mind’. Hayek has succeeded here in mobilising the emerging concept of a ‘sociology of knowledge’ – the social science of the ways groups and societies produce and distribute particular types of knowledge – and giving it his own particular spin into the concept of

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<sup>27</sup> By Theo Balderston, Department of History, Manchester University, to whom we extremely grateful.

<sup>28</sup> Page 52, footnote 18. ‘Verstehende’ social science at that time referred to the social study of the understandings and cognitions of groups, societies and cultures – precisely the format of Mannheim’s work.

'spontaneous order', all in support of his particular political opposition to socialism.

Hayek's focus on 'how much and what sort of knowledge' was mobilised again in his 1945 paper "The Use of Knowledge in Society" (Hayek, 1945), where again the principle aim of the paper appears to be to refute collectivist arguments, this time Schumpeter's *Capitalism, Socialism and Democracy*. Here, he states more baldly that "the economic problem of society is ... a problem of the utilization of knowledge which is not given to anyone in its totality" (pp 77-78); that "the problem of what is the best way of utilizing knowledge initially dispersed among all the people is at least one of the main problems of economic policy – or of designing an efficient economic system" (pp 78-79); and that "the most significant fact about this [the price system] is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to make the right decision" (page 86). A further significant feature of this paper, however, is the distinction made between knowledge and information: citing the example of 'statistical information', he argues that much of the knowledge he is concerned with cannot be represented in statistical form, because it is the "unorganized" knowledge of particular circumstances.

### **4.3 Michael Polanyi on Science**

In the 1964 Torchbook edition of *Personal Knowledge* Polanyi writes:

"[the] enquiry of which this volume forms a part started in 1939 with a review article on J. D. Bernal's *The Social Function of Science*. I opposed his view, derived from Soviet Marxism, that the pursuit of science should be directed by the public authority to serve the welfare of society. I held that the power of thought to seek the truth must be accepted as our guide, rather than be curbed to the service of material interests."<sup>29</sup>

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<sup>29</sup> As quoted in Prosch, 1986, page 16.

As Prosch (1986) suggests, Polanyi at this time was considerably concerned with the ‘tendency’ of intellectuals to “flirt with Marxist and other proposals for planned cultures” (page 16). In other words he shared Hayek’s concerns, although from a quite different ‘Christian Left’ perspective. From 1935 onwards he wrote a series of articles and reviews on the value of autonomous science and the danger of attempting to plan it, and his chief target was what Prosch calls “the concerted movement in the 1930s to deprive science of its autonomy” (page 15). Some of these numerous essays and articles were later republished in *The Logic of Liberty* (1951) – although it should be noted that in many other respects he supported Keynesian policies. He also, as Prosch notes, “lent his support to various societies and conferences of scholars where efforts to plan science were exposed as deathtraps for science”. This included establishing, in 1941, the Society for Freedom in Science, along with J. R. Baker<sup>30</sup>, and later lending active support to the Mont P lerin Society, the Congress for Cultural Freedom (its reliance on CIA funds was not then known), and its English affiliate the Committee on Science and Freedom<sup>31</sup>. This support paid dividends, as Polanyi later received grants from the CCF, the Rockefeller Foundation, and the Volker Fund<sup>32</sup>, who also supported the Mont P lerin Society.

This then forms part of the context in which Polanyi *invented* and *created* the concept of ‘tacit knowledge’, just as Hayek had invented ‘the problem of the division of knowledge’. However, before elaborating on this we must mention another crucial aspect of the context, namely Polanyi’s assault on objectivity. Starting with his 1936 paper ‘The Value of the Inexact’ in the journal *Philosophy of Science*, he addressed what he came to see as one of the two key causes of contemporary social and economic problems. This was the obsession with rationality, an obsession held by both scientists and planners alike with the goal of complete and perfect objective knowledge, the belief that this was the only

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<sup>30</sup> Cash, 1996.

<sup>31</sup> Cash, 1996.

<sup>32</sup> Polanyi, 1958, Acknowledgements, page ix.

reliable knowledge, and the concomitant belief that all personal and subjective elements of knowledge were merely disturbances and essentially unreliable. From at least 1953 if not earlier, he dubbed this as 'scientism', as we can see in the following review of Hayek's *The Counter Revolution in Science*, where Polanyi includes a long quote from Hayek:

“ ... ‘The most dangerous stage in the growth of civilisation may well be that in which man ... refuses to accept or to submit to anything he does not rationally understand’ and ‘this may well prove a hurdle which man will repeatedly reach, only to be thrown back on barbarism.’ If this be true then modern ‘scientism’ is merely a waywardness, due to a deeper and indeed a total instability of reason at its present level of consciousness. It may appear then also that only by curing this basic disorder can we hope to prevail against the variety of delusions that have arisen and must continue to arise from it.” (Polanyi, 1953, p3).

This mission of ‘curing this basic disorder’ was precisely what Polanyi was then attempting with *Personal Knowledge* and his later works. There is however, a final aspect of the context for this work. As we have mentioned above, at some time in this period Polanyi joined the Christian Left group The Moot, convened by J. H. Oldham, to whom Polanyi gave acknowledgement in the Preface of *Personal Knowledge*. Mannheim was also a member of this group and, whether or not they met there or elsewhere, Polanyi and Mannheim certainly became friendly and corresponded regularly<sup>33</sup>. Polanyi had initially been hostile to Mannheim, in earlier years<sup>34</sup>, but later softened towards him, perhaps after Mannheim's shift away from Lukács and his amendment of the English edition of *Ideology and Utopia*. Polanyi clearly came to regard Mannheim's work with great

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<sup>33</sup> Cash, 1996.

<sup>34</sup> Jeremy Shearmur, who has been researching the relations between Polanyi, Popper and Hayek during this period, believes that Polanyi was originally hostile to Mannheim, but that this softened after Mannheim came to the UK (personal correspondence, 24<sup>th</sup> September 1998).

interest and respect, as can be seen in Polanyi's reviews in *The Manchester Guardian* at precisely the time he was writing *Personal Knowledge*: "Mannheim's thought ... has woven itself closely into the intellectual fabric of our time" (Polanyi, 1951b). And more specifically, reviewing Mannheim's 1952 collection *Essays on the Sociology of Knowledge*:

"History ... bears out his analysis of the modern mind which, having consented to regard its own mental processes as determined by the existing social structure, has removed any standing from which it might pass judgements on an act of violence which transforms the social structure. In the pursuit of his false hopes Mannheim has explored this fatal situation, which he calls 'our fundamental trend towards self-relativisation', more persistently than any other writer has done. While we no longer share his delusions we shall continue to profit from his penetrating account of a dilemma in which we remain deeply entangled." (Polanyi, 1952, page 3).

The debt that Polanyi owes Mannheim is evident from the first pages of *Personal Knowledge*: "Any attempt rigorously to eliminate our human perspective from our picture of the world must lead to absurdity" (page 3).

These then are the contexts for the *invention* by Polanyi of the concepts of 'personal knowledge' and 'tacit knowing', which later became transformed into 'tacit knowledge'. There is of course an extended and detailed set of arguments, which we need only mention briefly. Following an initial critique of objectivism, built from detailed discussions of the way that scientists actually work and conduct experiments<sup>35</sup>, he mobilises Gestalt psychology to argue that the 'skills' which are necessary for all activities but especially science, cannot be fully and

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<sup>35</sup> Analyses of scientists' accounts of their work, informed by Polanyi's own work in chemistry. Interestingly, Polanyi was clearly aware of Popper's work, and indeed cites one of Poppers lesser observations approvingly. He also mentions (without reference to Popper) the issue of 'verification' versus 'falsification', without opting for one or the other.

explicitly specified<sup>36</sup>. This leads to extensive discussion of the ‘moral passions’ which motivate action and especially intellectual activity, and a brief discussion of his theory of ‘moral inversion’ – the hiding of those moral passions whilst in practice contradicting them – which is Polanyi’s explanation of much of recent history, in particular the rise of ‘Scientific Marxism’.

Of course by this time, 1958, Polanyi was to some extent pushing at an open door, at least with his attacks on Positivism and ‘scientific Marxism’, and the fashion in philosophy had turned towards linguistic philosophy in response to Wittgenstein’s later work in *Philosophical Investigations* (1953) (although no doubt events and revelations from Hungary and the Soviet Union also helped).

In terms of the philosophy of science, the area Polanyi had initially embarked upon, it was now Popper’s work that generally held sway, although it was of course about to receive the shock of Thomas Kuhn’s work in the history of science, which also rested in part upon the ‘new fashion’ of linguistic philosophy. However, these are now peripheral to our main concern. Whether or not Polanyi was at the time successful in his attempted interventions into debates about the philosophy and planning of science, what is clear is that he did succeed in bifurcating ‘knowledge’, constructing an alternative schema to the traditional Positivist – and indeed the pre-positivist Analytical – division between true and false knowledge. He had, in other words, whether intentionally or not, reinforced Hayek’s ‘problem of the division of knowledge’ and created a further intellectual justification for treating knowledge as an entity amenable to analysis by diverse experts.

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<sup>36</sup> The mobilisation of Gestalt psychology is in deliberate and explicit opposition to both Freudian and Behaviourist psychology, and to the cybernetic model of human activity. The explicit rejection of Behaviourism interestingly echoes Hayek’s earlier opposition.

## 5 THE MONT PÉLERIN SOCIETY – UNDER-LABOURERS<sup>37</sup> FOR NEO-LIBERALISM

The consequences of the above narrative, and of the continuing unfolding of the notion of ‘knowledge as a unit of analysis’, could easily occupy the same space again. They range from an ethical critique of the combination of positive ethics with post-Positivist concepts of ‘knowledge’<sup>38</sup>, to a warning of the dangers inherent in the notion of ‘knowledge as a unit of analysis’<sup>39</sup>. In the context of this volume, however, what is chiefly of interest is that we have filled in the background to the emergence of some key neo-liberal formulations within the MPS. Whilst Hartwell (1995) claims that the MPS “has been important in developing and sustaining liberal ideas” (page xiv), it is more correct to say that it and its members have been central to shifting the arguments towards neo-liberal formulations. This has been in the form of arguing that the classical liberal separation of powers, *laissez faire*, with the state governing its realms and leaving the markets alone, was no longer feasible. The state should instead intervene to ensure that ‘real’ markets can flourish in as many areas as possible, without monopolies, oligopolies or unregulated trades unions, and without state intervention in the activities of firms or restriction of entrepreneurial activity. The rationale is firstly that only such real markets, composed of groups of entrepreneurs acting for their own interests, can ensure efficient resource allocation. Secondly, that the ‘scientific planning’ of resource allocation is impossible because (a) such applications of science must always contain subjective and personal elements, and (b) modern production is now so complex, and the risks and uncertainties so various, that no one single authority can have complete understanding of all the relevant factors.

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<sup>37</sup> The term ‘under-labourers’ is an ironic reference to Hilary Wainwright’s work, which argues that radical intellectuals should ‘under-labour’ to develop ideas, concepts, phrases and ‘findings’ that indirectly impact on progressive policy decisions. I find this notion dishonest.

<sup>38</sup> Drawing on the philosophy of Gillian Rose (1992)

<sup>39</sup> See Hull, 2001a for a full discussion, and Hull 2000 and 2001b for summaries.

Hayek as we have seen brought together work on risk and uncertainty, von Mises' arguments about the complexity of modern production and the consequent impossibility of complete calculation, and Hayek's invention of 'the problem of the division of knowledge'. Polanyi and Popper, although both more inclined to support state intervention than Hayek and most of the other economists, still chose to support the MPS in its early years and added vital arguments against 'scientism', scientific planning, and the Positivist ideal of scientific rationality.

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