RPC(42,X) Arthur Lewis to Polanyi, 1948

Written within a year of his appointment (note manuscript by Polanyi)

Sunday

Dear Michael

I feel that I must put into writing the apology that I have already made for for my abominable lapse of manners in introducing passages in my Statistical Society paper which were justificable offensive for you. It was a momentary lapse which would in any case have been excised, but however momentary it should never have occurred and I have felt very sick about it for the last few days.

At the same time I think you will agree that it is better for us not to try to bury the fundamental soreness which gave rise to this passage, but to bring it into the open and discuss it frankly, so that we may face squarely what it is that has lain on my chest.

The truth is that I have been much put out for weeks by your Manchester School article on Spontaneous Order, not as an isolated article, but as one of a whole series of articles issuing from Manchester in the past three years (no other of them from your pen), a series which has brought our university into disrepute. I feel quite strongly about this and I hope you will agree that should set it out frankly without personal offense being taken.

The extent of this disrepute is not apparently realised in Manchester, but throughout the country economists have been shaking their heads and shrugging their shoulders about what has been coming out of our department. This is not due primarily to publications in the past year because I used to meet a great deal of it before I came here.

To what is it due? It is not because we have been so concerned about planning. Planning is a most difficult and important subject,and for most of us a very open one on the appropriate planes. Can we afford to increase the state power? What are the consequences for science, for freedom, for administrative flexibility, for public morality, for individual initiative - all these are matters which should be discussed much more, not less, and on which Manchester has made distinguished contributions. To this matters economic analysis, as such, is little relevant. The problem to which it specifically confines itself, namely marginal adjustments in the allocation of resources, counts for very little in the scale when what is at stake is the future of our civilization, and important decisions about planning cannot be made in this terms.

But if economic analysis is to dragged into the discussion, then it must be done with an adequate sense of what economic analysis really says, and it is here that our university has not done itself justice. Our writing in this field ignores an extensive literature and, for from advancing the subject, takes it back to its elementary phases. People says of us in Manchester that we write on this subject as if economic analysis had made no progress since 1900, and I am bound to say that the writings of this school in the past three years in my view justify their gibes. I feel for the reputation of our university, whose reputation has always stood so high, and that is why I feel so sore.

Your article on Spontaneous Order is not a good example of this because it is what it implies more than what it says that qualifies for these strictures, but then that is also largely true of the most of the writings in question. As for what it says, it lays itself open by stating in its second sentence that it is going to say something new, and then producing a proposition most suspiciously like the famous one laid down by Mises 30 years ago and discussed in an extensive literature. However, that is not important. It is said differently, and with new and illuminating illustrations, which is more than can be said of the most of the literature of economics.

What is more serious in your article is what is implied by the analogies you chose, but not specifically stated. No man, in its time, should hanged for what people chose to infer from his statements, and it would not matter at all for the fact that it is at just this point that the series of Manchester writings come in, with which your implications are in line.

The proposition that the spontaneous order that results from the adjustments of private vices embodies public virtues was first made explicitly by Mandeville in 1714. You yourself nowhere state this proposition in your article, but you compare the spontaneous order of interacting men to the spontaneous order of interacting molecules and physical particles generally, and it is implied in what you write that just as the result in the physical world is beautiful, desirable or meaningful, so the result is social life has some special significance which gives it value. You do not say that this order has value, but if you do not mean this to be inferred from an article cracking up spontaneous order, then I do not see the point of the article. In any case, whether you mean it to be inferred or not, it is, in fact, how your readers take it.

Now, this idea is in our literature for a very long time. Adam Smith put it in the mind of every schoolboy nearly two centuries ago. Sixty years ago Walras introduced general equilibrium analysis showing how spontaneous order could be expressed in mathematical terms and of the making of this there is no end. A new turn came forty years ago, when Pigou used his mathematics to begin a critical inquiry into the social value to be attached to the results of spontaneous order, and this too is a now a large and endless literature, under the title of welfare economics.

Certain results are now accepted by all economists.

1. The minimum assumptions necessary to give value to our order are highly abstract and unlikely to be released anywhere. They include an unconquerable urge in the breast of every citizen to maximize benefits and to minimize costs; free competition in every part of the economy; perfect knowledge; and unity elasticity of expectations. If any of the just three is absent marginal utilities will not be proportional to marginal costs and if the forth is absent the system will be, as our system is, inherently unstable.
2. If these are present, we approach one equilibrium which is optimal in the single sense that the allocation of resources cannot be altered without making some person worse off. Since contemporary public discussion takes it for granted that we want to make some people worse off and to alter the allocation of resources, this optimum is not very helpful.
3. We also get in the process a distribution of income, resulting from the prices the system gives to the factors of production, to which no moral significance attaches, and which many people, including probably yourself, would reject as immoral. This is quite different from the point that the distribution of income depends on the initial distribution of resources. Whatever the initial distribution of quantities may be, it is in the working of the system that the resources are priced, and this is an integral part of the solution. If you alter the prices of the factors, or make up our minds at the start what the distribution of income should be in terms of factor prices, we get an allocation of resources which is not optimal, in the sense of 2); and if we make the

distribution of income independent of the prices of the factors then the system doesn't work at all.

4. Even the abstract assumptions of (1) gives us only an approach to the limited optimum of (2). This is the principal achievement of Pigou, who showed that even free competition does not give the right results. He did this by distinguishing between marginal private net product and marginal social net product, and showing that competition releases the former, while it is the later that has social significance. Pigou himself drew up a long list of divergencies, and argued that the government should put them right. Pigou book ran, I suppose, to 800 pages or so; since his day the list has increased greatly in length and significance, in an extensive literature.

Now here we come to the point. The Manchester writings all assume or state that if there were free competition we would get the right allocation of resources, whereas in fact economics in an enormous literature proves exactly the opposite. And this is precisely why the reputation of our school has been tarnished, and why I am sore. Add to this that it ignores the conclusions listed as 1, 2 and 3 above, which add up to the conclusion that in terms of the maximization of utility our order has no significance, and you will at least understand what I mean, whether you agree or not, by saying that the level at which we discuss these issues simply takes our subject back to about the year 1900. Nowhere did this appear more clearly than in our last postgraduate-staff seminar last term (which was perhaps uppermost in my unconscious when I was writing for the Statistical Society) where the level of discussion of these very issues was about appropriate to a second year undergraduate class that had never heard of Pigou.

Let me repeat that this has very little to do with the subject of planning. The Pigourean conclusions that the right results can not be achieved without government intervention calls for planning in every part of the economy, and we do injustice both to our university and to our subject when we give the impression that we believe that economics supports anti-planning, when in fact it does exactly the opposite. But the Pigorean conclusion is itself rather unimportant in the discussion of planning, which raises much more fundamental issues. One is fully entitled to believe that the state power should be reduced to a minimum even if one fully accepts the Pigorean conclusion that this makes it impossible to have the optimal allocation, in the sense of 2. What one is not entitled is to give the impression that economics proves the exact opposite of what it does prove.

These strictures apply not so much to your article, in which Mendeville's proposition is only to be implied by analogy, as it does to previous writings of our school in the previous three years. You may not think that these writings justify these strictures, but I ask you to believe my honest impression that this has been felt about Manchester for quite some time now.
What I said in my article about the stability of contemporary economics does not arise out of this, and has no reference at all to Manchester, but to the subject as it is now taught the world over. I am, however, conscious that I have been going about the place for the past year squeaking ang growling about this in and out of season, and generally playing the tiresome role of the enfant terrible. This is an unusual role for me, into which I have found myself pushed only by the marked difference between the atmosphere of London and of Manchester. In London there were so many economists who took all these things for granted - Robbins (a half convert), Kaldor, Rosenstein-Rodan, Durbin, Radomysler, Brinley Thomas, not to mention the social scientists in other fields and the students - that one seldom bothered to discuss them, except exceptionally in half sentences. Coming to Manchester, where economics is isolated from other social sciences (I wish we could do something to overcome the defects of the geography of the University) and where everyone seems to take economics so seriously (except Ely), I have taken some time to adjust myself, and have no doubt been tiresome to others in consequence. On the other hand it has had the good result of forcing me to think out systematically, and I am spending the weekend writing a long paper on the present state of economics, on how it has got there, and on the directions in which we should now move. It will be distributed next week for discussion, and then we shall all know where we stand.
I hope that this letter can contribute to better mutual understanding, and that you will forgive a terrible lapse of manners.
Ever yours
Arthur