



HAYEK AND POLANYI FOR THE 21ST CENTURY – AN INTRODUCTION

HAYEK E POLANYI PARA O SÉCULO 21 – UMA INTRODUÇÃO

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Why a special issue on these two authors and why now?

A simple – though inevitably incomplete – answer can be traced back to the academic activities of the editors. As members of CEPS (the Center for Ethics, Politics and Society of the University of Minho), the editors take part in monthly informal seminars and discussions on various authors and topics of either contemporary or everlasting relevance to the domain of ethical and political theory. During the first half of 2016, we focused our attention on two classic works of two authors whose insights we thought could help us grasp some of our society's present problems. These two works were Friedrich Hayek's *The Road to Serfdom* and Karl Polanyi's *The Great Transformation*, both published in 1944.

The fullest answer to these questions (why them and why now) lies, however, in the content of Polanyi's and Hayek's works, or better still, in the topics and enduring concerns of both authors and their connection with recent events and the spirit of our time.

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While debates on the merits of different forms of economic planning versus free markets took central stage in economic theory for the most part of the 20th century – even if the importance of these discussions dwindled in the past twenty years – both *The Road to Serfdom* and *The Great Transformation* remain particularly significant beyond the fields of political economy or “mainstream” economics. The innovative and sometimes counter-intuitive arguments they put forward and the fact that they represent two opposite views on almost every single topic they address – be it socialism and social democracy, the nature and intrinsic qualities of markets versus planning, the explanation of the origins of fascism, the fate of economic liberalism or the essence of human freedom, etc. – must surely account for a share of their intellectual and political impact. Another factor, which undoubtedly contributed to the popularity and relevance of both works, was the timing of their publication: they came to light at a time when, on the one hand, nazi-fascism had just been defeated by the allied forces and extensive economic planning was almost seen as a legitimate, indeed necessary, fact of life in almost all developed countries, socialist and capitalist; and when, on the other hand, the ideological and political tide was about to change against socialism – even if not yet in the direction Hayek would have preferred.

Despite the backlash against socialism and the political left in the years after Franklin Roosevelt’s death (climaxing in the McCarthy witch-hunt era), it seems that Polanyi was still naively optimistic in the late 1940s regarding the progressive superseding of what he called “our obsolete market mentality” (Polanyi, 1947). To be fair, it is true that, to a certain extent, Hayek’s perspective remained in the shadow in the 30 years following the end of WWII; but starting in the late 70s, as Keynesianism receded, neoliberal thought resurrected the interest in Hayek’s arguments. In the 80s, with the election of Reagan in the US and Margaret Thatcher in the UK, a window of opportunity opened for producing experiments in the economy that reversed what had been the usual policies in welfare capitalist states while these leaders were openly professing that the inspiration for them resided in the works of Hayek and other “libertarian” authors, who were now presented as respectable and much more insightful than the then unfashionable Keynesians. This window of opportunity was profoundly widened by the events that followed at the turn of the decade.

After the collapse of the Soviet Union, neoliberal triumphalism ensued throughout the 90's and 2000s, along with a euphoric expansion of capitalist globalization. Capitalism and “liberal democracy” became rhetorically entwined as if they were co-dependent phenomena or part of a single concept. Moreover, they were presented not only as “the only alternative” – since the “other” had “lost” – but also as ethically indisputable. Any notion of socialism or even economic and social planning became synonymous with backwardness, both in academic and political circles.¹ Even plain resistance to economic globalization, privatization and deregulation was regarded as both futile and morally wrong.

Anti-globalization movements and protests were often portrayed by media, politicians or academics as either the product of chaotic and angry crowds or of romantic rebels, who, much like the Luddites, were desperately trying to stop the destruction of obsolete institutions and realities that had to – and inevitably would – be eliminated by the force of historical necessity and the irresistible pressures of the (world) market.² Paradoxically, although Margaret Thatcher had explicitly identified Hayek's political philosophy as a source of inspiration and an ideological guideline,³ Hayek's triumph looked more complete than ever only when ‘third-way’ politicians gained the upper hand within socialist/social-democratic parties and subsequently rose to power. Former “opponents” had now adopted his ideas, just as he had hoped when he dedicated *The Road to Serfdom* “to socialists of all parties”.

Indeed, the modern socialist or labour politicians of the late 20th century, such as Tony Blair (Heath, Jowell, Curtice, 2001, pp. 2-7 and 101-110) or Gerhard Schröder, who would together publish a joint declaration or manifesto (*The Third Way/ Die Neue Mitte*) explaining their views and strategy for European socialist parties, came to accept the full legitimacy of markets and market forces and

¹ This was symbolized by the British Labour Party's abandoning of clause IV of its constitution.

² Judging by his treatment of the Speenhamland system, one suspects that, had Polanyi lived to witness these resistance movements of the 90's, he would have probably held a very different and sympathetic view towards them. Instead of perceiving these movements as a sort of “reactionary romanticism” of those wanting to “turn the wheel of history backwards”, but rather as valid and spontaneous attempts - with different degrees of success – of society to protect itself from yet another renewed offensive bent on realizing the destructive utopia of a self-regulated market society.

³ “Our inspiration was less Rab Butler's *Industrial Charter* than books like Colm Brogan's anti-socialist satire, *Our New Masters*, (...) and Hayek's powerful *Road to Serfdom*, dedicated to “the socialists of all parties”. Such books not only provided crisp, clear analytical arguments against socialism (...) but (...) they also gave us the feeling that the other side simply could not win in the end. That is a vital feeling in politics; it eradicates past defeats and builds future victories. It left a permanent mark on my own political character, making me a long-term optimist for free enterprise and liberty and sustaining me through the bleak years of socialist supremacy in the 1960s and '70s” (Thatcher, 1993, pp. 12.-13).

looked upon state interference in the economy as very often cumbersome, inefficient and, from the ethical point of view, unbearably “paternalistic”.⁴ According to the authors affiliated with the Third Way, the left – which for too long had regarded itself as the legitimate interpreter of the people’s needs – would, once in power, feel entitled to define and provide for each citizen as it saw fit.⁵ The “old” left, or so the story went, viewed itself as an authority that knew better than the beneficiary what was in his or her best interest (Le Grand, 2003, pp.6-7; Corrigan et al., 1988, p.12). A radical change in social policy and in the way the welfare state was understood and managed was imperative. As Blair himself put it: “the modern welfare state is not founded on a paternalistic government giving out more benefits but on an enabling government that through work and education helps people to help themselves” (Bevir, 2005, p. 90) Accordingly, the task at hand, then, was: 1) for the state to remove itself from the economic landscape, giving way to non-authoritarian, competitive providers of goods and services; 2) to free private economic actors from stifling regulations, excessive taxation and state bureaucracy in order for them to unimpeded pursue their entrepreneurial abilities and, in so doing, energize the economy and raise productivity; 3) to unburden the state from its own excessive bureaucracy and unsustainably growing expenses with social welfare; 4) and to stimulate individual responsibility.⁶ And it was in this context that the policies of

⁴ All these elements can be easily gleaned from the Blair/Schröder manifesto:“(…) we need to apply our politics within a new economic framework, modernised for today, where government does all it can to support enterprise but never believes it is a substitute for enterprise. The essential function of markets must be complemented and improved by political action, not hampered by it. We support a market economy, not a market society (...) Today we must develop realistic and feasible answers to new challenges confronting our societies and economies. This requires adherence to our values but also a willingness to change our old approaches and traditional policy instruments. In the past: The promotion of social justice was sometimes confused with the imposition of equality of outcome. The result was a neglect of the importance of rewarding effort and responsibility, and the association of social democracy with conformity and mediocrity rather than the celebration of creativity, diversity and excellence. (...) The belief that the state should address damaging market failures all too often led to a disproportionate expansion of the government’s reach and the bureaucracy that went with it. The balance between the individual and the collective was distorted. Values that are important to citizens, such as personal achievement and success, entrepreneurial spirit, individual responsibility and community spirit, were too often subordinated to universal social safeguards. Too often rights were elevated above responsibilities, but the responsibility of the individual to his or her family, neighbourhood and society cannot be offloaded on to the state (...)” (Cf. Blair and Schröder, 2000 [1998]).

⁵ In Britain, the more distinguished and articulate academic “ideologues” of this reformed perspective on the relations between market and society were arguably Anthony Giddens (1998) and Julien Le Grand (2003) – this latter author admitting that his “quasi-markets” had more or less been defended and implemented by the Thatcher government itself (pp. 9-10).

⁶ Much the same can be said of the transformation within the Democratic Party in the US with the arrival and election to office of Bill Clinton. As Joseph Stiglitz admits, the New Democrats were recentring the party to the “centre” (i.e. to the right): they wanted to show how they were “fiscally responsible” and spent most of Clinton’s term in office obsessed with balancing the budget, cutting federal (social) programs and reducing public jobs (Stiglitz, 2003 pp. 19 and 48 ff), making market-friendly reforms, deregulating and, to sum it up, yielding to the interests and ideology of the main actors of the financial system. A crucial instance of this is the repeal of the Glass-Steagall law, ushered in the aftermath of the Great Depression during FDR’s presidency and banning the fusion between investment and commercial banks. This repeal was the product of a consensus between the Clinton Administration and the republican majority in Congress and is considered to have been both a major concession to financial interests and a fundamental step in the deepening of the tendencies that led to the banking crisis of 2007. These new democrats, or a great deal of them, seemed to be convinced that financial markets – along with the then revered Alan Greenspan – were not only rational, but that they knew better than anyone else how to get the economy going (Stiglitz, 2003, pp. xiv and 32). Reagan and the republicans had been profligate with public spending, especially regarding military spending, according to Stiglitz, the idea was to “starve the beast” and force cuts on social state spending further ahead (Stiglitz, 2003, p. 47). And indeed, those cuts would take place in the Clinton administration, which

privatization (as in the case of the British Railway), of private-public partnerships, concessions, liberalization, and deregulation⁷ that have been the trademark of economic policy in recent decades (Crouch, 2009) came into being.

What emerged from this ideological and policy shift was a return to the radical boom-and-bust economic cycles that had become fairly moderate and increasingly rare in the preceding period but had been a usual feature of 19th century liberalism. Along with this came job precariousness, labor flexibility, looser labor protection laws and the further weakening of trade unions as measured in their dwindling numbers and eroding bargaining force. While in their manifesto Blair and Schröder seemed to pay a weak lip service to Polanyi's concerns by stating that "we support a market economy, not a market society" and through announcing that "the past two decades of neo-liberal laissez-faire are over" – despite actually entrenching and deepening it during their time in office –, it was clear that their goals and inspiration for their policies resided rather in Hayek's arguments and discourse. Polanyi would have arguably seen their project and actual policies as a thinly disguised renewal of the utopia of the "self-regulating" market system.⁸ The problems that extensive planning, regulation, protectionism and Keynesianism were meant to solve – e.g. mass unemployment and the destructive fluctuations of economic activity in the 30's – are now essentially back. Economic inequality, after 30 years of silent rise, is again at the spectacular record 1913 levels, and there seems to be no limit to that trend. The growth in inequality in income or wages, although common and very patent in all

also significantly diminished the workforce employed by federal government to unprecedented levels since the New Deal (Stiglitz, 2003, p.19). But the New Democrats acceptance of the ideas of their adversaries is also visible in the way Clinton put in place a severe and punitive attack on welfare recipients. In his candidacy speech to the democratic primaries (Clinton and Gore, 1992, pp. 187-198) he had appealed systematically to "the middle class" - impressively referred 11 times in an 11 page document - instead of "workers", and had focused very strongly on the topic of restoring individual responsibility in what he saw – just as the average republican did – as an unduly generous welfare state. He promised to "end the welfare state as we know it" (Clinton and Gore, 1992, p. 165 and 228) and this was a promise he fulfilled with the enactment of the Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) in 1996, that remarkably replicated the same punitive logic and arguments that had presided to the Poor Law reforms in the 1830's in England. In terms much similar to those employed by Malthus to condemn the Speenhamland system, the defenders of PRWORA sustained that the poor were guilty of their own situation and that the "generous" assistance they received was giving them an incentive to remain idle and poor. Cutting back the system would, so the argument went, help them help themselves. It was not cruelty, but actually a demonstration of concern for their welfare in the long run (Block and Sommers, 2012, p. 150-192).

⁷ Perhaps, in a Polanyian fashion one ought to speak not so much of "de-regulation", as markets always require some kind of state regulation in order to work, but rather of a "re-regulation" geared towards providing further advantage to different and privileged social groups, as Fred Block and Margaret Sommers argue: "By the term reregulation, (...) we aim to push back against the belief that the success of neoliberal ideology since the mid-1970s has been matched by markets being increasingly freed from regulations and government management. On the contrary, regulations did not go away; they simply changed. Those that had previously been written to protect employees or consumers were systematically rewritten to support business interests and reduce previous restrictions on business practices. Similarly, the tax code was rejiggered to shift the burden from high-income households to middle class and working class earners." (Block and Sommers, 2012, p. 20)

⁸ As the joint declaration of the Third Way point by way of a metaphor: "The state should not row, but steer: not so much control, as challenge. Solutions to problems must be joined up" (Blair and Schröder, 1998).

countries (Piketty, 2014, p. 271 ff), has been more extreme in the Anglo-Saxon world, particularly the US, apparently giving some credence to the Polanyian notion that specific cultural institutions and mentalities do have some autonomous and significant effect on the way the market is structured or regulated (Piketty, 2014, p. 315 ff). In any case, shifts in technology and educational differences, whatever their long run effects, cannot credibly account for the veritable explosion of income inequality, either in the US or in the world at large, at least not entirely. The main culprit for this is to be found elsewhere, possibly in the power imbalances between social groups that are associated with the rapid political transformations that took place in the late 20th century. The concentration of wealth, however, has been much more extreme than that of income, and this is observed in many countries (Piketty, p.336 ff). The hyperglobalized economy, promoted by the governments of the major economies and by international organizations enthralled by market fundamentalism such as the WTO, the IMF and World Bank, has taken away from nation-states a number of instruments for control and regulation of their domestic economies, as well as much of their bargaining strength vis-à-vis transnational (and national) capital, which may now flee and hide from fiscal authorities by moving to all sorts of tax havens.⁹ This has led Wolfgang Streeck (2014) and even mainstream economists such as Dani Rodrik (2011) to come out against free trade fundamentalism and denounce the incompatibility of this sort of hyperglobalization with the superior goals of national sovereignty and democracy. Some supra-national institutional arrangements that were presented as opportunities for economic and social progress and prosperity such as NAFTA, but even more so the European Union and its project of a Monetary Union seem to have aggravated some of these problems and tendencies, infused as they were by a more or less Hayekian ideology. The unrestricted freedom of circulation of goods and capital within the EU resulted in the de-industrialization of several national economies, increased the vulnerability to external economic shocks, incentivized crippling fiscal and social dumping practices between member-states, and led to dangerous trade imbalances within the EU and even beyond it. The adoption of the Euro, in

⁹ The lack of strong political action to address the recent though entirely unsurprising disclosures (e.g. the Panama Papers, the Luxembourg Leaks, and the recent Paradise Papers) about the staggering amounts of wealth stashed away in tax havens and other low-taxation jurisdictions (Cf. Zucman, 2015) is perhaps a damning testament of the dismal condition of our current capacity to act as members of a polity.

particular, has become a destructive straitjacket for peripheral economies in the EU (Stiglitz, 2016) that, in some respects, reminds one of the criticisms directed at the gold standard by Polanyi.

Political equality and popular participation too have now sunk to some of their lowest levels since universal suffrage was first achieved, as the decision-making process is now deeply distorted by the power of concentrated wealth, reinforcing the already existing oligarchical tendencies within capitalist polyarchies. This has been confirmed by some studies in the field of political science (Jacobs and Skocpol, 2005, p.11; Bartels et al, 2005, p.113). Among the general public, the perception is in accordance with these findings. In other words, the political process is seen as “broken” beyond repair, with the wealthy being able to manipulate it for their own benefit, be it through corruption, media manipulation, or economic coercion while the majority of the population, systematically impoverished and sacrificed in the name of an unequally applied austerity, feel the sting of their own political disenfranchisement. This has fueled a deep suspicion regarding politics and mainstream politicians (seen as part of an unresponsive and irresponsible elite) which may very well be an explanation for the upsurge of what are now termed “populist” movements and candidates.

If a renewed understanding, achieved in a somewhat comparative fashion, of the contributions of both authors to the fields of social and political theory, as well as to the discipline of political economy, does not in itself warrant this special issue, one may also remind the reader of the striking similarities between today’s events and those of the times in which Hayek and Polanyi lived. The problems we are currently witnessing, and which portend a certain breakdown of our societies as we know them, are serious enough to justify the objective lurking in the background: to find new solutions to our current predicaments by looking back to an intellectual dispute whose focal points retain their fundamental relevance in today’s complex societies.

In the last part of this introduction, we will briefly summarize the content of the contributions to this special issue. However, before we proceed to that final section, we believe that it is important to provide some historical background and contextual biographical information regarding the lives of both authors so as to

better understand the formation of their ideas, as well as their academic and political concerns.

A biographical introduction to Polanyi and Hayek

A - Polanyi

Karl Polanyi was born in 1886. He was a “child of late liberalism”, as Gareth Dale characterizes him, and this was a “civilization that (...) seemed to rest upon solid foundations” (Dale 2010, p.1). However, as the Hungarian author was soon to discover, as he entered adulthood and WWI approached, this comfortable stability was not to endure indefinitely. Born in Vienna into a wealthy (but later impoverished) and intellectual Hungarian Jewish family, Polanyi was raised in Budapest. He entered Budapest University to start a law degree and there he became the founder and first president of Club Gallilei. This club tried to unite progressive liberals and socialists in a joint cultural war against conservative clericalism, anti-Semitic reactionarism and ignorance. However, due to his involvement in a dispute between a liberal-minded teacher and the conservative university board, Polanyi was expelled from the university and only received a law doctorate in 1909 at Kolozsvar University (Maucorant, 2007, pp.37-38). Despite his friendship with figures on the radical left, including communists, such as a György Lukács, he was elected secretary general of the Radical Party (of Oszkár Jászi) and supported the liberal Hungarian government of Count Károlyi that came to power after the liberal democratic revolution of October 30th 1918, known as the “Aster Revolution” (Dale, 2010, p. 7). This government was later displaced by the revolutionary communist government of Béla Kun.¹⁰ The subsequent government came to be defeated by the reactionary forces of Horthy, and possibly anticipating this tragic reactionary end (Block and Sommers, 2012, p. 46) , Polanyi had moved shortly before to Vienna and found work there as a

¹⁰ Karl Polanyi always stood on the left side of the spectrum and could be broadly thought of as a “socialist”, although he was throughout most of his life politically quietist and fairly hesitant (Dale, 2010, p.11). One may also question if his notion of what socialism actually consisted of (or ought to consist of) did not vary significantly at different stages of his life. Another very controversial and possibly unsolvable question regards his theoretical affinities and acceptance of Marxism and Marxist concepts – which seems to have varied greatly through time. Gareth Dale (2014) explores some of these topics in a recent article.

journalist in *Der Österreichische Volkswirt*, writing a large number of articles mainly concerned with contemporary international affairs (Cangiani, 2011, p.3).

The politically and intellectually agitated Vienna of the 20's and early 30's was where Hayek and Polanyi coincided and where their political and economic views started to take shape: Polanyi as a more consistent and sympathetic adherent of socialism (particularly as it was advocated and practiced by the Austrian Social Democratic Party)¹¹ and Hayek as an anti-socialist. While it would be well beyond the scope of this introduction to attempt a portrayal of Austria and Vienna during these troubled and exciting years, it is useful at this juncture to make a brief characterization of this period in its social, political and intellectual aspects, as it is thought to have had an important impact on the authors to which this special issue is dedicated.

Throughout the second half of the 19th century and early 20th century, and much like other countries in Central Europe, Austrian society underwent a process of economic and political transformation. Industrial and financial capitalism was disturbing the equilibria of the past, concentrating wealth, industry and population in ever larger cities, while in the countryside feudal remains were being eliminated, along with the economic autonomy of many farmers who ended up inevitably in Vienna and other booming cities. Much of this transformation had its center in the intellectually flourishing capital of the Austro-Hungarian empire, Vienna. Along with these transformations, a number of tensions had been accumulating within the empire: those between the different nationalities that were comprised in it (with the Austrian and Hungarian elites dominating) and those between the radicalized working class, led by the increasingly powerful, both electorally and socially, Marxist social-democratic party and its trade-unions, on the one hand, and, on the other hand, the social and economic elites (bankers, businessmen and aristocrats) that resisted them and who felt increasingly under siege. While the issue of conflicting nationalities was to be solved after the end of WWI, with the declaration of independence of national minorities, the social conflict remained intact. To many, it felt as if the

¹¹ "(...) In Vienna Polanyi's old familiarity with socialist ideas turned to full adhesion; (...)The extremely stimulating reality of the *rote Wien* was as important for Polanyi's formation as the milieu of progressive-radical Budapest students before the war. The socialist municipality of Vienna became the seat of memorable intellectual and political advancements, recalled with never-ending enthusiasm in one of the 'Notes on the sources' added to *The great transformation*. Polanyi maintained a fruitful relationship with Austrian socialists, and was in particular influenced by their leader, Otto Bauer;(...)" (Cangiani, 2009, p. 3)

situation was fast approaching a deadlock. “Red Vienna” was where social democracy had its fortress. From 1919 onwards, Vienna was ruled by the Social Democratic Party that began applying a number of municipal social-democratic policies (mainly in the domains of housing, public health, educational reform and cultural utilities), geared to the improvement of the working class’ material conditions but also, and most importantly, of their “class consciousness” in the hopes of preparing it for a not so distant future in which socialism would be fully implemented after a decisive electoral triumph. Vienna was to be a model of the future socialist republic (Rabinbach, 1983, pp. 23-26). In fact, Otto Bauer, the leader of Austrian social-democracy, for whom Polanyi had shown enthusiasm and with whom he corresponded (Dale, 2014, p. 52), spoke of his strategy of a transition from capitalism to socialism as that of a “slow revolution”, which was a way of threading a sort of “middle path” between the reformism of Bernstein and the revolutionism of Rosa Luxembourg or Lenin’s communism (Rabinbach, 1983, p. 29). According to Bauer, the situation in Austria and Europe after the Bolshevik revolution was one of “balance” of forces (Gullick, 1948, pp.1374-1380), with neither bourgeoisie or proletariat being able to yet establish a clear “hegemony”: “(...) an idea that caught the attention of Polanyi (Dale, 2014, p.54). At the same time, Bauer was convinced that electoral victory for social-democracy was at hand given the growing triumphs outside of the capital (...)” – they would reach 42% of the national vote on April 1927 – and, for the most part, so were his enemies (Rabinbach, 1983, p. 32). As tensions rose during the 20’s, partisan militias were organized (the socialist Schutzbund on the one hand, and right wing paramilitary organizations, on the other). This political struggle expanded and “infected” all spheres of life, including intellectual and academic circles, in a very powerful way. It was impossible to keep a neutral stance and scientific discussions – in social sciences as well as in epistemology and philosophy – were, to a great extent, a continuation of these ideological battles.

While it is true that scientific disputes can very often be nothing but a cover for political disputes,¹² this had become poignantly patent in the case of the vibrant scientific scene of Vienna in the 20s. Even when theories were not

¹² As Benjamin Ginsberg puts it: “Even in the sciences, ostensibly the bastions of objectivity, new theories, procedures and findings are seldom accepted simply and immediately on their own merit (...) Indeed, at times what appear to be strictly scientific disagreements actually have political roots or are in fact political disputes couched in scientific language” (Ginsberg, 1986, pp.109-110).

partisan, nor could be said to be openly favoring one political side or another, their authors were. Karl Polanyi and Friedrich Hayek were obviously involved in these disputes and had quite openly taken sides, in many instances against their relatives' and friends' own positions.¹³

In 1933, the tensions within Austrian society would lead to what can be described as a preventive right-wing coup led by Engelbert Dolfuss and his conservative Christian government. With a repressive environment taking over the country and the press, Polanyi's co-workers at *Der Österreichische Volkswirt* invited him, given his standing as the most prominent left-winger of the newspaper and an open supporter of Bauer's municipal socialism, to leave while he could. Prudently, he did so. The new fascist-inspired regime would immediately suspend the parliament, ban the communist party (as well as their "rivals on the right", the Austrian Nazis) and soon all other parties, while instituting press censorship and prohibiting public meetings. In 1934, Austrian workers rebelled against the dictatorship and repression – an event Polanyi did not witness first-hand –, instigating a very short civil war which ended in the complete defeat of any remaining left-wing opposition to the regime (Gullick, 1948, pp.1266 ff). Things only worsened after the German Anschluss in 1938. Polanyi's wife, Ilona Duczynska, managed to escape and join him in London after taking part in this fleeting and desperate last episode of resistance.

Life in England did not prove as satisfying as he had once expected. Indeed, he languished in obscurity, not being able to find a suitable position at any university and being, for the most part, ignored within socialist intellectual circles. Despite his interest, intellectual admiration and sympathy for the Christian socialism of Tawney and the guild socialism of G.D. H. Cole – which served as a framework for his own version of what socialism ought to look like in a 1922 article (Bockman, Fischer and Woodruff, 2016 [1922]) – neither these nor other British socialists seemed to reciprocate his feelings (Rogan, 2013). He earned his meagre living by “teaching adult education courses to British workers through the Workers' Educational Association—the extramural outreach arm of

¹³ For instance, Karl's elder brother, Michael, was already expressing opposition to Marxism and socialism and would later become a founding member of the Mont Pellérin Society, along with Hayek and von Mises, whereas Wittgenstein – Hayek's cousin (Kresge and Wenar, 2005, p. 3) – is thought to have been rather sympathetic towards socialism and the Soviet Union (Gakis, 2015), even though he generally avoided engaging in politics and expressing (obvious or otherwise explicit) political content in his works.

the Universities of Oxford and London” (Block and Sommers, 2012, p. 5). While feeling somewhat isolated and under-appreciated by his peers, he used his time on the islands to develop extensive and proficuous research on the economic, social and political history of Great Britain, with much of this research material later becoming the basis for some of *The Great Transformation*’s best chapters.

In 1940 he was invited to deliver a series of lectures at Bennington College, in Vermont, US, and during this time he started the writing of his *magnum opus*. This would be, yet again, the continuation of the politically charged debates on economic planning and socialism which he had led in Vienna against Von Mises and Hayek. Beyond serving the minor goal of feeding academic research with a most valuable input, it was also written as a way for the civically engaged left-wing intellectual to continue, once again, the fundamental ideological and political battle of the day for the minds and hearts of the men who could usher a new civilization, one that would finally realize the liberal ideals of genuine freedom, if only they were freed from the destructive utopia of the self-regulating market that had been, in his view and in the last instance, the origin of all the evils of the 20th century. *The Great Transformation* was published in 1944, slightly after Hayek’s *The Road to Serfdom*. In 1947 Polanyi was invited to teach at Columbia University. Due to his wife’s past as a communist revolutionary, however, Polanyi decided to move to Canada, from where he drove to the university. In the US, and after the publication of the article “Our Obsolete Market Mentality” (1947), he avoided contemporary politics as an academic subject for the most part, very likely as a self-protecting measure against the tense intellectual environment that marked the beginning of the Cold War. For the rest of his life, he moved on to conduct anthropological research on primitive societies and economies of the present and past. He retired from Columbia University in 1953 and remained in Toronto, Canada, until his death in 1964 (Block and Sommers, 2012, p. 5).

B - Hayek

Friedrich Hayek was born in 1899 in Vienna into a non-practicing Catholic family, and was, therefore, 13 years younger than Polanyi. His father’s side of the family had always displayed an inclination for the natural sciences, and Friedrich

himself maintained a great deal of interest for these areas, although he would first enter the university to study law. Before ending the *Gymnasium* (secondary school) he fought in WWI for a year in an artillery regiment of the Italian front. Upon his return to Austria and to the University of Vienna he was struck by what he perceived to be a personal change: as the author himself recalls, the war experience, besides giving him “a severe infection of Malaria”, had instilled in him a keen interest in the social and human sciences (Kresge and Wenar, 2005, p.2). The immediate post-war Vienna left a durable impression on the young student: “The streets were filled with returning veterans, many of them unemployed, and because embargoes continued even after the war ended, near famine conditions prevailed in Vienna during the first postwar winter. (...)” (Caldwell, 2007, p. 17). The country and the whole of Central and Eastern Europe were in political turmoil.

At university, he finished a doctoral degree in Law in 1921 – with a strong emphasis on economics – and a second doctorate in political science in 1923. He became acquainted with the epistemological debates then unfolding in the Vienna Circle, even though he was never a member of it and later came to oppose most of their ideas on science.¹⁴ In 1922, Von Mises published “Socialism”, a thorough attack on the notion of economic planning that, in Hayek’s own opinion, would prove to be decisive in the evolution of his economic and political thinking, as it moved him away from his previous “Fabian” inclinations (Kresge and Wenar, 2005, p.5; Caldwell, 2007, p. 18). Indeed, Mises became his friend and mentor. In 1923-1924, with the help of Mises, Hayek developed postgraduate research at New York University regarding inflation and monetary policy (Kresge and Wenar, 2005, pp. 6-8) – a topic he would continue to study and that would render him two books: *Prices and Production* (1931) and *Monetary Theory and the Trade Cycle* (1933).

¹⁴ Again, this rejection was not purely “scientific” at a time when the debate in both science and politics were patently intertwined. Otto Neurath, a leading member of the Vienna Circle of positivists, was also a staunch socialist and had been the minister of the economy in the revolutionary government of the short-lived Bavarian council republic. In Vienna, as an author, he continued to elaborate on his radical ideas on the transition to a socialist economy, with the abolition of money and prices and its replacement with statistical data (*in natura*) to be centrally administered. Other positivists, while less radical in economics and politics, were nonetheless aligned with the SDAP. No wonder then, that right-wing intellectuals grew an almost instinctive opposition to it. “As recent scholarship emphasizes, the early days of the logical positivist movement had a distinctly political side, and Neurath played a central role in this. In advocating the unity of science, for example, he hoped to enlist all of the sciences to use them to refashion society along socialist lines (Reisch 2005). In any event, for the Austrian School economists, positivist philosophy of science was always aligned in their minds with socialist politics and economics.” (Caldwell, 2007, p. 27)

His friendship and collaboration with von Mises continued when they founded the “Austrian Institute for Business Cycle Research” in 1927. Hayek worked there for some time, making use of the expertise with statistics he had acquired while in the US. Unlike Polanyi, who did not enjoy much academic success before leaving for the US in 1929, Hayek had already become *Privatdozent* in Economics and Statistics at the University of Vienna. In 1932, after lecturing the previous year at the London School of Economics at the invitation of Lionel Robbins, he was offered a permanent position. He remained at the LSE for almost 20 years until he moved to the University of Chicago. Prior to this move, he acquired some notoriety in British academic circles by entering a dispute with John Maynard Keynes over the latter’s book *A Treatise on Money* (1930). However, with the publication and later tremendous success of Keynes’ *General Theory* (written in 1936), Hayek was naturally overshadowed (Caldwell, 2007, 22-23). In fact, Keynes book revolutionized economic theory, and marked the end of the era of the hegemony of *laissez faire* ideology, which in practice had already begun to be put aside by governments of all political colors in the capitalist world. In the meantime, Hayek was getting more and more engaged in the public battle of ideas and he became the editor of the book *Collectivist Economic Planning: Critical Studies on the Possibilities of Socialism*, a full assault on the socialist experiments in the Soviet Union and elsewhere. This book continued, extended and made available to the Anglo-Saxon public the attacks and criticisms made by von Mises and others against the possibility and desirability of socialism (the “socialist calculation” debates).¹⁵

The book that would grant him lasting fame, however, was *The Road to Serfdom*, published in 1944 – despite the initial difficulties that Hayek himself narrates in his introduction in finding a non-hostile publishing firm in the US due to the political climate at the time. Indeed, as mentioned above, the book was published when the idea of economic planning was at its zenith even in the US and at a time in which any association between the allied and victorious USSR and the common fascist foe would still seem to fall very short of heresy. It is also true, though, that things rapidly changed in the post-war scenario. Those who

¹⁵ Polanyi, too, had participated in the calculation debate against Mises in an article (Bockman, Fischer and Woodruff, 2016 [1922]) where he defends not a fully centrally planned and directed economy, but a sort of decentralized and democratic cooperative socialism inspired in G.D.H. Cole’s “guild socialism”.

were anxious to see some refraining of these “dangerous” socialist trends surely welcomed Hayek’s warnings. Among these, and even among other groups more sympathetic to socialism, the fundamental contention that extensive economic planning by the state would inevitably concentrate power (instead of limiting it) in the hands of political officials and that this – regardless of their good intentions or not – tended to change the moral character of citizens towards submissiveness and reduced their sphere of free choice and individual planning (the fundamental goal of liberalism), sounded compelling. Following this lead, the ideas expounded in “The Road to Serfdom” would eventually enjoy tremendous success in the US and even surpass academic circles, to a large extent due to a popular and very shortened version of his book that was sold with *Reader’s Digest*. The review by Keynes – the most respected economist of the period – also proved important to this success for, despite being critical in many respects, it praised Hayek’s moral commitments, and it was this part that was used for the promotion of the book.

Despite having obtained British nationality in 1938, and possibly due to a certain dissatisfaction with the intellectual and political climate of the immediate post-war years, during which the Labour Party won the general elections and was able to go forward with its nationalization policies (Meijer, p. 690), he decided to leave the UK in 1950 to go to the University of Chicago. As the reader is most likely aware, this institution would later acquire the reputation of being a bastion of neoliberal economic thought and a training ground for a number of Latin American economists and political leaders (the so-called “Chicago Boys”) that, on their return, effected a number of radical reforms in their countries, particularly in Chile after Pinochet’s coup (1973) and in Argentina.¹⁶ This generation of Chicago apprentices was also responsible for the “Washington consensus” that would only start to be abandoned with the emergence of a wave of left wing governments in the late 90’s and early 2000’s. This “American” period, thanks to the ideologically friendlier atmosphere Hayek would encounter there, allowed him to research and publish his more mature and praised works. First came *The Constitution of Liberty* in 1960 and later the trilogy *Law, Legislation and Liberty*, starting with *Volume I* in 1973 entitled *Rules and Order*, continuing in

¹⁶ Incidentally, Hayek would show his unequivocal approval of the economic policies of Pinochet’s government in an interview to the Chilean rightwing newspaper, *El Mercurio*. (Cf. Caldwell and Montes, 2015)

1976 with *Volume II. The Mirage of Social Justice* and finishing with *Volume III. The Political Order of a Free People* in 1979. In these later works, he rejects the more moderate position he had taken in an earlier period, namely in *The Road to Serfdom*. In 1974 he was awarded the Nobel Prize along with Gunnar Myrdal (ironically, a staunch and traditional Scandinavian social democrat). Later in his life, Hayek moved to Freiburg, Germany, where he remained until his death in 1992.

A bird's eye view of this special issue

The contribution of José Colen, António Baião and Pedro Moreira Góis (“The liberal creed and its critics: pauperism and the safety net”) in this special issue explores the views of both authors on the issue of poverty and economic security under a market society. They compare and contrast Hayek’s and Polanyi’s distinctive and opposed perspectives on a series of intellectual debates. The emergence of market society, the historical and conceptual relationship between the market and freedom, the emergence of fascism and totalitarianism in the 20’s and 30’s and, finally, the hegemony of economic liberalism in the preceding decades were all topics in which both men left their mark. Both authors shared the goal of rescuing the “hearts and minds” of citizens from dangerous ideas, which allows one to say that, in a sense, the “enemy” was for them internal rather than external. It was the product of an intellectual error or deceit that thrived in the political and economic climate of Western societies, more than a hostile nation, be it Nazi Germany or the Soviet Union. While Polanyi forcefully argued that the self-regulating market was not only a utopia but a dangerous one, on the basis that the attempts to establish it had so dire and unbearable consequences that they would inevitably result in an unplanned, spontaneous reaction of society in the form of a backlash, Hayek in turn maintained that liberalism and the market economy were not to be blamed for the emergence of fascism. On the contrary, Hayek contended that nazi-fascism was the twin-brother of socialism, both resulting from a similar collectivist prejudice and impatience towards the market and its “unplanned” results, while feeding off a misinterpretation of the liberal individualism that at once supports and is fostered by the market institutions. Furthermore, it seemed to Hayek that both

ideological outlooks demonstrated a lack of understanding or undue disregard for the market's unparalleled ability to rationally convey and synthesize the best available information about economic preferences of agents. Finally, in spite of the critical view of *laissez faire* ideas – unduly conflated with liberalism according to Hayek – which he still held in 1944, he believed that with proper policies and moderate state action, based on the rule of law (general laws instead of direct, arbitrary orders or instructions by officials) and the proper working of competition, the market (or capitalism) was able to provide for the needs of people better than bureaucratic institutions – no matter how well intentioned its leaders – without simultaneously encroaching on their fundamental freedoms or planting the seeds for their mental enslavement *vis-à-vis* concentrated state power. This optimism was in deep contrast with the bleak picture Polanyi drew of the history of unfettered capitalism, namely as exemplified in Great Britain after the end of the Speenhamland System and the reform of the Poor Laws in 1834.

A contentious point is how to interpret Hayek's later radical rejection of the "safety net" which he had thought both reasonable and important in his earlier writings. While he himself would see his early defense of the need for that safety net and related criticisms of classic or *laissez faire* capitalism of the 19th century as the mere result of concessions he felt pressured to acquiesce to under the somewhat hostile ideological environment of the time, the authors of this article claim that the issue is probably more complex than he himself thought. On the one hand, it does look like a concession, as Hayek was perfectly aware that, after going through a period of massive unemployment and structural insecurity, it would have been tactically unwise to attempt a defense of "unplanned" capitalism based on the mere hope that the supposedly higher productivity of the free market would eventually, in the long run, provide more prosperity to all (the "a rising tide lifts all boats" argument). On the other hand, defending the legitimacy of the state in promoting a minimal safety net as a "middle path" was not entirely inconsistent with his long standing distinction between legitimate state action, in which the state acts and regulates through law in a way that may enhance people's abilities to develop the best plans for themselves and act in accordance with them, and illegitimate ("totalitarian") state action in which the state's global plans for society replace or impede people's pursuit of their own individual or local plans.

Given that, in Hayek's perspective, "global" (or society-wide) planning requires either an impossible consensus on values and goals (beyond mere rhetorical commitment to a vague notion of equality), or coercion against the dissident minority and the restriction of their capacity for individual planning, it was necessary for any person genuinely concerned with freedom to abandon any sort of state action that consisted of "global planning" in this sense. While one may question if a safety net as suggested by Hayek in his earlier writings belongs to this category of "global planning" or not, a safety net must, of necessity, according to these authors, distort the workings of the market and its fundamental role in revealing unknown preferences. This, in their mind, could be what ultimately led Hayek to give up altogether the task of solving the problem of pauperism in his later days.

Regardless of the clear ideological and philosophical differences between Hayek and Polanyi, there is also evidence of some methodological similarities from a metatheoretical standpoint. In his contribution, Filipe Faria ("Double Movement in Polanyi and Hayek: Towards the Continuation of Life") argues that the crucial notion of "double movement" in Polanyi finds its counterpart in similar considerations regarding the existence of opposing and contradictory social tendencies in Hayek's evolutionary theory of market society. But while both thinkers seem to share, in broad terms, remarkably similar views about the processes through which a society adapts itself to the challenge of the nascent market sphere, their point of departure is given by the normative assessment of those movements: what Polanyi sees as the self-protective tendency of a society facing the perils of the invasive and heteronomous marketplace, Hayek identifies a mere "tribal" attitude toward what should be otherwise seen as a benevolent market force.

At the bottom of this fault line lie not only their differences regarding the proper characterization of the effects of an expanded market sphere, but also opposing perspectives on what constitutes a sufficient, stable and thriving social life. On this level the split between Hayek and Polanyi runs deep: even if Polanyi seems at times to presuppose a certain moral superiority of the small scale community over the enlarged society, which allows him to add a normative charge to his general criticism of the encroachment of market interactions in the life of

the community, Hayek's comparisons of the "tribal" society with the enlarged society entailed by market liberalism are grounded on a seemingly larger and more demanding conception of "social evolution", whereby certain social forms forced other, more archaic social complexes, into extinction. However, in this respect, Faria makes a compelling case for the somewhat paradoxical presence, in both thinkers, of something akin to a "double movement" with an emphasis on the evolutionary dynamics of social change, while simultaneously exposing the shortcomings of Hayek's criticisms of the insufficiency of the small-scale community life and a certain over-reliance on the superiority of individualistic (or atomistic) forms of social life.

Part of the reason why works like *The Great Transformation* and *The Road to Serfdom* still garner so much attention stems from the perception that the specific social issues and debates they tried to tackle still exist today, albeit in slightly different ways. As many observers have stressed, some of the economic and political problems which affected most advanced and integrated capitalist economies over the previous decade seem remarkably similar to the path of progresses and setbacks that so gravely afflicted Western societies in the inter-war period: comparisons between the effects of the gold standard with the constraints imposed by the European monetary union, or the existence of coincidental aspects between the rise of today's populist movements with past political movements, are just two examples that lend credibility to attempts to actualize the message of these two classic works. Patrícia Fernandes's article ("Myth, utopia, and democracy in Karl Polanyi's *The Great Transformation*") fits neatly into the contemporary task of reviving the insights of past classics, by making a strong case for future-oriented political reforms that take into account the democratic deficits of current, overly market-based, societies.

While not hiding a certain allegiance to a Polanyian reading of our current malaise, Fernandes argues that an informed critique of the latest social misdevelopments – e.g. the subjection of Portugal to a severe form of economic austerity – must rediscover the importance of democratic control over heteronomous and illegitimate market interests, as well as the intrinsic worth of a democratic reflection rooted in an expanded and multidisciplinary take on the contributions produced by a variety of fields of knowledge. Against those who

implicitly or unconsciously assert that market interactions and their ancillary institutions must be regarded as a natural feature of our world, whereby its results necessarily attain the status of 'realistic' as opposed to 'unrealistic' or utopian perspectives, Fernandes makes a case for a re-energized notion of democracy which strips the market sphere from its pretension of naturality and reclaims for it a holistic reflection on the means to achieve democratic control over nature proper, man-made spheres of economic interaction and the permanent limitation of politics as a succession of contingent political projects.

How far the democratic control over the realm of economic interactions should go, and which type of legal and political instruments should be used in order to exert that control, depends on the shape that the political should assume. Here one is forced to venture into the histories of several traditions of thought so as to elicit the different responses to this difficult question. Bru Laín's contribution in this special issue ("Polanyi's Economic Embeddedness, Countermovement, and Republican Political Economy") focuses on the concurrence between central Polanyian notions such as the "double movement" or "economic embeddedness" and the solutions envisaged within the republican tradition of thought so as to rein in the outcomes of the marketplace. According to Laín, although Polanyi does not seem willing to endorse republican views on a number of issues, both Polanyi's main criticisms of market expansion and the republican attempts to keep "self-regulating" markets under control draw from a common concern for the "the material conditions for freedom". Here, the specific manner in which the republican tradition (abstracted from its varied historical and intellectual manifestations) faced the problem of the wildly asymmetric distribution of material goods plays an important role.

In fact, regardless of whether the realization of this shared concern entails that Polanyi's remedies for the dismaying state of wealth and income distribution would necessarily assume the specific contour of, for example, a "property-owning democracy", and therefore presuppose that the solution relies on a reinterpretation of a specific type of property as prerequisite for real freedom and political participation, both the Polanyian type of social analysis and the guiding thread of the republican tradition reject a watered-down conception of a merely "formal" economic realm. On the contrary, the dangers that such a 'free-standing'

economic sphere impose on the life of the community, on the one hand, and on the self-rule of freely associated and materially independent citizens, on the other, can only be adequately countered if these citizens finally come to terms with the underlying political features of the economic institutions and with their “substantive” structure, as opposed to their merely “formal” character. For contemporary observers, however, the corollary of this captivating discussion is the underlying call for a return of political economy as a self-standing field of investigation and debate, wherein a range of alternative “political economies” – e.g. of socialism and republicanism – is again thrust into the limelight, thereby replacing an ossified mainstream economic science left to its own devices for far too long.

As we have evidenced in our cursory glance at the lives of Hayek and Polanyi, and in keeping with the intellectual and academic practices of the day, both thinkers worked on topics that intersected several autonomous disciplines and often put forward complex arguments which some today would hesitate to fit into the dominating internal practices and language of economics or political theory. If anything, many of these arguments and debates would today fit into the field of political economy, the return of which the authors of this introduction would naturally stand for.¹⁷ Now, this political economy finds its highest expression when it unfolds under an internal logic that does not make too many concessions on the supposed autonomy of either purely “economic” considerations – e.g. what economic “efficiency” or “productivity” mean – or squarely “political” conceptions – e.g. “autonomy” or “freedom”.

An aspect that stands out in this special issue is the surprisingly small amount of direct engagement between Polanyi and Hayek, who refer to each other’s work only a handful of times. Against the backdrop of this seeming lack of dialogue, João Rodrigues (“The debate in the great transformation: Ludwig von Mises, Friedrich Hayek e Karl Polanyi on capitalism, socialism and markets”) critically assesses their theoretical development in the shadow cast by Von Mises. Taking as a point of departure a revisitation of the debate regarding the nature and embodiment of the markets, in which Polanyi and Hayek took opposite

¹⁷ We do not intend to claim here that the field of political economy is wholly absent; that would amount to an irresponsible and unwarranted position, given the many great political economists who labour to revive this field. Our use of the word ‘return’ here is meant as an appeal to the restatement of the primacy of political economy vis-à-vis ‘mainstream’ economics.

stances partly as a consequence of their own reading of the criticisms laid out by Ludwig von Mises in his influential take on the shortcomings of the marketless form of socialism (1920), Rodrigues presents in great detail the evolution of Hayek and Polanyi's positions not only on the issue of economic calculation within a socialist economy – which, with respect to the existence of markets, could assume different forms –, but also on the most accurate description of liberalism as a political-economic project and on the prospects of a reconceptualised idea of socialism, freed from ailing forms of economic centralization.

Beneath these theoretical positions lies, however, the fact that for both men a proper description of the inner workings of each type of social organization must rely on the identification of the political underpinnings of such organization – for example, whether individuals regard others in an instrumental way in the political or economic spheres, or whether the interaction between them could be made dependent on a specific form of mutual recognition, and therefore constrained by what that recognition could allow. At this level, the debate had already moved beyond the thorny issue of economic calculation and coordination. Rodrigues depicts this manifold space of argumentation which required both Hayek and Polanyi to subscribe specific positions regarding the role and necessity of social institutions, the drivers of social change and, particularly for Polanyi, the problem of transition from a capitalist regime.

Despite the intricacies of these characterizations, one is advised not to forget that each man's political leanings – taken here holistically, and not merely on the level of real politics – form the basis for their theoretical clashes: Polanyi's attack on the supposed 'spontaneous' nature of the markets, or Hayek's critique of socialism based on its inadequate means to convey information about individual preferences, could result from each author's incapacity to analyse the best and most coherent version of their theoretical enemy. On this, however, Rodrigues portrays Polanyi in a more favourable light, as he offers us a nuanced discussion of Polanyi's perspectives on the topic of the economic organization of socialism: as early as the mid-20s, Von Mises' indictment against centralized forms of economic planning seemingly had found an echo in Polanyi, whose rejection of a planned economy in favour of associational or guild-inspired forms of socialism

put him at odds with all socialists for whom centralized economic planning was the only feasible and worked out socialist political economy. Here, as in other places, one struggles to find much cause for disagreement between Hayek and Polanyi, despite what superficial readings might suggest.

Ultimately, what set both Austrian-born thinkers apart is what still divides neoliberalism and forms of socialism, which accept some form of markets, today: in which form and under which type of democratic control or oversight should the latter exist. And there is no better way to show our recognition for Hayek and Polanyi's work than by reinstating the ongoing, open-ended nature of these debates.

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