

The Endurance of History in the Age of ‘Good Governance’: Re-interpreting Karl Polanyi’s Institutionalism against Friedrich Hayek and Francis Fukuyama

The paper is under review at the *Review of International Political Economy (RIPE)*. Please do not cite without the permission of the authors.

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Not to know what has been transacted in former times is to be always a child. If no use is made of the labours of past ages, the world must remain always in the infancy of knowledge.

Cicero

And Diotallevi kept interjecting, sententiously: ‘*Historia magistra vitae.*’ To which Belbo responded: ‘Come on, cabalists don’t believe in history.’ And Diotallevi invariably answered: ‘That’s just the point. Everything is repeated, in a circle. History is a master because it teaches us that it doesn’t exist. It’s the permutations that matter.’

Umberto Eco (1989), *Foucault’s Pendulum*

History teaches nothing, but only punishes for not learning its lessons.

Vassily Kliuchsky (cited in Heilbroner, 1993: 13)

1. Introduction: Hayek–Fukuyama analogy

One of the most influential political economists of the twentieth century and the Nobel laureate in economic science in 1974, Friedrich von Hayek devoted most of his intellectual life to advocating the superiority of ‘spontaneous order’ vis-à-vis the inferiority of human design pertaining to state institutions. Such an order is exemplified best by the free market system free from state intervention and planning. In his now-classic book, *The Road to Serfdom*, Hayek (1944) argued that the institutions of the state apparatus have an inherent tendency to annihilate individual freedom, paving the way to ‘serfdom’ in the form of socialism or fascism. In his view, state-led planning and institutional intervention yields inefficiency in the economic domain and authoritarianism in the political domain. In contradistinction, a spontaneous market order generates individually unintended yet socially beneficial economic consequences along democratic lines. In other words, for Hayek of the

1940s, market and democracy are two sides of the same coin. It is impossible to incorporate individual freedom with economic efficiency by means of state-led institutional design.

In his later works, however, Hayek did not fail to detect self-destructive dynamics within the liberal spontaneous order, consisting of market and democracy. He observed that political competition within liberal democracy was undermining economic competition within the liberal market order. As the main reason behind the waning of the free market system, he singled out welfare projects and the consequent enlargement of state budgets. Nonetheless, these were the by-products of the democratic process itself. Then, 'not willing to accept this fate,' Hayek 'called for a change of public attitudes and for institutional reform strategies in order to reconstruct a liberal order' (Prisching, 1989: 57). This was the conceptual inconsistency on Hayek's part (Ioannides, 1992: 146–50). He was appealing for collective re-design of institutions through constitutional reform (Hayek, 1982, vol. 3), 'after having proved the impossibility of institutional design' (Prisching, 1989: 57). According to Hayek of the 1940s, state-led institutional design would destroy economic efficiency and individual freedom. However, Hayek of the 1980s saw that liberal democracy was jeopardizing the liberal market order, and thus called for state intervention to re-maintain the liberal order.

Interestingly, during the last years of Hayek's life, Francis Fukuyama (1989, 1992) declared 'the end of history' in terms of an incontestable victory of liberalism over state-led planning and interventionism. One of the leading proponents of New Right, Fukuyama told us that economic and political liberalism, encompassing free market and liberal democracy, has proven to be the unsurpassable culmination in human history. As the socialist regimes of the USSR and its satellites started to collapse one by one, this end-of-history thesis attracted a lot of attention from friends and foes alike.

However, fifteen years after his declaration of the end of history, Fukuyama (2004) came with another work: *State Building: Governance and World Order in the Twenty-First Century*. This time, Fukuyama warns us about the need to build 'efficient' (i.e., market-friendly) state institutions for economic development. It seems that, for Fukuyama, 'state building' is a means to establish and maintain the full victory of liberalism on those parts of the world where it is relatively absent, especially in the developing countries. His 'developmental' recipe calls for the strengthening of state institutions. In this way, he argues, a completely 'liberal' international order can be constructed. In other words, Fukuyama calls for politico-institutional interference by the state apparatus in order to maintain and extend economic liberalism. However, he does so, only fifteen years after having declared 'the end of history' in terms of a permanent victory of liberalism over state-led regimes.

There is an interesting parallel between Hayek and Fukuyama. Both of them had initially come with quite strong ultra-liberal theses, which they have had to revise eventually. Of course, there is nothing intrinsically problematic in revising ideas that were previously advocated. Indeed, such revision is intellectually quite healthy. However, what is involved here is not merely a simple revision of some preceding views. Our contention is that there is an inherent problem in the hard-line version of liberal economic thought, which Hayek and Fukuyama endorsed in their earlier respective careers. In this paper, we critically re-consider this type of liberalism along with its contemporary extensions.

In Section 2, we briefly discuss the emergence of the most recent version of liberal economic thought, namely the ‘good governance’ (GG) discourse, which has been advanced by the World Bank and other major international economic organizations in the early 1990s. We examine Fukuyama’s ‘developmental’ recipe in this context, as his new thesis is an extension of the neo-liberal GG agenda. This parallel is the main reason why we focus upon Fukuyama’s *State Building*.

In Section 3, we turn to Karl Polanyi’s (1944) classic book, *The Great Transformation*, which still remains as a critical and strong treatise against hard-line liberalism. Interestingly, Hayek’s *The Road to Serfdom* was published in the same year as was Polanyi’s book. This temporal coincidence is an additional motivation for utilizing Polanyi’s work to develop an institutionalist and historically-conscious critique of liberal economic thought. We derive and discuss three political-economy theorems by re-reading Polanyi, so as to show that a ‘spontaneous’ market order is self-defeating in the final analysis.

In Section 4, we establish a link between Polanyian ‘reality of society’ and the institutionalist ‘principle of impurity’ as developed by Geoffrey Hodgson. This institutionalist link provides us with a political-economy framework, within which hard-line liberal thought can be associated with what we call ‘utopian liberalism’, as exemplified by Hayek of the 1940s and Fukuyama of the end-of-history thesis.

In Section 5, we draw attention to the ‘semi-realistic liberalism’ that we find in Fukuyama’s *State Building* as an extension of the GG discourse. Despite its ‘liberal’ emphasis on participatory democracy, rule of law, voice and accountability, etc., our contention is that the GG discourse has a tendency to re-generate what may be called the Hayekian–Fukuyaman inconsistency.

In Section 6, we end the paper with some warning remarks by way of conclusion. In the light of Polanyi theorems, the neo-liberal GG agenda carries the illiberal potential to yield

authoritarian regimes, especially in the developing countries in the first quarter of the twenty-first century.

2. Good governance and Fukuyama's 'good state' formula: Minimal scope by maximal strength

During the so-called 'golden age of capitalism', covering roughly the period from the end of the Second World War to the early 1970s, both the developed and developing countries experienced fast rates of economic growth with relatively equal income distribution. It was a Keynesian age within which the state played a relatively active role vis-à-vis the market. This active role was institutionalized within the 'welfare state' in the developed countries, the 'developmental state' in the non-socialist developing countries, and the 'central planning bureau' in the socialist countries. Outside of the socialist world, 'International Keynesianism' became so prevalent that US President Richard Nixon famously declared its victory in 1971 by saying that 'we are all Keynesians now.'

However, the reign of welfare and developmental states started to wane by the early 1970s and became increasingly vulnerable to the critiques of Hayekian proponents of free market policies. The US's abandonment of the gold standard, coupled with the two oil shocks, resulted in serious socio-economic problems at international level. Stagflation became widespread in the late 1970s and the so-called international debt crisis hit the developing countries in the early 1980s. It was out of these ruinous circumstances that neo-liberalism started to pervade the academic and policy-making circles as the new dominant paradigm. The shibboleth of liberal economic thought was once again in the ascendancy: a minimal state is needed to achieve economic growth and development. This neo-liberal view was dictated especially by the IMF and the World Bank to the developing countries in terms of openness, privatization and deregulation, with an eye to avoiding defaults on debt repayment. Backed by the Reagan and Thatcher governments in the US and the UK, this so-called Washington Consensus (WC) soon became a standard recipe dictated as a developmental strategy with no alternatives. Developing countries could get rid of their developmental problems, it was argued, if and only if they subscribed to the 'good policies' under the rubric of neo-liberalism.

However, many countries subscribing to the neo-liberal recipe experienced economic crises from the 1990s to the first decade of the 2000s (e.g., Mexico in 1994, Turkey in 1994 and 2001, the so-called East Asian tigers in 1997, Brazil and Russia in 1998, Argentina in 2002, etc.). In the meantime, the socio-economic problems of sub-Saharan Africa were

aggravated, and poverty along with income inequality considerably increased in most parts of the world. On top of that, such countries as China and India, which by no means complied with the WC, have turned out to be the most successful countries in terms of economic growth and development (Chang, 2007: 26–31). Under such circumstances, one would expect a gradual weakening of market-oriented neo-liberalism and a revival of state-oriented approaches. However, the unexpected happened. Despite its general failure in practice, its proponents did not fail to maintain neo-liberalism as the dominant politico-economic paradigm.¹ Interestingly enough, they did so by transforming it into the so-called ‘Augmented Washington Consensus’ (AWC) (Rodrik, 2002).

This discussion brings us to the emergence of the ‘developmental’ agenda of ‘good governance’ (GG), which was developed by the World Bank (1989, 1992, 1994, 1997, 2000, 2002), with the help from the IMF (2002), the United Nations Development Programme (UNDP, 1997a, 1997b) and the OECD (2001a, 2001b, 2002). The failure of neo-liberal ‘good policies’ implemented by the developing countries under the WC was eventually attributed to the lack of ‘good institutions’ in their political and public spheres, rather than the deficiencies of the policies themselves.

The problem is that the neo-liberal approach has an *illiberal proclivity* in both of its reincarnations (i.e., WC and AWC). Repudiating all alternatives, it sees market-oriented policies and institutions as the only route to development. In other words, neo-liberalism resonates in the famous declaration made by the British Prime Minister Margaret Thatcher in the early 1980s: ‘there is no alternative’ (TINA). This neo-liberal TINA approach sounds like the slogan of a counter-revolutionary, as if implying that ‘we are all Hayekians now’ (against Nixon’s above-mentioned Keynesian catchphrase).

It is in this context that we need to situate Fukuyama’s (2004) *State Building* in juxtaposition to the GG agenda of the AWC. A practical recipe for development is in order throughout this book, especially in the concluding chapter titled ‘Smaller but Stronger’. In contrast to his earlier end-of-history thesis (1989, 1992), Fukuyama has now come to recognize the past deficiency of neo-liberalism between the late 1970s and early 1990s: ‘For well over a generation, the trend in world politics has been to weaken stateness,’ as ‘many states in the twentieth century were too powerful’ (Fukuyama, 2004: 161). In accordance with the now-fashionable GG agenda, Fukuyama draws attention to the ‘inadequate level of institutional development’ on the part of poor countries, which ‘do not need extensive states’ but ‘strong and effective ones’ (162). Indeed, he argues that ‘we do need to be mindful of the

need for power', which is 'necessary to enforce a rule of law domestically' as well as 'to preserve world order internationally' (163).

In this vein, Fukuyama distinguishes between two dimensions of 'stateness': i) 'scope of state functions' (SSF), and ii) 'strength of state institutions' (SSI). While the SSF 'refers to the different functions and goals taken on by governments,' the SSI is 'the ability of states to plan and execute policies and to enforce laws cleanly and transparently' (Fukuyama, 2004: 9).

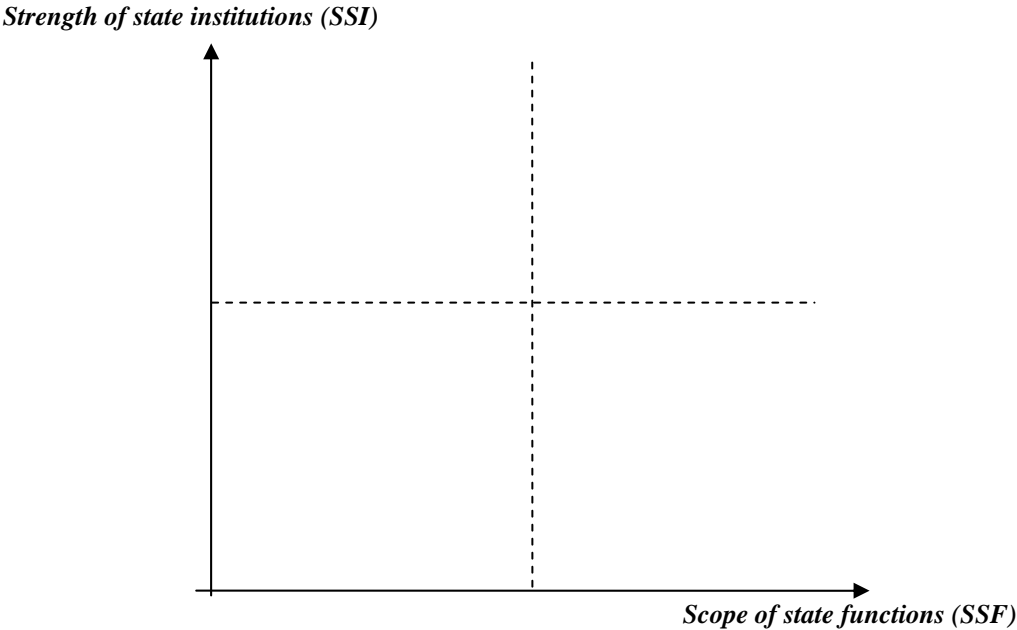
Referring to World Bank (1997), Fukuyama comes with an ordering of the functions of the state. The SSF embodies a set of activities, ranging from minimal ('necessary and important') to intermediate ('merely desirable'), and to activist ('optional') functions (Fukuyama, 2004: 10–11). He provides the following hypothetical scheme as an example: Minimal functions of the state are defense, law and order, property rights, macroeconomic management, public health, anti-poverty programs, and disaster relief. Intermediate functions of the state are education, environmental protection, utility regulation, anti-trust, insurance, financial regulation, and consumer protection. Activist functions of the state are industrial policy and wealth redistribution (Fukuyama, 2004: 10–11, Figures 1 & 2).

On the other hand, Fukuyama's concept of SSI can be interpreted as a notional aggregate of the GG indicators as developed by the World Bank. In conjunction with the Bank's poverty alleviation schemes and anti-corruption measures, the term GG has evolved over time to eventually mean efficient institutions in political and public spheres. The World Bank Institute (WBI) maintains a comprehensive web-page on 'Governance & Anti Corruption' under its 'Learning Programs'. The GG indicators developed by the WBI are considered to be conducive to and indispensable for economic development. These indicators are associated with six desirable functions of political and public institutions: i) Voice and accountability, ii) Political stability and absence of violence, iii) Government effectiveness, iv) Regulatory quality, v) Rule of law, and vi) Control of corruption. For the measurement of each of these indicators, the WBI has compiled a large data-set covering the period 1996–2007 for more than 200 countries and territories by using many surveys provided by various governance-related organizations.

Distinguishing between the SSF and SSI, Fukuyama constructs a hypothetical 'stateness matrix' by using the first quadrant of the conventional x–y plane. Measuring the functional scope and the institutional strength of the state on the horizontal and vertical axes, respectively; he divides the first quadrant into four pieces as in Figure 1. In this figure, Fukuyama's developmental recipe of a 'small but strong' state corresponds to the upper-left quarter where he locates US as an example. Thus, the upper-right quarter comprises 'large

and strong’ states (such as Japan and France), whereas the lower-left quarter is the spot of ‘small and weak’ states (such as Sierra Leone). As far as the lower-right quarter of ‘large but weak’ states is concerned, Fukuyama singles it out as ‘the worst place to be in economic performance terms . . . where an ineffective state takes on an ambitious range of activities that it cannot perform well.’ He posits Turkey and Brazil as two possible examples residing in this lower-right location, ‘exactly where a large number of developing countries are found’ (Fukuyama, 2004: 15–16).

Figure 1. Fukuyama’s ‘stateness matrix’ (Fukuyama, 2004: 14–15)



It is clear that, in Fukuyama’s stateness matrix, good economic performance leading to development is more a matter of the politico-institutional strength of the state rather than the socio-economic scope of the state. Insofar as he locates the developed countries into either the upper-left or upper-right quarter, he is implicitly asserting the primacy of ‘good’ institutions over ‘good’ policies.

In this regard, Fukuyama admits the idea that ‘economic success is not . . . the only reason for preferring a given scope of state functions’; indeed, ‘many Europeans argue that American-style efficiency comes at the price of social justice and that they are happy to be in [the upper-right quarter]’ (Fukuyama, 2004: 15). Even so, he concludes his book with a final chapter titled ‘Smaller but Stronger’, prescribing the upper-left quarter rather than the upper-right quarter as the remedy to developmental problems. As such, Fukuyama endorses the TINA approach of neo-liberal GG, which, in this context, dictates that ‘there is no alternative’ to ‘good policies’ (i.e., minimal SSF) and ‘good institutions’ (i.e., maximal SSI). A north-

western trajectory in Fukuyama's scope–strength plane is dictated as the best alternative for achieving development.

At this point, our contention is that Karl Polanyi's *The Great Transformation*, as a historically-conscious and institutionalist critique of liberal economic thought, has the potential to heighten our understanding of the relationship between the 'SSF' and the 'SSI', in Fukuyama's parlance. Thus, we now turn to Polanyi's critique of the 'nineteenth-century civilization', as we think that important implications can be derived from this Polanyian framework for the 'twenty-first-century civilization' in the making.

3. Three political-economy theorems derived from *The Great Transformation*

Hayek's *The Road to Serfdom* and Polanyi's *The Great Transformation* were both published towards the end of the Second World War in 1944. This coincidence is rather thought-provoking, since the two books were 'antidotes' to each other. Hayek regarded fascism and socialism as two sides of the same authoritarian coin. He thought that fascism was a consequence of socialism: 'Few are ready to recognize that the rise of fascism and naziism was not a reaction against the socialist trends of the preceding period but a necessary outcome of those tendencies' (Hayek, 1944: 3–4). That is to say, Hayek saw socialist Russia as the parent of fascist Germany. In contrast, Polanyi (1944: 30) argued that 'in order to comprehend German fascism, we must revert to Ricardian England,' which was the cradle of economic liberalism. Hayek and Polanyi exhibited such a stark difference of opinion about the origins of fascism, because they had diametrically opposed conceptions regarding the relationship of the state to the market. In this section, we first briefly examine this antinomy between Hayek and Polanyi. Then, we derive three Polanyi theorems from *The Great Transformation* so as to construct an institutionalist political-economy framework, within which Hayekian conception of the relationship of the state to the market can be re-considered critically.

For Hayek, the spontaneous market order represents what may be called natural economic democracy, without which individual freedom and political democracy cannot be established and maintained. As the domain of the state destroys the 'natural' (i.e., spontaneous) activity on the market sphere by means of its artificial institutions of intervention and planning, the individual loses its freedom of choice and action in terms of what to produce and consume as well as how much to save and invest. The loss of such freedom at the level of individual is a primary source of economic inefficiency and failure at

the social level. Moreover, the increasing dominance of the state over the market paves the way for ‘serfdom’ in the form of authoritarian regimes such as fascism and socialism.²

For Polanyi, in contrast, the so-called ‘spontaneous market order’, or what he preferred to term as the ‘self-regulating market system’ (SRMS), is an artificial (i.e., non-spontaneous) mechanism, which is socially self-destructive at the same time. Its construction and maintenance entail a pre-planned destruction of the natural ‘embeddedness’ of political and economic spheres in social life. Destroying this historical embeddedness, economic liberalism leads to the annihilation of socio-economically protective institutions of the state. However, the artificial construction of an anti-social ‘liberal’ order inevitably generates an anti-liberal counter-movement. Such a counter-movement takes the form of humane and democratic demands for social protection and security against the vagaries of the SRMS. In this Polanyian scheme, it is an eventual possibility that fascism may emerge out of the tension between the liberal and the protectionist movements, insofar as the supply of such protection is defied effectively by the proponents of the SRMS. In other words, far-reaching liberalism has an inherent potential to breed authoritarianism.

An original international political-economy perspective can be derived from Polanyi’s analysis of the relationship of the SRMS to anti-democratism. The hard-line versions of economic liberalism, along with neo-liberal globalization manifested in the ‘good governance’ (GG) agenda, can be duly scrutinized within this Polanyian framework. In this re-interpretation of the Polanyian critique of liberal economic thought, we now specify three political-economy theorems, which we derive from *The Great Transformation*. In doing so, we translate these theorems into Fukuyama’s GG-oriented parlance in order to accentuate the contemporary relevance and significance of Polanyi’s analysis.

First Polanyi Theorem: *‘Strength of state institutions’ (SSI) is indispensable for the establishment and sustenance of a market order. Such an order requires that the ‘scope of state functions’ (SSF) be narrowed down by making use of the SSI. A liberal ‘spontaneous order’ can neither emerge nor evolve ‘naturally’ without the politico-institutional power ‘artificially’ exerted by the state.*

For Polanyi, the rationale behind *laissez-faire* was to fabricate a man-made ‘stupendous mechanism’, the construction and maintenance of which could have been ensured by ‘nothing less than a self-regulating market on a world scale’ (Polanyi, 1944: 138). This SRMS was the ‘fount and matrix’ of the ‘nineteenth-century civilization’ (Polanyi, 1944: 3). The SRMS was deliberately designed in order to constitute a market society. In sharp contrast

with Hayek, Polanyi emphasized the impossibility of the ‘spontaneous’ emergence and evolution of the SRMS:

There was nothing natural about *laissez-faire*; free markets could never have come into being merely by allowing things to take their course. . . . *Laissez-faire* itself was enforced by the state. . . . The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. . . . Administrators had to be constantly on the watch to ensure the free working of the system. Thus even those who wished most ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of *laissez-faire* (Polanyi, 1944: 139–41).

These oft-quoted passages published in 1944 sound prophetic from today’s point of view. For instance, Hayek argued for institutional re-construction of the liberal order in the 1980s, despite the ultra-liberal postulates that he advanced in the 1940s regarding the perils and inefficiencies of institutional design. Analogously, Fukuyama became a champion of ‘state building’ by emphasizing the need for enhancing the SSI for establishing and maintaining liberal economic development in 2004, whereas he had previously declared the victory of liberalism over state-led institutional planning and interventionism. From the 1990s onwards, proponents of neo-liberalism have started to discover that ‘good institutions’ matter for economic development, whereas during the 1980s they had dictated merely ‘good policies’ in the form of a standard recipe to all developing countries as if their institutional capabilities did not matter. This neo-liberal inconsistency is best exemplified, among others, in Jeffrey Sachs’s assertion concerning the post-socialist transition economies: ‘Markets spring up as soon as central planning bureaucrats vacate the field’ (Sachs, 1993: xxi).³

In this regard, the following quotation from Polanyi sounds as if he is criticizing today’s New Right, which has re-emerged since the early 1980s as a strange coalition between liberalism and conservatism⁴:

Strictly, economic liberalism is the organizing principle of a society in which industry is based on the institution of a self-regulating market. True, once such a system is approximately achieved, less intervention of one type is needed. However, this is far from saying that market system and intervention are mutually exclusive terms. For as long as that system is not established, economic liberals must and will unhesitatingly call for the intervention of the state in order to establish it, and once established, in order to maintain it. The economic liberal can, therefore, without any inconsistency call upon the state to use the force of law; he can even appeal to the violent forces of civil war to set up the preconditions of a self-regulating market (Polanyi, 1944: 149).

Second Polanyi Theorem: *The deliberate use of the politico-institutional power of the state for constructing and maintaining a 'free' market order entails the spontaneous emergence of a social counter-movement. This counter-movement demands socio-economic protection and social security against the degradation and dislocation caused by the operation of the SRMS. Thus, the initial 'liberal' movement, which augments the SSI to narrow down the SSF, creates its own opposition spontaneously, thereby metamorphosing into a 'double movement'.*

The nineteenth-century phenomenon of the SRMS was inherently self-defeating, so much so that 'the idea of a self-adjusting market implied a stark utopia' (Polanyi, 1944: 3). The idea of a purely 'spontaneous order' was utopian, since it was bound to become the victim of its own success. The SRMS in nineteenth century yielded material success by distorting the historical embeddedness of the political and economic institutions in social life. The far-reaching aspirations of the liberal movement tended to generate an anti-societal market-orientation, to which society responded by demanding state-led 'anti-liberal' institutions for socio-economic protection and social security.

According to Polanyi, the natural integrity of socio-economic life relies on the cohesion of three basic ingredients: human beings (labor), the nature surrounding them (land), and the institutions of exchange (money). However, a SRMS requires fully 'flexible' markets for labor, land and money, which are famously dubbed by Polanyi as the 'fictitious commodities'. The SRMS presupposes the conversion of labor, land and money into ordinary commodities. But the truth is that these are not genuine commodities, because they are *not* 'things' that are produced for sale on the market. Yet these 'natural' ingredients of socio-economic life have to be 'freely' bought and sold like ordinary commodities within the 'artificial' context of the SRMS. However, the idea of a SRMS, or 'spontaneous order' in Hayek's parlance, requires such a 'commodity fiction' in practice.

The built-in problem with the SRMS is that the 'genuine' nature of 'fictitious commodities' is not compatible with the vagaries created by such self-regulation. Thus, the SRMS spontaneously generates an inevitable need for socio-economic protection and social security through the extra-market institutions of state intervention and planning. On the other hand, the *laissez-faire* theorists and practitioners strived to establish and maintain the reign of the market logic as the offspring of a 'liberal creed' (Polanyi, 1944: 135–162). 'Fired by an emotional faith in spontaneity,' the proponents of economic liberalism exhibited 'a mystical readiness to accept the social consequences of economic improvement, whatever they might be' (Polanyi, 1944: 33). All in all, 'while *laissez-faire* economy was the product of deliberate

state action, subsequent restrictions on *laissez-faire* started in a spontaneous way. *Laissez-faire* was planned; planning was not' (Polanyi, 1944: 141).

So, the eventual outcome of the initial 'liberal' movement was a metamorphosis into a 'double movement'. On the one hand, there was the 'principle of economic liberalism aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely *laissez-faire* and free trade as its methods' (Polanyi, 1944: 132). On the other hand, 'there was the principle of social protection aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market' (Polanyi, 1944: 132).

Interestingly, the nineteenth-century believers of the 'liberal creed' also admitted this Polanyian idea of a 'double movement'. However, their perception of this clash of movements remained fundamentally flawed. They considered the anti-liberal reactions to the operation of the SRMS as a kind of planned 'conspiracy' against the freedom of individual and international peace. For instance, protectionist measures, such as factory laws and customs tariffs, as well as the active colonial policy leading to imperialist rivalries, were considered by the liberals as the excuses for the ultimate failure of the gold standard and the SRMS (Polanyi, 1944: 211–215). These excuses reveal that Polanyi's liberal contemporaries lacked any sense of the emergent need for socio-economic protection and social security. Such a need arose from the efforts of the liberal movement to dictate the market logic as the only 'rule of law' with no alternatives.

For Polanyi (1944: 142–3), 'the concept of a self-regulating market was utopian, and its progress was stopped by the realistic self-protection of society.' For the liberals, 'all protectionism was a mistake due to impatience, greed and shortsightedness.' Apologists of economic liberalism insisted that 'not the competitive system and the self-regulating market, but interference with that system and interventions with that market are responsible for our ills' (Polanyi, 1944: 142–3). In other words, old liberals were like the contemporary neo-liberals. They never tire of repeating that the SRMS would invariably yield economic success if it was allowed to function spontaneously, as if such spontaneity was socially viable without deleterious effects on the greater bulk of social strata.

Third Polanyi Theorem: *The socio-economic burdens imposed by the liberal movement, which relies on augmenting the SSI to narrow down the SSF, lead to the disintegration of the historical 'wedlock' of the market to the state. The weakening and destruction of socio-economic institutions that are democratically demanded by the counter-movement lead to a severe tension at social level. As far as this demand is defied, the double*

movement has an unintended and anti-democratic tendency to give birth to 'illegitimate' children in the form of authoritarian regimes.

After his critique of economic liberalism permeating the first twenty chapters of *The Great Transformation*, Polanyi concludes his *magnum opus* by a final chapter titled 'Freedom in a Complex Society'. Polanyi's choice of ending his critique of economic liberalism with a discussion of 'individual freedom' is somewhat surprising, because one may expect him to have repeated the case for the then-existing socialism in his conclusion. Polanyi could have easily advocated the state-led imposition of income equality, along with a support for the abolition of private property and the elimination of the market. But he didn't. He chose to envisage the 'great transformation' in the making, primarily in terms of the termination of the 'commodity fiction' regarding land, labor and money.⁵ Indeed, Polanyi anticipated and welcomed the survival of (regulated and *not* self-regulating) markets that would secure individual freedom:

To remove the elements of production – land, labor, and money – from the market is thus a uniform act only from the viewpoint of the market, which was dealing with them as if they were commodities. From the viewpoint of human reality that which is restored by the disestablishment of the commodity fiction lies in all directions of the social compass. In effect, the disintegration of a uniform market economy is already giving rise to a variety of new societies. Also, *the end of market society means in no way the absence of markets.* These continue, in various fashions, *to ensure the freedom of consumer*, to indicate the shifting of demand, to influence producers' income, and to serve as an instrument of accountancy, *while ceasing all together to be an organ of economic self-regulation* (Polanyi: 1944: 252, emphases ours).

Individual freedom and international peace are two prominent subject-matters that Polanyi pays due attention in the last chapter of his book. The inherent problem in the SRMS was that 'neither freedom nor peace could be institutionalized' under its operational logic, 'since its purpose was to create profits and welfare, not peace and freedom' (Polanyi, 1944: 255).

Furthermore, Polanyi emphasizes the need for enhancing personal liberty by protecting the 'high values' of 'moral freedom and independence of mind' inherited from 'the most precious traditions of Renaissance and Reformation' (Polanyi, 1944: 255). He openly asserts that 'in an established society, the right to nonconformity must be institutionally protected,' and that 'we must try to maintain by all means in our power these high values inherited from the market economy which collapsed' (Polanyi, 1944: 255). Interestingly, the harsh critic of the SRMS does not hesitate to eulogize 'the market' for its sustenance of the liberty-enhancing legacy of Renaissance and Reformation.

It is clear that Polanyi is an extra-ordinary mind as far as his conception of peace and individual liberty is concerned. Unlike the regular socialist of his time, he puts a truly ‘liberal’ emphasis on the priority of establishing a peaceful international order and safeguarding the right to nonconformity. And unlike the regular liberal of his time, he asserts that these two tasks can be accomplished only by means of deliberate institutional design, rather than by means of a kind of liberal ‘anarchy’ involving an illusory institution-free economy.⁶

Polanyi’s institutionalism can be interpreted as an extension of what he dubs the ‘*reality of society*’ (Polanyi, 1944: 257). The reality of society is that a degree of state-led institutional planning and intervention vis-à-vis the market is needed for enabling and protecting individual freedom and international peace. In this regard, the most interesting passages in the concluding pages of *The Great Transformation* are to be found in Polanyi’s explanation of the historical link between economic liberalism and fascism.⁷

In Polanyi’s view, ‘the victory of fascism was made practically unavoidable by the liberals’ obstruction of any reform involving planning, regulation or control’ (Polanyi, 1944: 257). As far as the anti-interventionist liberal component of the ‘double movement’ denied or tried to avoid the ‘reality of society’, variants of fascism were to emerge to dictate the very same reality in an authoritarian mode. Therefore, the ‘utopian’ liberal creed in the omnipresent superiority of a SRMS has the potential to breed fascism as an unintended consequence in the final analysis.

4. The institutionalist ‘principle of impurity’ versus ‘utopian liberalism’

Polanyi’s concept of the ‘reality of society’ implies that individual freedom and international peace are not attainable in the absence of an institutionalized harmony between the ‘scope of state functions’ (SSF) in the socio-economic sphere and the ‘strength of state institutions’ (SSI) in the politico-institutional sphere. The historical embeddedness of the socio-economic and the politico-institutional roles of the state is the undeniable reality of society. As far as this reality is defied and this embeddedness is destroyed by pure market logic, any SRMS is bound to generate self-defeating consequences.⁸

These insights of Polanyi have proven to be seminal, especially for institutionalist economists. For instance, the leading institutionalist economist Geoffrey Hodgson, relying partly on Polanyi, has developed two related social-scientific principles: the ‘principle of impurity’ and the ‘principle of dominance’ (Hodgson, 1984: chps 6 & 7; 1988: 167–71 & 256–62; 1999: 124–130; 2001a: 333–40; 2001b: 70–75). The principle of impurity asserts that ‘an open system has to contain sufficient variety to deal with all the potential variation in its

environment' (Hodgson, 1988: 168). The complementary 'principle of dominance' asserts that 'in socio-economic systems some provisioning institutions are more dominant than others' (Hodgson, 2001a: 336). Thus, the principle of impurity, as a criterion of 'sufficient variety' and a systemic survival condition, requires the co-existence of 'non-dominant impurities' along with the dominant institutions of any socio-economic system.

Therefore, the institutional viability of market-dominated socio-economic systems relies on the maintenance of non-dominant, extra-market impurities; such as the institutions of socio-economic protection and social security harbored within the SSF. The system tends towards 'economic purification' as the socially necessary functions of the state are weakened and eliminated by the augmented SSI. As such, the SRMS paves the way for its self-destruction by getting rid of the 'sufficient variety' it needs for its own survival. In a Polanyian vein, Hodgson (2001b: 71–2) argues that 'neither planning nor markets can become all-embracing systems of socioeconomic regulation.' The 'reality of society' necessitates a balanced combination of the state and the market.

Not surprisingly, an outright disallowance of the institutionalist principle of impurity can be found in Hayek of the 1940s: 'both competition and central direction become poor and inefficient tools if they are incomplete' (Hayek, 1944: 42). For Hayek, market competition and state planning are not compatible with each other, because 'they are alternative principles used to solve the same problem, and a mixture of the two means that neither will really work and the result will be worse than if either system had been consistently relied upon' (Hayek, 1944: 42). Similarly, Israel Kirzner, another prominent member of the Austrian school of economics and a pupil of Ludwig von Mises, claims that 'a market economy, even the purest of pure, can never be a utopia' (Kirzner, 1963: 308). We insist that such ultra-versions of economic liberalism envisage a 'utopian' spontaneous order. Let us name these versions as '*utopian liberalism*' in the light of Polanyian institutionalism.

Utopian liberalism can be defined as a set of ultra-liberal beliefs that ignore the institutionalist principle of impurity. In polar opposition to utopian liberalism, the three political-economy theorems, which we derived and discussed in the previous section, constitute Polanyi's realistic approach, yielding the principle of impurity. The Polanyian 'reality of society' necessitates the preservation of some extra-market *impurities* for the survival of not only the dominance of market institutions but also that of democracy. Variants of utopian liberalism, as exemplified best by Kirzner's above-quoted claim, are invalid, because a 'spontaneous' market order that is run according to *pure* market logic is inconceivable in terms of institutional reality.

The folly of utopian liberalism arises from an illusory institution-free conception of individual freedom, and Polanyi thought that such illusion is likely to yield fascism. Thus seen, Hayekian political economy in the 1940s, the neo-liberal Washington Consensus in the 1980s, and Fukuyama's end-of-history thesis are all varieties of utopian liberalism, since they implicitly ignore the fact that extra-market institutions matter in the construction and maintenance of a 'free' market economy.

In juxtaposition to utopian liberalism, there is yet another, relatively new type of liberalism, which has a tendency to admit the fact that institutions matter. A relevant example is the neo-liberal GG agenda of the post-1990 period, which recognizes the validity of the first Polanyi theorem, belittling the second and the third ones. On the other hand, Fukuyama (2004) admits the validity of the first and second Polanyi theorems, but ignores the possibility of the emergence of fascism out of *coerced liberalism*, as implied by the third theorem. In the light of the institutionalist principle of impurity, we examine these types of 'semi-realistic liberalism' in the following section.

5. Good governance and 'State Building' as cases of 'semi-realistic liberalism'

There are at least two problems with the neo-liberal TINA-approach to economic development. First, wrongly and without any significant empirical-historical support, this approach presumes that best developmental outcomes are to be obtained by moving in the north-western direction on Fukuyama's 'scope-strength' plane. However, there are now some studies, which have revealed that the now-developed countries did *not* become developed by subscribing to the recipe of 'minimal scope' (Chang, 2002, 2007). Indeed, in their initial phases of development, many of the now-developed countries adopted 'maximal scope', particularly in the form of state-led development of their 'infant industries'. Only after achieving a certain level of development did they come to rely more on the market, and at that did not necessarily end up at the upper-left sub-quadrant of Fukuyama's stateness matrix. Moreover, the Keynesian golden age, roughly from the late 1940s to the early 1970s, was also characterized by quite a 'wide scope' on the part of the state, yielding success in terms of economic growth and development. Besides, it has already been well-documented, following the seminal works by Alice Amsden (1989) and Robert Wade (1990), that the 'miraculous' experiences of Japan and the East Asian countries relied by no means on 'minimal states'. This literature weakens further the case for 'minimal scope' as the only route to development. Last but not the least, China and India today are two of the fastest growing economies in the

world, despite the fact that their developmental paths have not complied with the neo-liberal recipe.

Secondly, there is another serious problem pertaining to the New Right coalition between neo-liberal economics and neo-conservative politics. So far, this second problematic aspect has been discussed relatively less distinctly in the literature. We have already noted that Fukuyama’s end-of-history thesis, together with the Washington Consensus of the 1980s, ignored all the three Polanyi theorems. However, in his later work, together with the GG agenda, Fukuyama (2004) has come to recognize the first Polanyi theorem. In accordance with the Polanyian–institutionalist critique, proponents of GG and Fukuyama now accept that the politico-institutional ‘impurities’ provided by the state should be augmented in order to construct and sustain a market-dominated system. Nonetheless, the GG agenda has a tendency to remain silent on the implications of the second and the third Polanyi theorems, whereas Fukuyama acknowledges the second Polanyi theorem only idiosyncratically and ignores the third theorem. In this regard, the evolving relative positions within the context of neo-liberalism are summarized in Table 1.

Table 1. Neo-liberal developmental approaches and the Polanyi theorems			
	Washington Consensus (Standard recipe: TINA to ‘good’ policies)	‘Good Governance’ (Standard recipe: TINA to ‘good’ institutions)	Fukuyama’s <i>State Building</i> : Minimal scope by maximal strength
First Polanyi Theorem	Ignored	Acknowledged	Acknowledged
Second Polanyi Theorem	Ignored	Ignored	Acknowledged idiosyncratically
Third Polanyi Theorem	Ignored	Ignored	Ignored

As an off-shoot of Hayekian political economy, Washington Consensus of the 1980s ignored all the three Polanyi theorems, and did not pay due attention to the role of institutions. Thus, it ignored: i) the need for augmenting the institutional power of the state to establish and maintain an apparently ‘spontaneous’ market order, ii) the emergence of anti-market yet democratic demands for socio-economic protection and social security against the ‘impurity-destroying’ logic of the SRMS, and iii) the possibility that defying the democratic demand for the extra-market institutions of socio-economic protection and social security can generate

anti-democratic consequences. This is the reason why the original Washington Consensus of the 1980s can be categorized as an example of ‘utopian liberalism’.

On the other hand, it would be unfair to regard the neo-liberal GG model as a case of utopian liberalism. At the least, it recognizes that institutions matter, accepting the impossibility of establishing and maintaining a ‘free’ market system without the politico-institutional ‘impurities’ provided by the state apparatus. Nonetheless, the GG discourse disregards the second and third Polanyi theorems. Therefore, it is reasonable to consider GG as an example of what may be called ‘*semi-realistic liberalism*’. Relative to the earlier Washington Consensus, the GG agenda has certain ‘progressive’ aspects, as it implies the need for institutions that are conducive to participatory democracy, voice and accountability, transparency and efficiency in the political and public spheres. However, the ‘goodness’ of these institutions is defined pre-dominantly in terms of their contribution to the ‘smooth’ operation of the ‘free’ market forces, with no significant attention paid to the necessary measures for protecting the greater bulk of society from the degradation and the dislocation generated by the SRMS.⁹ Arguably, the GG agenda does not pay due attention to the second and third Polanyi theorems because of its obsession with market-oriented policies and institutions. Therefore, the so-called governance reforms involve the weakening and elimination of the socio-economic ‘scope of state functions’ (SSF) for the sake of establishing market logic as the dominant organizing principle. Despite its ‘democratic’ rhetoric, the TINA-dictum of GG overlooks both: i) the democratic demands for socio-economic protection and social security against the market logic, and ii) the possibility that anti-democratic tendencies can emerge out of such logic.

If the GG agenda is an improvement over the earlier Washington Consensus in terms of the acknowledgement of the first Polanyi theorem, Fukuyama’s *State Building* can be read as an improvement over GG in terms of the acknowledgement of the second Polanyi theorem. However, in Fukuyama’s analysis, the second Polanyi theorem is acknowledged only idiosyncratically. That is to say, it is acknowledged within the context of a ‘neo-conservative realism’, which primarily aims at suppressing the socially-protectionist component of the double movement. Therefore, there are two incompatible yet distinctly possible ways of acknowledging the second Polanyi theorem: i) by considering the democratic demand for socio-economic protection and social security (against the socially deleterious effects of the market) as a *necessary impurity* for maintaining the market system, or ii) by considering that demand as an *unnecessary impurity* to be removed from the system. The first type of acknowledgement takes into account the possibility that the defiance of this democratic

demand may yield anti-democratic consequences, thereby accepting the third Polanyi theorem. The second type of acknowledgement, such as in the case of Fukuyama, is insensitive to such a possibility, thereby ignoring the third Polanyi theorem.

As such, Fukuyama's approach has the potential to lead to an anti-democratic TINA-position at a higher level, involving an effort to repress the democratic demand for socially protective extra-market impurities. That is to say, Fukuyama's recipe of augmenting the 'strength of state institutions' (SSI) can yield anti-democratic outcomes. It is possible that such a governance-oriented augmentation is utilized for specifically getting rid of the *socially necessary* impurities, which should be provided from within the socio-economic 'scope of state functions' (SSF). The supposedly best trajectory of development in the north-western direction on Fukuyama's 'stateness matrix' envisages economic success as a 'zero-sum game' between the SSI and SSF, thereby denying the Polanyian 'reality of society'.

6. By way of conclusion

The neo-liberal insistence on GG-oriented 'democratic development' as *the only alternative* has already been forcing the developing countries to move in the north-western direction on Fukuyama's 'scope-strength plane'. However, the seemingly 'liberal' approaches of Fukuyama and the proponents of GG involve the potential danger of promoting *de facto* autocracies, which may run 'free' elections yet ruthlessly suppress the demands for social protection and security. Unless the market-led deterioration of the socio-economic conditions of large segments of society is compensated by extra-market measures, the public opinion can lose its confidence in the benefits of market and democracy. To avoid this, necessary '*impurities*' from within the socially protective SSF should be incessantly maintained and renovated, if an institutionally viable degree of the '*dominance*' of market and democracy is wanted. The 'reality of society' necessitates such an institutionalized balance between the SSF and the SSI.

One must not fail to notice that Fukuyama puts the US in the upper-left portion of his stateness matrix as a developmental model of a 'small but strong state'. However, he hardly mentions anything, for example, about General Augusto Pinochet's Chile, which fits in the same upper-left location even better than the US does. Then the crucial question follows: is it legitimate, in simple humane terms, to superimpose supposedly 'good' (i.e., market-friendly) policies by means of illiberal institutions that rely on anti-democratic power? The possibility of the emergence of authoritarianism through such superimposition is no concern at all for the contemporary proponents of what we call semi-realistic liberalism. However, this possibility

of the emergence of ‘bad governance’ out of the TINA-dictums of ‘good governance’ is the ultimate challenge to neo-liberalism.

In this connection, we should recall that the Chicago neo-liberals did not hesitate to support *coerced liberalism* once upon a time. ‘The high priests of Chicago, Friedrich von Hayek, Milton Friedman, and Arnold Harberger’ were far too determined to dictate their uncompromising sentiments concerning the superiority of the market. They were so intemperate that they advocated the use of ‘an authoritarian state to prevent pressure groups such as trade unions and political parties from interfering with a government’s ability to make decisions free from immediate political pressures’ (Green, 2003: 33).

Arguably, Fukuyama’s ‘good state’ formula of ‘minimal scope by maximal strength’ is essentially reminiscent of coerced liberalism once advocated by the Chicago school. The GG-oriented idea that development can best be achieved by minimizing the SSF through maximizing the SSI seems to be the intellectual heir of the Chicagoans’ support for authoritarianism for the sake of establishing ‘pure’ economic liberalism. Indeed, ‘the combination of reducing the state’s role in the economy, while greatly enhancing its powers to undermine trade unions and other potential opponents became the hallmark of neo-liberal rulers such as General Pinochet or Mrs. Thatcher’¹⁰ (Green, 2003: 33).

One should note that Pinochet’s Chile is only one example among various developing countries that were subjugated to coerced liberalism in the near past. History may repeat itself, of course with certain institutional differences, in the near future. New versions of authoritarianism may arise from a historically-unconscious reliance on the neo-liberal TINA-obsession, which unconditionally endorses the superiority of market-oriented policies and institutions. TINA-minded liberals may start once again to argue that the developing countries should augment the institutional power of the state in the name of GG (at all human and socio-economic costs) in order to establish and maintain the free market. They may even start to recommend implicitly that the developing countries be governed by Pinochet-like lackeys of neo-liberalism. From our institutionalist perspective, unless the TINA-minded architects of the GG agenda duly comprehend and acknowledge the three Polanyi theorems, the rise of anti-democratic regimes may start to characterize the first quarter of the twenty-first century, especially in the developing countries.

Can coerced liberalism one day bring ‘history’ to an end by defying the ‘reality of society’ in a totalitarian way? This is a question impossible to answer. However, the Polanyian ‘double movement’ is almost certain to keep ‘history’ going, as long as the ‘stark

utopia' of the 'self-regulating market system' is seen as the only route to economic development.

Notes

1 As of 2008, however, the proponents of the neo-liberal creed seem to be losing their self-confidence. From 2007 onwards, the mortgage crisis in the US, accompanied by the threat of a credit crunch, along with recessionary signals, has led to the propagation of pessimistic expectations for the years ahead. Even Martin Wolf, the celebrated advocate of neo-liberal globalization and free-market capitalism, seems to have changed his mind, saying openly that 'the dream of global free-market capitalism died.' In his commentary in *Financial Times* on 25 March 2008, he announces the end of neo-liberal history: 'For three decades we have moved towards market-driven financial systems. By its decision to rescue Bear Stearns (NYSE: BSC), the Federal Reserve, the institution responsible for monetary policy in the US, chief protagonist of free-market capitalism, declared this era over. It showed in deeds its agreement with the remark by Joseph Ackermann, chief executive of Deutsche Bank (NYSE: DB), that "I no longer believe in the market's self-healing power." Deregulation has reached its limits' (Wolf, 2008).

2 For Hayek, whereas the 'road to freedom' was opened up by the idea of individualism, the collectivist attitude towards society implied 'a complete reversal of [this] trend' and 'an entire abandonment of the individualist tradition which has created Western civilization' (1944: 20). The collectivists try to replace 'the impersonal and anonymous mechanism of the market by collective and conscious direction of all social forces to deliberately chosen goals' (1944: 21). Indeed, "'Western" in this sense was liberalism and democracy, capitalism and individualism, free trade and any form of internationalism or love of peace' (1944: 22). Note the similarity of reasoning between Hayek and the contemporary American neo-conservatives who have been for some time striving to bring 'democracy', 'development' and 'peace' to those parts of the non-Western world, such as Afghanistan and Iraq.

3 Of course, markets did not spring up in such a spontaneous way. As Ronald Coase (1992: 718) warned earlier, 'the ex-communist countries are advised to move to a market economy . . . but without the appropriate institutions, no market of any significance is possible.'

4 This coalition is strange in that 'conservatism' and 'liberalism' had emerged and developed originally as two hostile ideologies, roughly from the second half of the eighteenth century to the first half of the nineteenth century (Wallerstein, 1995). While the former ideology was based upon the conservation of the feudal-aristocratic institutions, the latter was a bourgeois assault on such conservatism with an effort to liberate the economy from the retarding effects of the old institutions.

5 Indeed, in the course of this 'great transformation', which Polanyi thought to be forthcoming, 'the market system will no longer be self-regulating, even in principle, since it will not comprise labor, land and money' (Polanyi, 1944: 251). This, in turn, implies that 'the wage contract ceases to be a private contract except on subordinate and accessory points' (251). However, 'in the nature of things wage differentials must (and should) continue to play an essential part in the economic system' (251). As far as the removal of land from the market is concerned, 'contracts in respect to land tenure need deal with accessories only, since the essentials are removed from the jurisdiction of the market' (251). Nonetheless, 'widespread individual ownership of farms will continue' to exist (251). Finally, 'the removal of the control of money from the market is being accomplished in all countries in our day' and 'the directing of investments and the regulation of the rate of saving have become government tasks' (252). Within this scheme of active monetary policy on the part of governments, however, Polanyi nowhere in the text advocated the ultimate collection of 'financial capital' at the hand of a central planning bureau.

6 We do not argue that Polanyi advocated 'individualism' over 'institutionalism'. On the contrary, he favored the priority of social institutions that are essentially conducive to the maintenance and extension of individual freedom. For Polanyi (1944: 256), rights of the citizen 'must be made to prevail against all authorities, whether

State, municipal or professional’, whereas ‘institutions are required to make the rights effective.’ Collective establishment and enforcement of necessary institutions are indispensable to the promotion of personal liberty, which ‘should be upheld at all cost – even that of efficiency in production, economy in consumption or rationality in administration’ (256). So decisive a priority put on individual freedom even at the expense of economic efficiency and rationality cannot be found even in the context of the most radical versions of liberal individualism. For Polanyi, institutions can and should be designed in such a way as to promote individual liberties. Indeed, this is how ‘an industrial society can afford to be free’ (256), without obsessively subscribing to the illusory liberal presumption that economic rationality and efficiency constitute the foremost priority. And this is the reason why ‘the passing of market-economy can become the beginning of an era of unprecedented freedom’, in which case ‘regulation and control can achieve freedom not only for the few, but for all’ (256).

7 ‘Freedom’s utter frustration in fascism is, indeed, the inevitable result of the liberal philosophy, which claims that power and compulsion are evil, that freedom demands their absence from a human community. No such thing is possible; in a complex society this becomes apparent. This leaves no alternative but either to remain faithful to an illusory idea of freedom and deny the reality of society, or to accept that reality and reject the idea of freedom. The first is the liberal’s conclusion; the latter the fascist’s. No other seems possible. . . . No society is possible in which power and compulsion are absent, nor a world in which force has no function. It was an illusion to assume society shaped by man’s will and wish alone. Yet this was the result of a market-view of society which equated economics with contractual relationships, and contractual relations with freedom’ (Polanyi, 1944: 257–8).

8 Joseph Schumpeter’s (1942) famous book, *Capitalism, Socialism and Democracy*, is also based on a similar institutionalist idea that capitalism is bound to collapse as far as the success of its economic dynamism destroys its institutions.

9 See Öniş & Şenses (2005) for a thorough evaluation and socially-conscious critique of the Post-Washington Consensus, which constitutes the agenda of ‘good governance’.

10 Franklin Roosevelt’s *Realpolitik* was much more outspoken, though. Let us recall Roosevelt’s comment on the Nicaraguan dictator Anastasio Somoza: ‘he may be a son of a bitch, but he is our son of a bitch’ (cited in Chang, 2007: 171).

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