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**Economic theoretical traditions of liberalism with a special view to its
ethical foundations**

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I. RESEARCH HISTORY AND MOTIVATIONS FOR THE SUBJECT

I.1. Importance of the subject of research

The present paper claims that our world is in the midst of a stage of transition whose solution is still a question and there is no guarantee we can find an effective outcome. Populism is gaining ground for a third time, the major institutional structures and international organisations and communities are showing signs of weakness, all of which indicates a need to re-think and re-consider the value system of our world order.

Liberalism is not new. It has defined our lives to this day due to its values and proposals for social organization dating back four centuries, its roots in ancient Greek philosophy and its core ideas developed through the crises of mankind. This is not the first crisis it has had to face, nor will it be its last, if the claims of the present paper hold true.

It is up for debate whether the liberal idea has failed, however, there is hardly any mention in the literature about a wish to improve upon the historically misaligned elements regarding social structure and economic strategy based on detailed analysis of the history of liberalism, as well as the deeper conclusions drawn from mistakes past and present.

The significance of the present research lies in drawing up a path, based on the example of an earlier era of liberalism, to be precise that of ordo-liberalism and analysis of its achievements in economic strategy and social organization, for liberalism to find the basic principles and economic framework with which it can best improve society following the end of the neoliberal era (for indeed the present paper argues this era has come to an end).

I.2. The basic position of the researcher, question, hypotheses

Hypotheses of the study:

- 1) The era of neoliberalism has come to an end, therefore a new era of the history of thought is to begin within the system of ideas of liberalism.
- 2) Within the system of ideas of liberalism, there exists a direction of economic strategy which can provide relevant answers for the challenges of today.

Statement of the study:

The market toolkit – in the case of the appropriate organisation of society – can serve the principles of equal dignity and equal treatment and in this understanding the market is not an objective but a tool for achieving greater prosperity and greater equality.

During the second half of the 20th century, the era of personal responsibility, the neoconservative-neoliberal era brought about economic growth and had an important role in preparing and carrying out the political transitions of the Eastern Bloc, while also creating social divide and an environment bereft of solidarity. Neoliberalism appeared to lack the answers to global challenges and those facing national economies in the 21st century such as the ‘*vicious circle of poverty*’ (Nurske, 1953), the lack of equality and even the migrant crisis. It is a direct consequence of this inability to provide answers that the era of neoliberalism has come to an end.

Contemporary social organizers have realised that the distribution of freedom cannot be uneven within society and also recognizing that the traditions of the republic are narrower than that of the rule of law. Organization of the labour market is important and during the 21st century this process of organization has centred around the principle of human dignity. Therefore, it can be said that 21st century liberalism doesn’t encompass an organizing of society where individuals enjoy the broadest possible market freedom, but rather that the largest institutions are in service to equal dignity and equal treatment, even if this means sacrificing some of the arguments promoting small government. (Kiss, 2009.)

This paper predicates that during the social and economic changes of the new millennium the rejuvenation of liberalism must be centred around responsibility and community thinking. (Dardot-Laval, 2013.)

I use the term ‘*new liberalism*’ to name the next step in the evolution of liberalism. My paper has been written under the perception that new liberalism is in fact a *return to the traditions* of ordo-liberalism. Ordo-liberals of the 20th century were those who came closest to making the original liberal principles a reality.

A return to the traditions of Bentham and Locke is also significant in this paper. According to John Locke education is a process which shapes the individual. A well-functioning education system which places communal thinking in the centre is necessary for people to become responsible, grown-up citizens. In this paper I refer to community thinking and responsibility for each other and society on the whole as the ‘*new rationality*’ based on Dardot and Laval (2013.)

New liberalism casts its vote for *the definition of strong competition while stating that it considers liberty and personal responsibility paramount*. At the same time new liberalism is not founded solely on the concept of ‘homo oeconomicus’ (Csuka et. Al., 2008.) If this is how the image of the individual in liberalism were to transform, this system of ideas would be able to formulate such an economic strategic plan which enables the new economic order to place people in the centre. This in turn would eliminate the errors of neoliberalism.

This paper also deals with the differences between the German and American logic of regulation. While the American logic dictates that ‘everything is allowed that isn’t prohibited’ the German equivalent states that only what is explicitly allowed on a regulatory level is permissible. I also explore the correspondence of the two concepts in this paper as my presumption is the rule abiding individual. It is my belief that with such an image of the individual as well as the appropriate offer regarding economic strategy and social organization the global governance of the future, societies of the present will be able to eliminate the mistakes which were the cause of previous crises. (Dardot-Laval, 2013)

This paper considers a return to ordo-liberalism an appropriate solution due to the fact that the challenge following WWII was the recovery from a moral, economic and social crisis which was aided by an ordo-liberal economic strategic plan and proposal for social organization. It is my opinion that the political transitions of the Eastern Bloc can be considered a war without weapons and the crisis of transformation has, in many aspects, created similar challenges to those of the post-war era.

The ‘*ideal of economic freedom*’ (Hayek, 1951.) brought about not only growth and wealth, but also dignity to millions of Germans on the other side of the iron curtain. The ‘*liberal renaissance*’ had begun even earlier. An article by Walter Lippman, published in 1937, casts its vote for reinforcing the ideals of classical liberalism. This article followed up by the Lippman-conference of 1938 created the possibility for the renewal of liberalism. (Dardot-Laval, 2013) Various national economies, philosophers, economists and lawyers faced this opportunity with differing approaches. The Federal Republic of Germany was the birthplace of a school of thought which brought classical liberal principles close to citizens, one which began to filter out unfair trading practices while also raising up forgotten groups of society and dealing with the eradication of the deepest form of poverty as a human rights issue rather than a social one.

The intention to ‘*cease the enmity between the rich and poor*’ as well as the concept of ‘progress and profit achieved by competition – socialized, in the best sense of the word, while also sustaining the individuals’ pursuit of performance’ (Erhardt, 1957, 1990. p. 7.) had

fundamentally changed post-war Germany. Increasing the efficiency of the economy and bringing about social justice were simultaneous aims of those who created ordo-liberalism. Criticism of restricting free market competition was in mind from the beginning and, in line with classic liberal principles, the aim was not to leave alone, so to say, the economy, but rather to reconcile the operation of the state with the fundamental rights and self-determination of the individual. Erhardt faced down the challenge of aiming to reduce taxation in an era when social circumstances did not allow for the reduction of state involvement.

Beyond economic recovery, the ordo-liberal school aimed to rebuild the system of democratic institutions. *'By generally increasing wealth economic policy in fact, without doubt, can lend a valuable contribution towards the democratization of West-Germany.'* (Erhardt, 1957, 1990, p. 11.) Elimination of the gaps between social groups, as well as the enmity between them were considered important and, as the former chancellor puts it, could lead to the end of class warfare. This strategy, aimed at expanding consumer freedom, wished to provide the path of personal freedom and self-realization to those who previously lacked the opportunity to form their own future as a result of their scarce socioeconomic potential. Ordo-liberals stood for economic humanism, which considers as the core aim of its system humility, an element beyond economics. (J. Horváth, 2000.) It was their belief that *'competition is the tool with the most promise to facilitate and maintain wealth.'* (Erhardt, 1957, 1990. p. 7.)

The steps in the progression of liberalism analysed in this paper, as well as the conclusions drawn from prior mistakes and the potential for development achieved in various societies show us that the system of ideas was most effective in contributing social and economic advancement when placing morality in the centre. This choice of values is in line with classic liberal principles while also creating successful models amidst the search for harmony between liberty, order and solidarity. A prime example for this is the era of ordo-liberalism.

The aim was to democratize Germany through the general increasing of wealth. One of the foundations of this concept is the new approach of economic strategic planning. Anti-trust regulation is considered a basic law of sorts which in turn provides space for small business. (Schwartz, 1957.)

The ordoliberal strivings of the 1950s weren't only at the forefront of the expansion of the freedom of enterprise, but also that of democracy and the consumer aspect of market processes. *'The natural expansion of the basic right to consumer freedom is the freedom of enterprise, that is, to produce or discontinue the production of whatever the characteristics of the market, the expression of the needs of all individuals promise to be necessary or successful.'* (...)

'Democracy and a free economy form a logical bond the same as do dictatorship and a state-controlled economy.' (Erhardt, 1957, 1990. p. 11.)

I.3. A short introduction of the subject of the study

There is widespread consensus in the literature regarding a need for rejuvenation of the three systems of ideas, that is, liberalism, social democratism and conservatism. While the era of neoliberal economic policy appeared in parallel to neoconservatism, it has now come to an end, and seems to have left something of a void of ideas as to what is to follow. This paper searches for the answer from the perspective of economic policy.

In this paper I admit that liberalism has come to a crisis due to the errors of the most recent historical theoretical steps of this system of ideas, and I wish to prove that correction is possible within the framework of liberalism. Amid the emergence of a new world order, the group of principles guiding the organization of society and the sharing of these ideas with the wider society are of particular importance. Failure to do so has practical consequences which are already observable in daily practise. The global trend today is to see populist politicians as the only actors who can give seemingly relevant answers to the questions arising in the lives of the dissatisfied masses of people. The reason for this is to be found not only in the contemporary challenges facing humanity, but also the crises of the various current systems of ideas, and their inability to provide answers.

The answers offered in response to the challenges of a globalised world can become efficient through the existence of a global society, a sense of community and social responsibility holding together all of humanity. To this end it is necessary to achieve the universal acceptance of equal dignity and to eliminate gratuitous cultural differences which lead to a reduction of efficiency.

Third way economic policy drew up a vision which included social sensitivity and whose theoretical basis was primarily based on the egalitarian branch of liberalism. This is the more popular line of liberalism as it talks of a far broader understanding of equal opportunity and some degree of equal opportunity in economic terms. Liberalism lost momentum when it did not search for a timely answer to the challenges of the last decade of the 20th century and the first decade of the 21st century and therefore has now fallen behind the times by several decades. Turning away from the political mainstream and the increasing hold of populism (Chryssogelos, 2013) is a symptom of the crisis which makes clear that moderate politicians and their parties are often unable to outline a series of solutions to global challenges, and therefore do not hold the trust of society, despite the fact that the greatest social-political achievements of the past

century come from the political mainstream. Post War Europe, the Universal Declaration of Human Rights accepted on the 10th of December 1948 and a complete turning away from the Third Reich in all senses, as well as a new European continent built on human dignity, individual freedom and anti-discrimination have created a European unity the principal objective of which is the shared defence of peace, wealth and the stability of freedom, while creating as much distance from any possibility of dictatorship as possible. Parallel to this came the realisation that in order to make the principle of equal dignity a reality, it is necessary to eradicate destitution and create an economic system with conditions which will enable ever wider groups of society to practice their freedom. (Erhardt, 1957; Röpke in J. Horváth, 2000.) At the same time, the veterans going home to the United States were returning to the America of the New Deal (Zala, 1986), a United States which had amassed unparalleled strength through its wartime economy and had become the engine of wealth through an economy in a position of global hegemony, which was soon to become the symbol of individual and collective freedoms, as well as the stability of wealth and plurality in becoming a global power in the Western hemisphere of a bipolar world.

Security, hand in hand with stable wealth and post war euphoria, were short-lived, as the era of neoliberalism and neoconservatism, both emerging towards the end of the 1960s and becoming mainstream during the term of Ronald Reagan and Margaret Thatcher, created a new kind of society. (Harvey, 2000.) The main reason for this is that the technical and economic conditions of the era made it impossible in the age of the welfare state to wholly realise the harmony of security and liberty, therefore, as a critique of the welfare state, a greater emphasis was placed on liberty, including economic policy, within political decision-making. The primary objective was an opposition to collectivism. The primary directing principle became the unlimited self-responsibility and self-sufficiency of the individual. This principle encompassed the liberalization of markets, eradicating price control, the deregulation of stock markets, eliminating trading barriers, minimising state interference through privatization, fiscal constraint and macroeconomic stability, money supply and monetary intervention, as well as the reduction of the deficit, a minimal state and small government. These aspects were fundamentally aligned with Williamson's ten points (Benczes-Blahó, 2002) and paint quite a clear picture of neoliberal economic policy. At the same time, neoliberalism hints at a model for development in which economic strategic planning consists mainly of setting the market free and where the governing principle is, as much as possible, the rule of market laws. Among its objectives is the minimalization of the role of the state and to broaden individual freedom as much as possible. (Benczes, 2016.)

The neoliberal aspirations of the 1970s aiming to rebuild economic power in the hands of various groups of society have been in vain, as the forty years preceding 2008 have been an era of turning away from classic liberal principles. (Harvey, 2005.)

While neoliberalism is far from being a synonym to market fundamentalism, it is often identified as such, whereas multiple models for social development were established, such as in the USA or West Germany. Reagan's social and economic policy further developed society, as well as the economy, while West Germany demonstrated that the new path for liberalism centres around the respect for human dignity above all, and to this end a social security of sorts is necessary for all economic actors.

It would seem that two clearly separable eras are being drawn up in the 20th century history of liberalism and that these formed differing models regarding the management of the economy. The first era spans from approximately the 1930s to the 1960 and encompasses the German economic miracle, the social free market economy and ordo-liberals (their flagbearers being Eucken, Erhard and Röpke). This era declares that it is not enough to direct the economy, it also needs to be organised. (Dardot-Laval, 2013.)

It was their belief that a strong legal system and a well-regulated market are able to keep the economy on track and bring about economic growth. (Erhardt, 1957.) They declared that the night-watchman state in line with the ideas of Adam Smith was not sufficient. The theoretical basis for the social free market economy of post-WWII West German state was created, in part, by liberal philosophers and economists.

The second era, which science calls neoliberalism, was a new wave starting in the mid 1970's, in which privatization, market liberalisation, deregulation and the minimalization of redistribution were typical. Neoliberals, just as their ordo-liberal cousins, were in support of a well-developed rule of law. (Venugopal, 2015). The *Mont Pelerin Society* and the *Chicago school* created an economic model which, under the protective guise of US military policy, was spread all over the world, including in dictatorships. (Harvey, 2005.) All in all, it is not the rule of law that flowers from neoliberalism but rather technological modernization.

While neoliberalism does in fact fundamentally support the norms of the rule of law, in the past thirty years it has created a system which is incompatible with the aforementioned norms. The gap-widening effect of neoliberalism (Harvey, 2007) has stripped the poorer parts of society of the possibility of self-fulfilment, while for those whose behaviour was compatible with the market and who were able to live in prosperity it set the trap of the inescapable pressure to perform. Under the guise of liberty a society was built which had different disadvantages for

every group of society. Rather than placing importance on liberal values, individual freedom was placed in the centre. (Harvey, 2007.)

The group of society which acted ‘appropriately’ in terms of the ideals of neoliberalism and was capable of a high market performance paid for its position by sacrificing its leisure time. At the same time, the lower portions of society were deprived of equal opportunity and were unable to break free of the social ‘class’ they were born into. The reason for this was that the neoliberal organisation of society did not make social mobility possible. (Dardot-Laval, 2013.) Another consequence of the neoliberal-neoconservative turn of thought was that there existed a broad tacit consensus branding the lower strata of society as morally inferior, thus separating groups of society irrevocably. These roles, derived from the system of economic management, however, are in stark opposition to the human ideal of classical liberalism. (Szentés, 2006.)

The human ideal of neoliberalism, at least in its original form, was not coherent with the direction of economic management represented by the aforementioned system of ideas. While transforming the economy was undertaken in the first place with the aim of defending freedom, looking back it is now clear to see, that this freedom was not achieved, therefore critics of neoliberalism are right to say that this era has eventually created a world which is not building the society of freedom but rather that of over pressured managers working for the good of the corporations. (Dardot-Laval, 2013.)

Neoliberalism also had a negative effect on building communities and strengthened individualism. Neoliberalism brought about inequalities but did not find the solution to alleviate them. Neoliberalism is often described as a radical *laissez faire* experience; however, the original concept regarded the question of how to regulate a market in order for its most optimal operation. The policy of market liberalisation destroyed the post war Keynesian consensus and the welfare state. Instead, it created a world in which the nine to five employment which gave stability to many was replaced by the only temporarily existing or part time jobs. (Dardot-Laval, 2013.)

While the destruction of the welfare state in many cases brought about a total loss of income, neoliberal economic policy encouraged economic growth both in the USA and many previously developing, agrarian states in which it also aided economic restructuring. (Venugopal, 2015.) The strand of neoliberalism which gained strength in the 1970s ‘*attacked all forms of social solidarity*’ (Harvey, 2007. p. 23.) and blocked the elimination of unequal opportunity. While in fact the era dominated by Ronald Reagan and Margaret Thatcher represented a flow of right-wing ideology which encompassed the ‘*fusion of a true laissez-faire capitalism and cultural conservatism*’, but it did not in fact end here as, according to Heywood (2003), this had a

profound effect on both social-democratic and liberal parties. This is how neoliberalism gained politically hegemony in the Euro-Atlantic region therefore becoming the ideology of globalized capitalism. (Heywood, 2003.)

Numerous articles have been, and are being, written about neoliberalism, however, rarely will we find an actual definition of that system of ideas in these papers. Most authors talk about '*neoliberalism, as I see it*'. About one thousand articles per annum were written on the subject between 2002 and 2005 (Boas – Gans – Morse, 2009), however, we cannot come to recognize a consensually created definition which in the end everyone can stand by. I have, consequently, created a definition for neoliberalism and neoconservatism which I will consider valid for the whole of my paper.

Neoliberalism is a new wave of economic and social policy which gained strength in the 1970's and which provided new answers to the questions concerning the ways in which society should be organised. Its economic policy was characterised by minimal state and deregulation, as well as the liberalization of markets, while its social policy placed emphasis on individual freedom. However, it lacked solidarity and community responsibility, therefore it was devoid of the will to stop the unfeasibility surrounding those groups of society which lagged behind. It places its faith in the self-regulating mechanisms of markets and the rational behaviour of market participants, and its human ideal was that of the individual who can acquire wealth by his or her own means and who is able to make the most of their freedom. It considers those who are incapable of this through their own means as morally inferior, thus reinforcing the gaps between the richer and poorer segments of society.

Neoconservatism can be regarded as a revolution within the conservative belief system which can also be considered a kind of counterrevolution to the America of the 1960's. It was typified by radical anticommunism, which was visible in foreign policy, social policy as well as an economic scientific aspect. One of its core motivations was to bring about a return to traditional values for American society and also to build the wealth and growth of certain members of society, without the politics of the New Deal, on the labour market and market processes. Its strong stance against totalitarianism and the protection of democracy made the elimination of the bipolar world order a moral issue, but it also meant that it excluded the egalitarian idea from domestic economic policy.

II. RESEARCH METHODOLOGY

II.1. Methodology of the present study

The basic methodology of my paper is comparative source analysis supported by a historical introduction to liberalism, as well as analysis of macroeconomic data.

The chapters on history and the history of ideas are based on the works of authors whose thoughts form the basis of ancient philosophy, the philosophy of the age of enlightenment, moral philosophy and classical political economics, as well as the source analysis of representatives of 19th and 20th century liberalism.

Besides the fundamental virtues derived from ancient philosophy, these chapters guide us along the thoughts regarding morality and virtue throughout the history of the liberal system of ideas overarching almost four centuries.

The paper analyses macroeconomic line of trends overarching forty years in the era of post war West Germany based on statistics and data of the national economy. I have chosen the method of comparative analysis in order to introduce the historical eras of neoliberalism and ordoliberalism in view of the socio-economic consequences and macro- and microeconomic results of the relevant offer of economic strategy and social organisation.

The last chapter deals with a practical example, the European Union and examines the White Paper on the Future of Europe from the aspect of reinforcing liberal democracy and the liberal system of ideas. I will give a comparative analysis of the base case of the possible scenarios and will also touch upon the basic principles set out for the new budget cycle of the EU which aim to protect democracy and the rule of law. Although the EU is not a case study, it is in fact a good example of what happens in a community where the system of institutions and principles of social organisation are important not only in theory but also in practice. The paper does not want to analyse the enforceability of these principles but rather examine the system of objectives of the White Paper and the current (2021-2027) budget cycle.

The examination of hypothesis will use the previously mentioned source analysis, as well as domestic economic results as proof, while also making up for the deficiencies of the offers for economic strategy, social organisation and the organisation of state through a study based on empirical research regarding virtue, morality and the teachability of these concepts.

This paper borrows from the thoughts of thinkers like Aristotle and Plato, but also John Locke, Hugo Grotius, Immanuel Kant, Adam Smith, David Hume, Thomas R. Malthus, John Stuart Mill, David Ricardo, Thomas Jefferson, Edmund Burke, Ludwig Erhard and Wilhelm Röpke, in order to prove that liberalism was at its most effective in aiding the development of society in eras when it considered moral questions to be of primordial importance. Through this

analysis of the socio-economic achievements of neoliberalism I demonstrate the counter-test, an era which appears as if it were a social experiment to find out what happens when economic liberalism, rather than supplementing political liberalism, overcomes it and the rule of virtue, and thus comes into opposition with the original objectives of classical liberalism.

Finally, after proving that the *organising of the state has not only legal but philosophical rules* (Gervai-Trautmann, 2013) the paper will intend to prove, though introducing a study (Vezzali et al, 2015.) that besides the appropriate institutional and administrative framework, the education of the members of society is also a point of importance. This is what makes it possible that a population who are offered a society organised along the lines of virtue and a continually increasing realisation of the principle of human dignity should not be a '*people made up of devils*' (Kant, 2015.)

Preliminary summary of the expected results of the study:

The paper operates under the presumption that liberalism can contribute to solving the challenges of the 21st century, it is capable of renewal and of formulating a proposal for social organization which will help humanity in creating sustainability not only ecologically but socially.

II.2. Research results

Representatives of classical liberalism did not consider the axiom of the prohibition of state interference with regard to markets, but rather to private life, private contracts and the rights of individuals. Strictly speaking, even setting out the framework of the rule of law is interference, thus we are not discussing anarchy, but this level of regulation leads to the *equality of the rights and dignity of citizens*. While these aren't the words with which *human dignity* was associated in the era of classical liberalism, it has to be said that when Adam Smith or John Locke discusses eradicating the poverty of workers or taking measures against the hopelessness of the masses, they are in fact arguing for equal opportunity and civil organization in the workplace and the world of business. This led to the workers unions of the 19th century, consequently this paper argues that classical liberalism, in fact, contributed to the development of social democracy in the 19th century, although we must not confuse the two eras.

While the objective of 19th century liberalism was already to broaden individual and collective freedoms, the market in fact, wherever it was operational, resulted in monopolies, cartels, big business and hardly self-sufficient employees. Because of these social challenges, liberals of the first half of the 20th century felt they cannot advocate for the omnipotence of the market as it was the poverty of the vast masses which pointed out that an unregulated market can deprive millions of their fundamental rights.

This is exactly what caused conflict at the Lippmann conference of 1938 which created neoliberalism. The question was whether the crisis of this system of ideas could be explained by sticking with classical liberal ideas at all costs, or was due instead to the total betrayal of these, causing the inability of liberalism to provide answers to existing challenges on either a theoretical or a practical level. This took place at the end of the decade of the Great Depression a year before the Third Reich attacked Poland, therefore definitively changing the whole world. WWII showed us what happens in a world which totally disputes individual and collective freedoms and rights from social groups and indeed, the right to life, when it comes to people sent to deathcamps and labour camps.

It was after these horrors that ordo-liberals entered the stage in post-war West Germany and attempted to '*cure society*' (like Wilhelm Röpke), while also carrying out a fiscal policy (along the lines set out by Ludwig Erhardt) which was built upon human dignity and the firm statement of the rights of those participating in market processes during the rebirth of the economy following the era of fascist dictatorship and wartime economy. This, however, was not all.

While the objective of the economic strategic planner was total employment, as a form of maximum efficiency, it was clear that the elderly and the sick, and also mothers with small

infants, would either temporarily or permanently be excluded from the labour market. In the eyes of Ludwig Erhardt and his contemporaries this creates obligations on the part of the state as, in their opinion, the fundamental rights and human dignity of a person cannot suffer because they are incapable of earning a living.

The main point of the liberalism-disagreement of 1938 was that both the group opining that a perpetual attachment to classical liberal principles lead to the crisis of the belief system and the group who believed the cause to be an ever-greater betrayal of classical liberalism were right. Market regulation by the state through the tools of only market-compatible interventions is an important liberal principle. Another such principle is that everyone has a right to human dignity and that fundamental rights must be accessible to all. To the question regarding which might be more important, market freedoms or the right to dignity of all members of society, we can find differing answers. The error of those standing for classical liberalism was that they did not search for harmony of the two core principles.

Where ordo-liberalism differs from neoliberalism is that all its principles are derived from the concept that human dignity stands above all else (as can be seen in the German Constitution of 1949 which has been holding up well ever since, and which begins by saying *'human dignity is above all and inalienable'*). This, however, has forced its proponents to formulate systemic answers to the lack of equal opportunity as a result of poverty. Neoliberalism failed to do so, and the consequences were quite visible by the 1990s. While the crisis of 2008 in itself is not a sufficient reason to say neoliberalism is in crisis, it did make clearer that the hegemony of neoliberalism has come to an end.

Ordo-liberalism was placed in the centre of my research not only because it is built around the principle of human dignity, but also because I believe that of the historical eras of liberalism, this is the one that came closest to making the principles of classical liberalism a reality.

It is the task of liberals to rethink liberalism, after a largely distorted world of values created in the most recent historical era of that system of ideas. Neo-liberalism brought only hopelessness and extended poverty to millions, while for others it created a world of unlimited ascension and possibility while also blurring even the silhouettes of communities. In this process the reconnecting of the individual and the community is paramount. So are individual and collective freedoms and rights, as well as different social groups. Instead of the word 'tolerance' it is better to use 'acceptance' and consider it a guiding principle. Instead of patience let us use integration and instead of peaceful cohabitation, the prioritising the respect of all humans, as well as the legal system.

It is important to emphasize that in a world like this a market economy is not just a gallop of wild horses through a field. It is the task of liberals to tame this wild gallop to that of a derby where everyone can set off only once the starting gun has sounded and where the referees, the norms of the rule of law, administrations overlooking economic competition, and competition law, make sure all dishonest market behaviour is eliminated.

Another question to be examined is the offer put forth by neoliberalism for social organisation and its inability to provide answers to new global challenges, which has taken to another level in the past two decades. Terrorism as a threat to national security as well as migration as a result of armed conflict and climate change and the answers provided by populists, painting security and freedom into different corners are all phenomena relating to this set of questions. As we shall see in the last chapter of the paper which focuses on contemporary practice, in the European community these two concepts do not merely stand in opposition but, not unlike freedom and responsibility, mutually reproduce each other.

This is where I arrive at my first hypothesis according to which liberalism has not arrived at its end but rather at a turning point in the history of ideas. So long as the currently stated contents of this system of thought can serve the betterment of society in questions regarding both economic strategy and social organization, liberalism can start a new chapter and continue to exist in this new form. Only then could we definitively state that liberalism is ready to end if it were unable to come up with a proposal for society which can provide relevant answers to existing challenges. While neoliberalism has become unable to respond to the arising challenges due to the deficiencies elaborated on above, ordo-liberalism contains a positive answer to all four assumptions.

Examination of the hypotheses

The hypotheses of my paper were the following:

- 1) The era of neoliberalism has come to an end with a new era of the history of ideas beginning within the framework of the liberal system of thought.
- 2) Within the liberal system of ideas there exists a direction of economic strategic planning which provides relevant answers to contemporary challenges.

So long as it is possible to draw up an answer to contemporary challenges within the framework of liberalism, hypothesis No. 2 is correct.

Hypothesis No. 2. can be verified through an analysis of ordo-liberalism. This 20th century branch of liberalism not only successfully battled for the practical realization of classical liberal

principles but also created a socio-economic order following WWII which was capable of generating economic growth at an unprecedented rate, while also alleviating social injustices. Hypothesis No. 2. is verified by global economic and social processes. Among the proponents of classical liberalism, the thesis of Adam Smith can be understood on the level of societies on the whole: so long as a community has members who fall behind, the total gain of the community is reduced. The practical realization of this concept will primarily be discussed in chapter 5 of this study, which deals with the economic and social processes of the European Union. The Union is the realization of a continent-wide version of global partnership which keeps in line with classical liberal principles such as the responsibility of the individual, in this case the member states, for their own furtherment. At the same time the principle of the fight for equal opportunity also exists at the community level, since the purpose of cohesion and regional funds is that those in need of help with their own betterment should receive such assistance from the community.

Hypothesis No. 2. is further verified by analysing ordo-liberalism from the viewpoint of economic strategy and social organization. Market-compatible interventions assist economic operators in carrying out their activities under the conditions of a market economy while also maintaining an organized framework. Elimination of dishonest market behaviour along with supporting those starting from disadvantaged positions, as well as guarding central monetary and fiscal discipline guarantee that, as opposed to an unregulated market, aided by the best possible screening of market failures the foundations of the market rest not merely on ‘free’ competition, but on ‘perfect’ competition.

Based on the tenets verifying hypothesis No. 2. we can accept hypothesis No. 1.

The era of ordo-liberalism, lasting four decades, may be considered as an extended empirical research which proved that it is possible to support the realization of classical liberal principles in practice and to provide adequate answers to challenges such as the moral crisis due to discrimination, social inequalities, the simultaneous presence of high levels of unemployment and inflation, or the limited capacity of those segments of society which lag behind to enforce their rights due to their social situation.

The liberal trend of the 21st century is not homogenous. Different answers may be proposed to the previously stated challenges – the point of the present study is to draw up one possible direction which, with reference to the successes of ordo-liberalism, may be considered as a point of departure for productive debate.

The present study holds two remaining points to elaborate upon: it needs to furnish proof that virtue can be taught and that we can find a method in which the people of the modern age

can in fact learn it so thereafter it becomes an organic part of everyday life and people act accordingly without even noticing. If we wish to find answers to the challenges of the 21st century we must go beyond creating large-scale institutional systems and also identify a clear value system and produce effective ways of transmitting that value system. It is not merely the confines of space that prevent me from going into detailed analysis of pedagogical method, however, I would like to mention one instance where children came closer to virtuous behaviour, based on empirical research.

Schools are one of the most important institutions of social organization. If we wish to build a successful society, it is vital for leadership, morality and scholarship to go hand in hand, thus we need schools which cater for all three of these elements. Questioning the ideal of tolerance due to global challenges and the crises of our societies poses a threat to all of society, therefore it is important to begin the organisation of society along the lines of the basic virtues. This way they can hope to eliminate the limitations from the essence of the ideal of tolerance, and to eliminate attempts at the destruction of society. This is the way in which we may hope to prevent forces devoid of a value system gaining the upper hand in the life of a community.

The function of schools, within the framework of state administration, is to transmit the value system entailed by the relevant proposal for social organisation and to impart knowledge which is useful in everyday life. Of these, the long-term stability of the value system can keep a watchful eye over the existing institutional system, while at the same time the reverse is also true and it is the task of the institutional system to safeguard the value system. Thus, the value system is both a means and an end at the same time.

While writing the present study I came to the realisation that while constructing a market institutional system is an intention of the organiser of society, it also has a definitive influence on the relationships of market participants with each other.

III. A SUMMARY DESCRIPTION OF THE STUDY

III.1. A summary of the intellectual history of the liberal thought system, its attempts at renewal and its historical eras

I find it best to divide the intellectual history of the thought system of liberalism into four parts: the first is classical liberalism, followed by 19th century liberalism, which started late and broke apart into numerous historical sub-chapters, then 20th century liberalism and finally new liberalism.

New liberalism, as this paper understands, is still waiting to be clearly defined due to the currently ongoing turning point in the history of thought. At the same time, however, during

the Lippmann conference of 1938 a social-liberal line was drawn up which we can call new liberalism, and which was related to ordo-liberalism that paved the way for the new era of economic strategic planning.

It is important to state that theoretical and practical proponents of the liberal system of ideas often made the mistake of not defining themselves adequately, therefore as author of this study I often find it important to create definitions and identify specific traits. This is true of classical liberalism, 19th century liberalism and 20th century liberalism, as much as it is of the era I call new liberalism.

Ordo-liberalism and neoliberalism coexisted for decades, the prior forming the basis for economic strategic and social organizational planning in post war West Germany, while the latter fulfilled the same role in the United States and the United Kingdom.

Ordo-liberalism created a sub-era in the 20th century history of liberalism which brought about an unprecedented economic boom, while on a social level it facilitated equality and peace among various groups of society and, for the members of society who fell behind, it lent a helping hand and did not allow them to be lost. By contrast, neoliberalism, which in political practice did not even acknowledge that it was an ideology and was defined by its ‘practitioners’ as an ideology that embodied rationality, while achieving the expected levels of economic growth in fact produced an irrational world. It created a mechanism in the global market, as well in the market of the EEC and later the EU, which was unable to predict and prevent the crisis of 2008, and which failed to promote responsibility. This paper proposes that this was not the sole reason why the era of neoliberalism came to an end, but this was the point when the end of that era became clear to the largest global financial organisations.

Another point this dissertation would like to make is that the end of the era of neoliberalism does not mean the fall of the system of ideas but rather that a return to the principles of ordo-liberalism, and in fact that of classical liberalism, can provide relevant answers to contemporary challenges.

III.2. A successful era: ordo-liberalism

The Freiburg school discarded the principle of laissez-faire and placed more emphasis on humanitarian regards. The foundation for the German *Wirtschaftswunder*, or economic miracle, was the aspiration to simultaneously bring order to the market and create social safety nets, even though these two objectives are hard to integrate. Walter Eucken (1952) called this the *Interdependency of orders*. (Interdependenz der Ordnungen) (Eucken 1952, 1990 p. 183 in Dardot-Laval, 2013.) Besides its unique successes West Germany created a social safety net

the foundations of which remain part of the framework for German economic organisers to this day. (Lorch, 2013)

Neoliberalism has attracted a multitude of criticism due to the elimination of solidarity, especially responsibility on a social level and the lack of a social safety net. In contrast to this the Freiburg School created ordo-liberalism which brought about a modern welfare state which proved compatible with sustainable growth and which was also the catalyst of modernisation and the rise of wide strata of society, not despite, but as a result of also acknowledging the omnipotence of human dignity. (Grundgesetz für die BRD, 1949.)

The '*ideal of market freedom*' (Hayek, 1951) brought about not only growth and wealth, but also dignity to millions of Germans on the far side of the Iron Curtain. The '*liberal renaissance*' had begun earlier. Walter Lippman published an article in 1937 in which he argued for reinforcing the ideals of classical liberalism. This article followed by the Lippman conference of 1938 created the opportunity for the renewal of liberalism. (Dardot-Laval, 2013.) This opportunity was pursued in different ways by different national economies, by philosophers, economists and lawyers. In West Germany this led to the birth of a branch of liberalism which brought classical liberal principles close to the citizens, began to eliminate dishonest market behaviour, and attempted to raise the previously forgotten segments of society while also treating the elimination of the deepest levels of poverty not as a social question but as related to fundamental rights. The will to '*eliminate the animosity between the rich and poor*' as well as '*spreading in the society, in the best sense of the word, the notion that competition helps us achieve progress and profit, while sustaining the individual's want for achievement*' (Erhardt, 1957, 1990. p. 7.) changed post-war Germany fundamentally. Reinforcing the productivity of the economy and creating social justice were simultaneous objectives of the creators of ordo-liberalism. Criticising the hinderance of competition in the market had been among their fundamental ideas and, in line with classic liberal principles, the objective therefore was not for the state to leave the economy and the markets to their own resources, but rather that their operation should not interfere with the fundamental rights and self-determination of the individual. Erhardt faced down the challenge of aiming to reduce taxation in an era when social circumstances did not allow for the reduction of state involvement, however, lowering taxes still remained an objective.

Beyond economic recovery, the ordo-liberal school aimed to rebuild the system of democratic institutions. '*By generally increasing wealth, economic policy in fact, without doubt, can lend a valuable contribution towards the democratization of West-Germany.*' (Erhardt, 1957, 1990, p. 11.) Elimination of the gaps between social groups, as well as the enmity between them, were

considered important and, as the former chancellor put it, lead to the end of class warfare. This strategy, aimed at expanding consumer freedom, wished to provide the path of personal liberty and self-realization for those who, due to scarce socioeconomic potential, previously lacked the opportunity to shape their own future. Ordo-liberals stood for economic humanism, which considers humility as the central purpose of its system – an idea from a realm beyond economics. (J. Horváth, 2000.)

‘Competition is the tool with the most promise to facilitate and maintain wealth.’ (Erhardt, 1957, 1990. p. 7.) Erhardt believed that those who, through no fault of their own, were unable to participate in production, such as the elderly, the sick or those injured in the war, must be helped out of solidarity, so they can live in dignity. Ordo-liberals disregard class warfare and leave behind an economic system which does not respect human dignity and the rights of the citizens. They choose the free-market economy and want to facilitate competition while expanding fundamental rights of freedom.

They aimed to democratize Germany through increasing wealth and prosperity in general. One of the strongest foundations for this objective was the new economic strategic approach. Anti-trust regulation was considered a basic law of sorts, which in turn provides space for small business. (Schwartz, 1957.) This approach is visible even today in the economy of the German Federal Republic, as the dynamism of the economy is provided by the multitude of medium and small businesses, while private enterprises and microbusinesses are also popular. The economic structural foundations drawn up in the 1950s have a strong influence to this day. *‘Of the 24 member states keeping records on the subject in 2016., the average sales revenue for medium and small business (enterprises employing less than 250 people) and their average added value were highest in Germany and Austria, in line with the unique role of medium and small business in these countries.’*¹ (KSH, 2018.)

The ordoliberal strivings of the 1950s weren’t only at the forefront of the expansion of the freedom of enterprise, but also of democracy and the consumer aspect of market processes. *‘The logical expansion of the basic right to consumer freedom is the freedom of enterprise, that is, to produce or discontinue the production of whatever the characteristics of the market, the expression of the needs of all individuals, promise to be necessary or successful.’* (...) *‘Democracy and a free economy form a logical bond, the same as do dictatorship and a state-controlled economy.’* (Erhardt, 1957, 1990. p. 11.)

¹ <https://www.ksh.hu/docs/hun/xftp/idoszaki/pdf/kkv18.pdf>

The framework also determined the social background for competition. This is important to mention, because in line with the values of *'economic humanism'* one additional pillar of the foundation was required in order to organise society and encourage market processes. Röpke argues in favour of the weak and the fallen and, along with the other proponents of ordo-liberalism, created a system in which the community takes care of those citizens who are incapable of contributing to productivity. At the same time, favouring medium and small businesses prepared for the long-term flexibility of the German economy. As the ideal of his social vision, he described a village with a palace standing guard above it.

Ordo-liberalism was not only intended to carry out radical changes to the fundamental principles of the organising of society, but also carried in itself the foundation for the success of economic strategic planning. The economic growth recorded in West Germany between 1950 and 1959 was unique. It was put at 8% per annum on average, which meant that they doubled the size of the economy in one single decade. (Eichengreen-Ritschl, 2008)²

The German economic miracle can be divided into several cycles. The first one probably began before 1950 and lasted until 1958 and could be called the foundational phase of the new economic order. Productivity and the GPD increased rapidly in these years, while unemployment was reduced, and inflation remained low. The following cycle took place between 1959 and 1967, when the increase in productivity and the GDP remained on track, near-full employment became stabilised, while the rate of inflation was beginning to rise slightly. (Bush-Land, 2009. p. 7.)

The third cycle began with a crisis already felt in 1967, and was the first since WWII to shake to the core the economic and political processes of West Germany. There was 6% growth between 1967 and 1975, however, the oil crisis of 1973 was felt in West Germany, too, as it approached a period of economic downturn. For the first time since the war, the rate of unemployment rose above 3%, and this was to be followed by the *'era of mass unemployment'*. The economy showed some signs of strength between 1976 and 1982, however, between 1980 and 1983 industrial performance fell by 6%. By the end of the 1980's the economy had pulled itself together, once again producing 4-5% of growth (Bush-Land, 2009. p. 7.) This was to be followed by German Reunification, which gave rise to fundamentally different challenges and, strictly speaking, can hardly be analysed in continuity with the previous era, which is why abstain from doing so in the present study. The above would not be enough alone to bring about the wealth and prosperity of the masses.

² <http://www.lse.ac.uk/Economic-History/Assets/Documents/WorkingPapers/Economic-History/2008/WP113.pdf>

IV. RESARCH RESULTS

By analysing economic strategy and the relevant intellectual history, the present study argues that a society and economy organised on the basis of the principles of ordo-liberalism would be able to deal with contemporary challenges. on these grounds the hypotheses can be accepted and it is my hope that the present work can contribute to the debate about whether the end of the era of neoliberalism does in fact mean the end of the liberal system of ideas.

I myself argue that this does not mean the end of liberalism and also that the challenges of today are very similar to those that post-war West Germany had to face, and that in fact the pre-war era complemented by WWII brought about a far greater moral crisis and the war itself a led to such a large-scale recession which many domestic economies were unable to cope with. As West Germany not only took advantage of the Marshall Plan but also brought to life a new economic framework which prepared for the dynamizing of the economy, the first results were unexpectedly fast to appear.

The reckoning which followed the fall of the Third Reich damaged the country in all senses of the word – in infrastructural, economic, social and political terms alike. Twenty percent of all German households were destroyed. Food production per capita in 1947 was only 51% of that in 1938 and a large portion of working age men had been killed while others were so badly injured that they became, at least temporarily, unable to work. (Henderson, 2018.)³

In 1952-53 the law on building new homes contributed greatly to the expansion of the building industry, as the number of new homes completed grew by 16.9%. As a result, by 1953 10% of that portion of the population who were not self-employed were working in construction. The foreign trade balance also improved in a short period of time, as in 1949 the deficit amounted to 3 billion marks, while in 1951 in was only in the red by 149 million, and in the next year the figures were in the black at 705.9 marks. (Erhardt, 1957, 1990, p. 49.)

The phrase ‘German economic miracle’ is far from unjustified. While economic strategic planners partially used the Marshall plan, which ended by 1952, for creating a long-term strategy, they were faced with macro-data which was beyond what they had dared to reckon with previously. Beyond the 106 million dollars aid, another 98.6 million dollars became available to West Germany and, going further, the new economic strategic planning also brought about an unexpected turn for the better in the economy. While at the turn of 1952-53 industrial output was targeted at 110% of that of 1936, in reality it turned out to be 145.5%. At

³ <https://www.econlib.org/library/Enc/GermanEconomicMiracle.html>

the same time, living standards were expected to be 20% under that in 1936, but in fact turned out to be 7.68% better for West Germans. (Erhardt, 1957, 1990.)

Based on these facts we have reason to believe that similar social challenges today could be effectively remedied along the lines of ordo-liberalism concerning social organisation and that the current economic crises could be tackled through the framework it has created for economic strategic planning.

The research process also yielded some unexpected results. My first goal was merely to prove that liberalism has reached not its end but rather a turning point in its intellectual history and that it was possible to chart out a new era within its existing framework with a valid proposal for economic strategic planning and social organisation which could provide relevant answers to contemporary challenges. However, I experienced that I attained a higher number of valuable insights as a result of the analysing the history and various periods of liberalism. Accordingly, liberalism appears to have been most successful and most capable of rendering society itself successful in periods when morality was paramount among its core principles in social organisation. As a result, following the “in-house discussion” of the draft e thesis I decided to replace the original title, *‘The implications of the liberal system of ideas on economic policy in the 20th century’* with the current title *‘Economic theoretical traditions of liberalism with a special view to its ethical foundations’*. The reason for this is that despite even what I myself would have predicted, all of my analyses seem to have led to the same result – namely that that laying the appropriate ethical foundations was a particularly important element of social organisation. Placing a special emphasis on this aspect the present study may expect to serve as a more valuable point of departure for debate in the academic community than I anticipated at first.

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