

UNIVERSIDADE FEDERAL DO PARANÁ

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KEYNES, KEYNESIAN ECONOMICS AND THE POLITICAL ECONOMY OF
POWER OF THE POSTWAR WORLD

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RESUMO

As origens econômicas e os impactos sociopolíticos do que se tornou a “Economia Keynesiana” não têm recebido a devida atenção por parte de economistas, cientistas políticos e filósofos no que diz respeito ao seu modo de governança. Este trabalho explora o surgimento e a consolidação do Keynesianismo como o modo de governança responsável por criar formas coletivas de relações de poder no mundo do pós-guerra, investigando os possíveis efeitos das ideias econômicas no momento em que influenciaram a prática política. Especificamente, aplicamos uma estrutura analítica denominada “economia política do poder” (doravante “PEP”) para compreender o surgimento da teoria econômica de Keynes e suas transformações em uma agenda política que teve consequências específicas em termos de poder, governança e regulação da economia e da população. Enquanto os capítulos 1 e 2 apresentam, respectivamente, uma releitura bibliográfica sobre a genealogia do poder de Michel Foucault (Parte I), e as bases econômicas, filosóficas e políticas de John Maynard Keynes (Parte II), prosseguimos com uma investigação histórica em fontes primárias e documentos oficiais sobre a aceitação e absorção da teoria Keynesiana na política econômica do Pós-Guerra, elaborada no capítulo 3 (Parte III). Nossa metodologia da Economia Política do Poder (PEP) desenvolvida ao longo do capítulo 4 (inserido na Parte III) implementa uma dupla abordagem histórica, combinando aspectos institucionais e genealógicos para analisar a transformação do Keynesianismo em uma agenda política entre o final dos anos 1930 até o início da década de 1970 na Europa ocidental e nos Estados Unidos. Nossas conclusões se apoiam nas mudanças epistemológica e política causada pelo Keynesianismo como paradigma político, ou ainda “governamentalidade”. Afirmamos que o modo de governança Keynesiano foi bem-sucedido em trazer princípios economicistas e a técnica econômica para a administração da vida, afetando a maneira como as populações são governadas. Conseqüentemente, instrumentos técnico-econômicos e sistemas de bem-estar se tornaram uma forma técnico-científica de justificar a intervenção econômica via um discurso de poder que defendia estabilidade, crescimento econômico e bem-estar. Com a consolidação do Keynesianismo como modo de governança nota-se o surgimento de uma sociedade de segurança em que políticas de pleno emprego, administração de demanda, estabilidade econômica e segurança social apontam para novas formas de controle e regulação na forma de um pacto de segurança entre o Estado e a população. Paralelo a isso, convidamos o leitor para um retorno aos pensadores originais – Foucault e Keynes – para repensar o papel da atividade econômica enquanto fim teleológico da vida humana. Ao nos debruçarmos sobre os escritos éticos de ambos os autores, argumentamos que a economia pode ser revista e repensada como um meio para se atingir um fim ético: a boa vida. Tal trajetória, nas palavras de Foucault, se torna uma forma de governo de si em que o sujeito se transforma enquanto homem econômico e interpreta a economia como um meio de ação.

Palavras-chave: Keynesianismo. John Maynard Keynes. Michel Foucault. Economia Política do Poder. Mundo Pós-Guerra.

ABSTRACT

The economic origins and sociopolitical impacts of what became known as “Keynesian Economics” have not received substantial attention from economists, political scientists and philosophers about its mode of governance. This study explores the rise and consolidation of Keynesianism as a mode of governance responsible for creating collective forms of power relations in the postwar world, investigating the possible effects of economic ideas once they reach the political arena. Specifically, we apply a “political economy of power” (PEP) framework to understand the emergence of Keynes’s economic theory and its transformation into a policy agenda that had specific consequences in terms of power, governance and regulation of the economy and the population. While Chapters 1 and 2 respectively promote a bibliographical reading of Michel Foucault’s genealogy of power and John Maynard Keynes’s economic, philosophical and political foundations, Chapter 3 introduces a historical investigation based on primary sources and official documents about the absorption and acceptance of the Keynesian economic theory in Postwar’s economic policies. Our Political Economy of Power (PEP) framework developed throughout Chapter 4 deploys a dual-historical approach, combining institutional and genealogical aspects to analyze the transformation of Keynesianism into a policy agenda between the end of the 1930s and beginning of 1970s across Western Europe and the United States. Our conclusions are buttressed by the epistemological and political shift caused by Keynesianism as a political paradigm, or a “governmentality”. The Keynesian mode of governance was successful in bringing economic principles and economic technicality into life, thus affecting the ways populations are governed. Consequently, technical economic instruments and welfare systems were actually a technical-scientific justification of intervention via a discourse of power that defended stability, economic growth and welfare. Once Keynesianism established itself as a mode of governance we see the rise of a security society in which policies involving full employment, demand management, economic stability and social security point out towards new forms of control and regulation in the shape of a security pact between the state and the population. Parallel to that, we also invite the reader to return to our original intellectuals – Foucault and Keynes – to shed light on the issue of economic activity as a teleological end of human life. By exploring their ethical writings we stress how economics should be reviewed and reconsidered as a means to achieve an ethical end: the good life. Such trajectory, in Foucault’s rationale, becomes a form of self-government in which the individual transforms himself/herself within the economy and understands economic activity as a means of action – rather than an end.

Key Words: Keynesianism. John Maynard Keynes. Michel Foucault. Political Economy of Power. Postwar World.

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INTRODUCTION

This study explores the rise and consolidation of Keynesianism as a mode of governance responsible for creating collective forms of power relations in the postwar world. Specifically, we apply Michel Foucault's notion of technology of government, or "governmentality"¹ to understand how the trajectory of Keynesian economic recommendations affected political and social arenas by creating new power relations during a specific time in economic history when Keynesian thought and discourse influenced the political and economic contexts of policy-making.

Understanding the dynamics that encompass the contemporary role of the state, economic policies and civil society inevitably demands a study of the issue of power. Throughout the history of economic ideas, economics and power have always walked side by side. From at least the beginning of the 16th century, when mercantilist doctrine emerged and economic practice became a necessary part of the state in order to achieve its political power and opulence until today, the issue of power has always been recurrent in economic history.

The 2008 financial crisis, the biggest global downturn since the Crash of 1929, has promoted a rethinking of liberal economic ideas and policies as well as the role of the state when facing economic crises. This led to a collective questioning of "what went wrong?" when many of these policies, fully embedded in a liberalizing discourse, did not succeed at all.

When investigating this global financial meltdown, Robert Skidelsky (2010, pp. xv-xviii) emphasized how mainstream economics² have done an exceptionally poor job in explaining one of the most violent collapses in economic life in the last hundred years. For Skidelsky, this could not be avoided due to the main characteristic of mainstream economics: that markets maintenance should be superior to other economic variables and regulations.

The recent economic crisis brought John Maynard Keynes (1883-1946) back to the center of economic analyses, discussions and practices. Keynes's conception

¹ Governmentality was a term created by Foucault (2004, p. 108) (*gouvernementalité*). It represented a way of governing through certain rules and goals, or "techniques of government" that go beyond the institution of state. This will be discussed more extensively in chapter 1.

² This study considers "mainstream economic schools" as those whose emergence and theoretical heritage falls in the marginalism and neoclassical economics.

of economic functioning considered other relevant variables that were important in economic results, such as the role of government as an active economic entity to fight uncertainty, instability and low productivity. Undoubtedly, the Keynesian view should not be ignored in contemporary debates about the ontology of economics and, furthermore, about power relations and how they are disseminated by social institutions.

Keynes cannot be left aside while accomplishing an analysis of power relations, economic ideas and practices, especially due to his role as a central intellectual within economic discourse and, mainly, policy. From the end of the Second World War until the mid-1970s, the Keynesian macroeconomic paradigm dominated the discipline of economics mainly influenced by Keynes's interpreters in Britain (John Hicks, Joan Robinson, Roy Harrod and Nicholas Kaldor) and in the United States (Alvin Hansen, Paul Samuelson, James Tobin, Robert Solow and other "American Keynesians").

For Pressman (2006, p. 113), the 1950s, the 1960s and the early 1970s were considered a "Golden Age of Capitalism": economic life was getting better and Keynesian economics was thought to be responsible for this, especially in regard to unemployment, growth and productivity issues. Besides, the interconnections of an economic and political nature between Keynes's macroeconomic aims and the extension of the welfare state cannot be ignored, especially with regard to the attempts of stabilization through unemployment and other social security benefits that occurred across Western Europe and in the United States between 1930s and 1970s (cf. Winch, 1989).

Unlike classical liberalism (18th and 19th centuries liberal traditions, from Adam Smith to Stuart Mill) and neoliberalism (postwar German ordoliberalism and American neoliberalism), whose visions about the state were limited to formal issues such as the assurance of market institution and the defense of self-interests, Keynesianism³ defended the idea of a state that should be present in the recovery of aggregate

³ Backhouse (2006, p. 20) claims that the term "Keynesianism" has been used to refer to three very different things. The first approach refers to government policy – the use of monetary and fiscal policy to control the level of aggregate demand and unemployment. The second is a political philosophy to which both Marxists and devotees of free markets objected equally strongly. The third is a type of economic theory. This study is particularly concerned with the first and last views: Keynesianism as an economic theory elaborated by John Maynard Keynes, which was widened and transformed by its followers into a formalized and technical economic theory, and its accordingly transformation into a governmental agenda.

demand through direct and indirect intervention. These interventions included fiscal and monetary policies that guaranteed permanent consumption and investment stimuli in order to provide a “good life” to humanity.

French philosopher Michel Foucault (1926-1984) opened up many possibilities for a rethinking of the condition of subjects within modern society, conceiving them as a product of a specific time and place. This required a reflection about which sorts of knowledge, power and truth regimes (or systems) emerged. In order to understand our current condition, Foucault turned to history⁴ so he could see which truth systems and institutional supports were responsible for producing new forms of subjectivity in the present.

In Foucault’s works, power represented a central role on the construction of truths that shaped subjects. During his search for a “critical ontology of ourselves” (see Foucault: 1984a, p. 51), he turned to Nietzschean genealogy, which traced the development of different modes of thought and practice through history. According to Nietzsche’s belief, history would only make sense insofar as it could help us understand the present. In this sense, genealogy enabled Foucault to search for the discontinuous, exterior and specific facts that were responsible for a power technique to arise, thus constituting a *genealogy of power* within Foucauldian work.

For Foucault, it was not possible to understand our contemporary condition of subjects without considering the issue of economic practice. Inasmuch as power relations, economic practice and the institution of the state cannot be dissociated, the knowledge created by economic thought transcended the world of ideas, reaching state practice through the use of economic rules as a set of prescription of *do’s* and *don’ts*. Indeed, Foucault considered power, knowledge and truth as a system that had mutual influences, and this did not happen differently when political economy emerged in the end of the 18th century. As a consequence, the state became the locus where power techniques were disseminated, including those designed by economic ideas and discourse.

The emergence of classical political economy represented a change in the mode of governance of the state, which contributed to the rise of the liberal

⁴ In Foucault’s own words (1971, pp. 54-55): “This historical division [the opposition between true and false] gave our will to know its general form. However, it has never stopped shifting: sometimes the great mutations in scientific thought can perhaps be read as the consequences of a discovery, but they can also be read as the appearance of new forms in the will to truth. [...] This will to truth, like the other systems of exclusion, rests on an institutional support.”

governmentality and the birth of biopolitics⁵. According to Foucault (2008, p. 1), biopolitics “starting from the 18th century [has rationalized] the problems posed to governmental practice by phenomena characteristic of a set of living beings forming a population: health, hygiene, birthrate, life expectancy, race”. This means that biopolitics was a specific technology of power that attributed to modernity its emergence and spread.

In Foucauldian analyses, classical liberalism, German ordoliberalism and Chicago neoliberalism were the main economic schools of thought responsible for creating new technologies of government (governmentalities) and disseminating the biopolitical technology of government. Although the principles of denial and restriction of state action became a popular discourse among these schools, Foucault demonstrated how this in fact represented a shift in the role of the state, thus being directly influenced by economic rationality. In this system, other non-state institutions acted in disseminating biopolitical techniques of power – such as medical, psychological and urban –, an issue extensively studied by Foucault during his intellectual career.

Curiously, Foucault left aside Keynes’s writings during his analyses of governmentality and the role of Keynesian economics in determining public policies. Foucault quoted Keynes very briefly in one of his courses given in Collège de France, *The Birth of Biopolitics* (1979). There, he mentioned Keynes only as an opposite vision to the neoliberal context and discourse (especially Chicago neoliberalism) against other categories of interventionist schools of thought.

Foucault’s main references to Keynes can be summarized in these claims:

We can say that around Keynes, around the economic interventionist policy perfected between 1930 and 1960, immediately before and after the war, all these interventions have brought about what we can call a crisis of liberalism, and this crisis manifests itself in a number of re-evaluations, re-appraisals, and new projects in the art of government which were formulated immediately before and after the war in Germany, and which are presently being reformulated in America. (Foucault, 2008, p. 69).

I think that these three elements – Keynesian policy, social pacts of war, and the growth of the federal administration through economic and social programs – together formed the adversary and target of neoliberal thought,

⁵ The term *biopolitics* was not created by Foucault. Rudolph Kjellén, a Swedish intellectual, was perhaps the first to make use of this word, but Foucault’s theoretical developments regarding biopolitics and biopower have been considered more extensive and accurate than those ones of his predecessors (Esposito, 2008, pp. 16 and 24).

that which it was constructed against or which it opposed in order to form itself and develop. (Foucault, 2008, p. 217).

Foucault made reference to Keynes's economic reasoning and to the possible effects of interventionist policies as one of the main causes for the emergence of neoliberal discourse, especially 1960s and 1970s American neoliberalism. While it may be possible to say that Foucault recognized Keynes's remarkable contributions to a change in how economics and politics worked together, he overlooked Keynes's theoretical foundations, as well as his investigations regarding the relationship among state, society and economics.

Furthermore, the possible connections between Foucault and Keynesianism have never been explored, neither by philosophers nor economists. Although appearances of Keynes in Foucauldian works were never existent, except those found in *The Birth of Biopolitics* (1979), a full understanding of the different modes of governance throughout the 20th century cannot be successfully achieved without including the relevance of Keynesianism, both as an economic theory and a political paradigm.

The political and economic context of the end the decade of 1970 can be the possible cause to explain why Foucault left an important economist such as Keynes aside. Paul Davidson (2009, pp. 2-3) suggests two main causes why Keynesian economics suffered a downfall in the 1970s. First, the failure of Keynesian anti-inflation policies to fight "stagflation" – a period in which both unemployment and prices were rising simultaneously – questioned the effectiveness of Keynesian economic policies. Secondly, the public dissatisfaction with the Vietnam War added to the general public's distrust of U.S. government policies, causing a revolt against the idea of a big, involving government. These two elements cleared the way back to *laissez-faire* ideology and to economists who believed in a free market.

That time was the same historical period when Foucault gave two lectures in Collège de France: *Security, Territory, Population* (1978) and *The Birth of Biopolitics* (1979). Possibly due to the downfall of Keynesian economics and philosophy and the re-emergence of economic liberalism, Foucault concentrated his lectures in two schools of thought: classical liberalism and neoliberalism⁶.

⁶ A few rare quotations that involved Keynes's theoretical inspiration can be found in some works that linked the Foucauldian perspective of power and the welfare state. Some studies that highlight Foucault's contributions for a reconsideration of the role of the state are: Andrew Barry, Thomas

Indeed, there are controversies involving the definition of Keynesian economics and to what extent it reflects the proposals of Keynes (cf. Clarke, 1998, pp. 16-37). Many of his interpreters in the decades of 1950 and 1960 have transformed and simplified Keynes's methodology and epistemology to create a more appealing discourse of macroeconomic action, especially the economists of the "neoclassical synthesis" (Hicks, Hansen and Samuelson) and, later, the "neo-Keynesians". Nevertheless, Keynesianism still represented a different approach from the liberal/neoliberal view. This controversy is presented and discussed throughout this study, as well as presenting the consolidation of Keynesianism as a theory that legitimized the discourse and role of economists as policy-makers.

In terms of practical governmental action, the emergence of Keynesian macroeconomic policies during the decades of 1930 and 1940 had the recovery of macroeconomic activity through interventionist policies as a primary goal, consolidating the state as an economic entity and as an institutional regulator of economic and social systems. This represented a peculiar change in liberal recommendations, which reigned as a major economic influence since the end of the 18th century until the 1930s.

In order to understand which power effects can be derived from Keynesian policies and how these policies led to a new governmentality in the postwar world, one must turn to the conduct of the state towards population, civil society and economic sphere. This demands a detailed analysis based on Foucauldian genealogy once it enables a non-traditional interpretation of the state practices and how they disseminated power relations.

For Foucault, the state represented a codification of relations of power at all levels across the social body (see Foucault, 2004, p. 119), separating the notion of power from the exclusive institution of the state. In this definition, the role played by knowledge (*connaissance*) and discourse could also be understood as political apparatuses (*dispositifs*) that led to a reconfiguration of governmental practices. In

Osborne and Nikolas Rose's *Foucault and Political Reason* (1996); Ivan Berend's *Foucault and the Welfare State* (2005); Thomas Lemke's *An indigestible meal? Foucault, governmentality and state theory* (2007); Peter Miller and Nikolas Rose's *Governing the Present* (2008); Mitchell Dean's *Governmentality: Power and Rule in Modern Society* (2010); Bob Jessop's *Constituting Another Foucault Effect: Foucault on States and Statecraft* (2011) and Kaspar Villadsen's *Public Policy and Foucauldian Critique: Towards a Happy Marriage?* (2012). In spite of the fact that these authors connected Foucault's view of power and the contemporary role of the state on what concerned the care of the population and security, the notion of welfare state has been considered in a much broader sense by the authors, thus leaving the economic Keynesian legacy aside.

Foucault's view, this changed the way state conducted the collectivity, and economic discourses and practices were fundamental in this process insofar as the principles of 18th and 19th century classical political economy caused a self-limitation of governmental reason.

Foucault (2008, pp. 317-319) considers that it was not possible to dissociate the birth of biopolitics from the political rationality that led to the emergence of economic liberalism. Although Foucault emphasized the relevance of classical liberalism and neoliberalism to the birth and development of biopolitics, this study defends that this notion can be extended to Keynesian economics inasmuch as the Keynesian governmentality led to several effective public policies that involved the stability and management of the economic system, encompassing issues such as employment, productivity and population welfare.

Methodologically, this study combines two historical frameworks with a third methodological proposal. Chapter 2 addresses a genealogical approach to Keynes's mode of thought based on a Foucauldian understanding of history, thus underpinning the conditions for the rise and development of Keynes's ideas and their consolidation as a policy discourse. Chapter 3 addresses a historical institutionalist approach based on Peter Hall's (1989, pp. 8-13) triple framework about economic ideas and political power for understanding the transformation of Keynes's theory and the consolidation of Keynesianism as an art of government. Following Hall's three main approaches (economist-centered; state-centered and coalition-centered), we point out the main actors, institutional conditions and discursive changes that enabled Keynesianism to influence direct economic and social policies, namely employment policies, economic stabilization and welfare measures.

Our third methodological perspective combines both frameworks (genealogical and institutional) to propose an analysis of the power effects derived from the political aspects of Keynesianism in the postwar world. We draw a "political economy of power" (PEP) framework to understand the emergence of Keynes's economic theory and its transformation into a policy agenda that had specific consequences in terms of power, governance and regulation of the economy and the population. Our PEP framework deploys a dual-historical approach, combining institutional and genealogical aspects to analyze the transformation of Keynesianism into a policy agenda between the end of the 1930s and 1960s across Western Europe and the United States.

This study will be developed in three parts. The first part is a detailed critical reading of Foucault's genealogical method and the emergence of the concepts of biopolitics and governmentality within Foucauldian *oeuvre*. The section emphasizes the origins and effects of biopolitical power, as well as demonstrates how it led to the notion of governmentality. Chapter 1 introduces Foucault's theoretical displacement from his archaeology of knowledge to a genealogy of power, emphasizing the genealogical method of research to rethink the issue of power. Moreover, Chapter 1 also focuses on the emergence and development of biopolitics and governmentality – and their connections with classical political economy and neoliberalism – using the writings of Foucault and contemporary scholars⁷.

Part II conceptualizes and formalizes Keynes's mode of thought (see Dow, 1996, p. 10) by outlining his philosophical, economic and political influences, as well as emphasizing some Keynesian ideas about the normative role of the state within economic and social context. Specifically, this chapter presents a "genealogy" of Keynes's thought by applying Foucault's method of genealogical research to Keynes's thought and historical context. This genealogy may shed light on how Keynes thought about the economic method and reality, as well as the origins and duties of governmental institution.

Lastly, Part III (Chapters 3 and 4) presents a critical assessment of the rise and consolidation of Keynesian economics as an art of government, focusing on the transition from theory to practice. We define its main characteristics by focusing on some of the recommendations and operationalization of Keynesian policies into the practical field of economy and society, emphasizing specific cases that involve economic and social management. Chapter 3 conceptualizes the notion of a "Keynesian art of government", investigating the acceptance and adherence of Keynesian ideas into several political and economic institutions of Western Europe and the United States and compare the modes of Keynesian governance that emerged and dominated policy-making in the postwar decades. Noteworthy how this chapter associates institutionalism to a historical analysis of economic facts and

⁷ Those scholars include contemporary authors that reviewed and rethought many of Michel Foucault's notions of power, biopolitics and governmentality. Some of them are quoted throughout this study: Agamben (2005), Barry, Osborne and Rose (1996), Burchell, Gordon and Miller (1991), Dean (2010), Deleuze (1986), Lemke (2007, 2011a, 2011b), Lazzarato (2012), Machado (2009) and Rose (2008).

decisions, especially on what concerns economists, institutions and political decisions.

Additionally, chapter 4 introduces an analytical framework for the study of power relations in economics by proposing a “political economy of power” approach (PEP). This chapter explores the mechanisms and techniques used by Keynesian economics in creating collective forms of power relations in the postwar world by applying the PEP approach, underpinning its transformations on economic knowledge and its application into social control and the government of life. We point out the changes in economic epistemology and policy-making once the Keynesian discourse became the dominant approach in think tanks, academia and governments.

We trace back some of the elements of Keynesian governmentality presented in Chapter 3, such as those that involved economic discourse, policy discussion and political acceptance of Keynesianism, to outline how Keynesian governmentality promoted a redesign of biopolitics and social regulation of the population based on the idea of security. Besides addressing a critique to the consequences of Keynesian governmentality, we promote an ethical discussion about the role of economic activity and economic prosperity in life.

Finally, the last section draws some concluding remarks.

PART I

1. MICHEL FOUCAULT'S GENEALOGY OF POWER AND ITS CONTRIBUTIONS TO THE STUDY OF ECONOMIC THOUGHT

This chapter has two main purposes. First, it introduces Michel Foucault's phase of studies called *genealogy of power*, emphasizing its emergence within Foucault's intellectual project and demonstrating the use of a genealogical method for a proper understanding of the issue of power.

During his genealogical phase, Foucault created a system that combined macro and microforms of power with knowledge and truth to understand the possible effects of power relations in civil society. Those powers could be individual (certain types of power that have an isolated individual as its target) or collective powers (those powers directed to the population). When dealing with collective forms of power, Foucault acknowledged the role of the state as a spreading force of powers, particularly the modern institutional framework of the State insofar as it created and disseminated new forms of power relations throughout modern age.

Secondly, this chapter presents two concepts that helped improving Foucault's studies on power technologies: biopolitics and governmentality. These two notions can be seen as complementary inasmuch as they investigate the conditions that led to the emergence of specific power relations in the end of the 18th century, and how they affected the government of the population.

We can investigate biopolitics and governmentality from a perspective that includes economic thought and practice, connecting those two concepts with Foucault's contributions to the analysis of economics and power relations. Some works such as Tribe (1978), Amariglio (1988) and Lima (2010) made valuable connections between Foucault's writings and the study of economics, paying special attention to Foucault's archaeological writings and early genealogical writings concerning the epistemic formations of economic theory, the notion of body and economic discourse. However, none of these works provided an accurate investigation of Foucault's specific notions of biopolitics and governmentality and their connections to the study of economic thought.

Foucault, 2008, (pp. 317–319) considers that it was not possible to dissociate the birth of modern forms of governmentality – which also included biopolitics – from

the political rationality that allowed economic liberalism to arise. Therefore, Foucault's investigations can shed light on how liberal and neoliberal economic schools were responsible for creating and disseminating multiple forms of technologies of government, particularly 18th century British classical political economy and 20th century German ordoliberalism and Chicago School neoliberalism.

Additionally, the theoretical change from biopolitics to the study of governmentality will be outlined as an important shift within Foucault's studies about power, emphasizing the analytical complementarities of governmentality to the study of biopolitical practice.

Besides Foucault's intellectual contributions about power relations and economics, this chapter presents a brief biographical delimitation of his intellectual work in order to understand his transition from his early phase of studies, archaeology, to genealogy.

1.1 FOUCAULT'S INTELLECTUAL PROJECT

Paul-Michel Foucault was born in 1926 in Poitiers, France and died in Paris in 1984. His investigations involved different areas of human, social and medical sciences, such as psychiatry; sexuality; clinic; law; economics; philosophy of science; discourse and language, among others. In 1969 he was elected chair at Collège de France, where he was Professor of the History of Systems of Thought until his death in 1984, with the exception of the year of 1977, when he withdrew for a sabbatical year. He also lectured in many other countries such as Brazil, Japan, Canada and United States, particularly at University of California at Berkeley (1983).

His vast *oeuvre* included books, courses, interviews and several lectures which were not separated into isolated phases, rather in theoretical displacements inside the same perspective, which was to search for the reasons why individuals became subjects in modern age. Foucault's three theoretical phases or displacements⁸ include: (1) archaeology of knowledge; (2) genealogy of power and (3) ethics of the subject. However, some of Foucault's scholars have questioned if those displacements represented different views within the same perspective or not

⁸ This study focuses on Foucault's genealogy of power.

(for instance, see Dreyfus and Rabinow, 1983; Deleuze, 1986; Gutting, 2005; O'Farrell, 2005; among others).

Dreyfus and Rabinow (1983, p. 104) go beyond a simple classification of Foucault's work. They claim that, in his early days, the philosopher used variants of a strict analysis of discourse (archaeology) to pay a more general attention to what conditions limits and institutionalizes discursive formations (genealogy), thus uniting archaeology and genealogy within the same analytical perspective.

Additionally, Gutting (2005, p. 2) combines Foucault's writings along two primary axes. First, he proposed a dimension where Foucault appeared as a philosophical historian, progressively developing a set of historical methods in his archaeology of knowledge (or discourse), in his genealogy of power relations and in the problematization of ethics. Secondly, by claiming that Foucault emerged as a historicist philosopher, offering deeper and mutually supporting theories of knowledge, power and the subject at the same time he developed an innovative methodology.

Foucault's diagnosis about the leading causes that constitute modern subjects dealt with three modes of objectification that transform human beings into subjects (1983, p. 208). First, objectivizing the speaking subject of general grammar, linguistics, economics and biology using archaeological investigations that explore the "scientific status" of discourses. Secondly, analyzing the "dividing practices" that separate the subject from other individuals, which means separating the sane, healthy and good individuals from those who are mad, sick or criminal. And lastly investigating how a human being turns himself/herself into as subject by their conducts, such as sexuality.

While accomplishing an investigation about plural forms of knowledge (or *connaissances*⁹), Foucault emphasized the role of the conditions that limit or institutionalize discursive formations. This means that understanding the responsible forces that enable a specific discourse to emerge at a time and place were as important as analyzing the macro discourse itself. For Foucault, the role of universal discourses and influences should be decomposed and interpreted microscopically.

⁹ In French, *savoir* differentiates from *connaissance* (both are translated into English as "knowledge"). *Connaissance* refers to a particular branch of knowledge, a particular discipline (such as economics, biology and philology). *Savoir* is "knowledge" in general, so to speak; it encompasses all branches, all domains of "knowledge (*connaissances*). As Hacking (1986, pp. 30-31) puts it, "*savoir* [...] was a frame, postulated by Foucault, within which surface hypotheses got their sense."

As Rabinow affirms (1984, p. 4), “Foucault is highly suspicious of claims to universal truths. He doesn’t refute them; instead, his consistent response is to historicize grand abstractions”.

Foucault rejected universal truths and his central concern was to investigate the philosophical possibilities of concepts that were already established. His investigations can be considered as a new method that rethinks how knowledge and power influenced on the conduct of subjects. Even though Foucault avoided theoretical imperatives, he sought to analyze the role of several social and political institutions, whether formal or informal, thus not abandoning the institution of the state.

Although Foucault’s method and rhetoric tended not to accept any given or established position – what sometimes resulted in apparent internal contradictions (see Downing, 2008, p. 3) – his influences and his intellectual and political context demonstrated the complexity of his analyses. For instance, Foucault has been linked to different philosophical and ideological schools of thought, such as structuralism, Marxism, Freudianism, postmodernism and post-structuralism, to name a few. Indeed, Foucault rejected all those labels during his career, but according to Downing (2008, p. 6), all those thinkers and influences allowed him to think outside the box insofar as they provided different models and insights for a given problem or project.

For example, when referring to the institution of the state Foucault re-affirmed his proposal to create a theory that analyzed the state and its derivative powers from a non-individualizing perspective. He says:

[...] the political, ethical, social, philosophical problem of our days is not to try to liberate the individual from the state, and from the state’s institutions, but to liberate us both from the state and from the type of individualization which is linked to the state. We have to promote new forms of subjectivity through the refusal of this kind of individuality which has been imposed on us for several centuries. (Foucault, 1983, p. 216).

Despite the fact that the issue of power represented a great critical accomplishment in Foucault’s work, he always emphasized that his intellectual project involved not only the issue of power, but also knowledge and truth in the same perspective. Understanding under which conditions those forces emerged (archaeology) and how they created several mechanisms or apparatuses that

transformed humans into subjects during modern age (genealogy) demanded a non-traditional approach critically and historically speaking.

Diagram 1 summarizes how the elements of power, knowledge and truth worked with themselves inside Foucault's theoretical displacements. Considering his intellectual project as a dynamic endeavor, it is possible to see that each element cannot function properly without considering the other two:

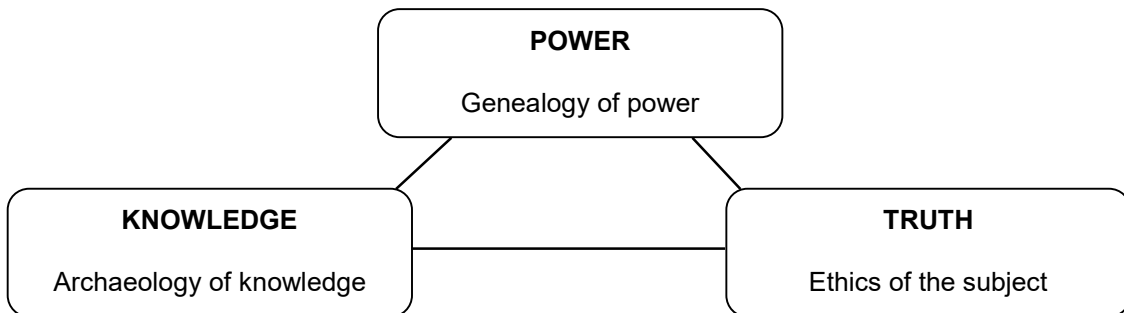


DIAGRAM 1 – Foucault's theoretical displacements seen from a functional perspective.

Source: Author's own work based on Foucault (1983 and 1997b).

Foucault's intellectual project can be seen as a continuous map that encompasses knowledge, power and truth; when focusing on each one separately, it cannot leave the other two elements aside. Needless to say, a proper understanding of Foucault's strategies of thought demands a study about his transition from archaeology of knowledge to genealogy of power¹⁰, as well as identifying the responsible elements that led Foucault to shift from knowledge to power.

Before presenting the impact that Foucault's genealogy had on the study of classical political economy and neoliberalism, one must look closely at the genealogy itself. Foucauldian genealogy can be considered a method that provides a critical analysis of the bases and consequences of a specific knowledge insofar as it puts

¹⁰ Although Foucault's last intellectual phase (ethics of the subject) represented an important change in his studies, it will not be taken into account extensively throughout this study. His third intellectual axis still focused on the issue of governmentality, but on Roman and Ancient Greek forms of self-government (such as the ones found in Socrates and Cynism). Foucault combined that notion of self-government together with a genealogical approach of ethics, in which he did not see ethics as the study of normative or moral conduct, but he defined ethics as a relation of the individual to himself/herself in terms of self-government, which can be exercised in the form of the care of the self, parrhesia (or frank-speech) and asceticism.

the role of historical facts and other non-traditional analytical strategies in the core of its rationality.

Moreover, genealogy can be a useful tool or method to investigate the practical consequences economic thought, particularly approaching the issue of power and the effects of economic discourse in political practices and state action. Foucault investigated this extensively at his two Collège de France lectures presented in 1978 and 1979, entitled *Security, Territory, Population* and *The Birth of Biopolitics*. There, he went from mercantilism and physiocracy to 1960s Chicago Neoliberalism to understand how economic discourse and ideas had an impact on political action, creating new forms of power relations.

This will be discussed throughout sections 1.2 and 1.3.

1.1.1 From archaeology of knowledge to genealogy of power

Foucault turned to three main forces – knowledge, power and the role of the self – when accomplishing an investigation about the reasons why individuals became subjects in the modern society. His aim was to construct an analysis of how those forms can shape our conducts, behaviors and norms and change the way we think and act.

Within his first theoretical displacement, *archaeology of knowledge*, Foucault pursued an investigation of what he called “the historical conditions of possibility” of knowledge. Foucault used the notion of “critique” to search for the historical conditions that determined the emergence and existence of a certain knowledge or practice in a specific place and time. For instance, in his archaeological phase, Foucault searched for ontological and epistemological conditions that could be responsible for the emergence of a labor theory of value that radically changed mercantilist considerations regarding money, wealth and intrinsic value (see Lima, 2010).

Besides political economy, Foucault also investigated how other forms of knowledge emerged and suffered transformations over time, such as biology, psychiatry, medicine and linguistics. Hacking (1994, p. 176) referred to them as “immature sciences” due to Foucault’s distinct approach and notion of science when compared to Thomas Kuhn, for example, whose analysis focused on hard sciences.

Foucault's earlier works dealt with discourse theorization. However, by the middle of 1970s he no longer understood himself as an exclusive discourse critic. Hoy (1986, pp. 2-3) emphasizes the critical assessments that Foucault had acquired during his career due to his constant change of methods and purposes, what led him to a broader investigation about practices and historical facts. It is for that reason that Machado (1982, p. 175) claims that Foucault's archaeological works should be read as a *continuum* of the same perspective.

Archaeology encompassed four major works, such as *Madness and Civilization* (1961); *The Birth of the Clinic* (1963); *The Order of Things* (1966) and *The Archaeology of Knowledge* (1969).

In Foucault's own words:

'Archaeology' [...] can mean: the description of an archive. By archive I understand the set of discourses that are enounced effectively, and that set is considered not only as a set of events that have taken place once and after remained suspended, in limbo or purgatory of history, but also as a set that continues to work and to transform throughout history by making other discourses possible. [...] I do not intend to search under the discourse what do men think, but I try to conceive the discourse in its manifest existence, just as a practice that obeys to certain rules. Rules of formation, existence, coexistence, functioning systems, etc. (Foucault, 2001a, p. 772, author's translation).

According to Foucault, archaeology means describing an archive – or a set of discourses – that emerged in a specific time and still influences the way scientific discourses are built. He explained that dynamics on *The Order of Things* (2007, p. xix), in which he stressed how the historical constitution of knowledges (*connaissances*) followed a set of regularities that had a discontinuous distribution in time.

By combining the notion of *épistémès* (or simply *epistemes*¹¹) with the fundamental regularities that a discourse presented, Foucault outlined the conditions of possibility that allowed a discourse to become truthful at a specific time in history. For Foucault (2007, p. 476), historical conditions also have the power to change how

¹¹ According to Castro (2009, pp. 139-140), episteme was the underlying arrangement of some conditions that determine knowledge by pointing out its "conditions of possibility". Epistemes were determined both temporally and geographically, including fundamental codes of a given culture that include language, values, theories and practices.

a discourse can emerge and institute a truth system¹² (or *regime*), and that is why the archaeological study of strategic conditions of possibility cannot be ignored.

Moreover, Foucault did not consider historical facts as continuous events that flow naturally on time. On the contrary, Foucault (1991, p. 53) employs the notion of discontinuity to break the old forms of strained continuity that dominated the historical investigation of discourses. Discontinuity meant that historians should search for the events, institutions, practices and ideas that were untold, ignored or reduced by standard historical approach.

Insofar as Foucault's aim in archaeology was to identify under which conditions some systems made a knowledge possible and acceptable in a given historical moment, history was analogous to the notion of truth. For instance, when Foucault investigated the epistemes that made the emergence of political economy possible, Lima (2010, p. 7) demonstrates the case of the notion of "wealth", "value" and "exchange" in the history of economic thought: they meant different things for mercantilists and political economists, indicating a non-teleological and non-progressive approach of history, or, in Foucauldian terms, a *discontinuous* interpretation of historical facts.

The problem of dealing with continuous facts was that it implied metaphysical and unprovable assumptions about history and experience, thus assuming preconceived systems of power, norm and discourse (O'Farrell, 2005, p. 74). Actually, Gutting (2005, p. 4) claims that Foucault was not reluctant in creating new theories or methods, as long as they were subordinated to the tactical needs of a particular analysis.

The transition from archaeology to genealogy was a complex process in Foucault's works. For instance, Rabinow (1997, p. xiv) attributes Foucault's shift from knowledge to power to reasons in his personal life – but that process occurred according to the analytical perspective that Foucault had committed himself to make: to pursue an investigation about the modes of subjectivation, or how individuals become subjected to certain rules, norms and patterns.

The division between archaeology and genealogy does not represent a scission of knowledge *versus* power, but rather a complementarity of knowledge and

¹² Foucault (2011, p. 146) defines "system" as a set of relations that maintain and transform themselves according to an order.

power together with the truth systems each one produces – as Diagram 1 demonstrated. About this change in Foucault’s works, he says:

When I was studying during the early 1950s, one of the great problems that arose was that of the political status of science and the ideological functions which it could serve. [...] I believe that around that sordid affair – which had long remained buried and carefully hidden – a whole number of interesting questions were provoked. These can all be summed up in two words: power and knowledge. (Foucault, 1984a, p. 51)

For Foucault, power and knowledge could not be dissociated. He exemplifies that with the division between “hard sciences”, such as theoretical physics or organic chemistry, and the “immature sciences”¹³, which included psychiatry, political economy, biology, linguistics, etc. According to Foucault (1984a, pp. 51-52) if one tries to connect those hard sciences with political and economic structures of society it becomes a complicated – and ignored – task. On the contrary, if one takes an “immature” form of knowledge such as psychiatry, the task would be much easier to solve due to the low epistemological and institutional links that those “immature sciences” present, such as economic requirements, political issues and social regulations.

With that example in mind, Foucault demonstrated how the connections between knowledge, social structures and power are narrow: for a specific knowledge to become widely acceptable and thus becoming a true statement, it demands a complex structure of power relations. Or, according to Foucault: “It is a question of what *governs* statements, and the way in which they *govern* each other so as to constitute a set of propositions which are scientifically acceptable (...)” (Foucault, 1984a, p. 54, original highlights).

Foucault also investigated which propositions made political and social statements acceptable as well. This can be seen in *Discipline and Punish*, in the three volumes of *The History of Sexuality* and in his lectures at Collège de France between 1976 and 1979. Those works emphasized the role of various forms of power relations in creating normative roles and conducts in modern society. At that intellectual moment, Foucault analyses considered which elements made non-discursive practices possible and widely spread, complementing his previous

¹³ For that, see Hacking’s terminology (1994).

investigations about the conditions of possibility that made discourses and/or knowledges possible.

In a 1977 interview, Foucault explained how his interest in power relations was not separated from what he had done in his earlier works:

There are truth effects that a society - such as the Western society, although it is possible to extend this to the world society nowadays - produces at each moment. Truth is produced. These productions of truth cannot be dissociated from power and from mechanisms of power, both because these power mechanisms make possible - lead to the production of truth - and because these productions of truth are, by themselves, power effects that unite us, bond us. These are the truth/power and knowledge/power relations that concern me. (Foucault, 1994, p. 404)

Instead of looking only for discursive practices and understanding how they created truths, Foucault also approached non-discursive practices, emphasizing the role of power and its multiple mechanisms and strategies. Therefore, genealogy became a broader approach once it dealt with non-discursive practices, differing from archaeology. Indeed, Foucault continued to investigate the issue of knowledge in his genealogical phase, but analyzing knowledge from the perspective of power relations: knowledge generates power, and therefore, truth systems.

Foucault conducted some working sessions at the University of California, Berkeley in 1983, where he assumed that the whole of his intellectual project can be read from the perspective of genealogy.

Foucault affirms:

Three domains of genealogy are possible. First, an historical ontology of ourselves in relation to truth through which we constitute ourselves as subjects of knowledge; second, an historical ontology of ourselves in relation to a field of power through which we constitute ourselves as subjects acting on others; thirds, an historical ontology in relation to ethics through which we constitute ourselves as moral agents. So, three axes are possible for genealogy. All three were present, albeit in a somewhat confused fashion, in *Madness and Civilization*. The truth axis was studied in *The Birth of the Clinic* and *The Order of Things*. The power axis was studied in *Discipline and Punish*, and the ethical axis in *The History of Sexuality*. (Foucault, 1997b, pp. 262-263).

According to Foucault, genealogy arose as a broader concept and form of analysis in his writings, which enabled one to understand his intellectual project from a genealogical perspective.

The notions of genealogy and its possible assumption as a method are discussed as it follows.

1.1.2 Genealogy as an analytical method

Foucault sought for the connections between knowledge, power and truth by reconstructing Friedrich Nietzsche's genealogical analysis and method found *On the Genealogy of Morality* (1887). According to Foucault (1971, pp. 67-69), genealogy was not a search for a metaphysical origin that neglected all other historical and conjectural aspects. On the contrary, it was an investigation that paid attention to the discontinuous and specific facts of a discourse, thus analyzing its exterior issues.

Although Foucault never identified genealogy as a formal analytical method *per se*, some of Foucault's interpreters as Arnold Davidson (1986, p. 224) classifies genealogy as a methodological aspect that Foucault employed in his works. Actually, Foucault demonstrated a pragmatic posture in that sense: he was concerned more with looking into the origins, discontinuities and complexities of powers and discourses rather than explaining carefully his methodological approach and formal epistemology.

Concerning that idea, Dean affirms:

The relation between Foucault's reflections on the uses and pertinence of historical studies and his own histories cannot be understood in terms of the application of a method or theory. [...] It is just as likely that these 'methodological' statements are occasions for reshaping and repositioning the historical work already done as they are ways of posing new directions and aims for research. Such statements are united by a fundamental rejection of the naïve empiricist account of historiography as a reconstruction of the past, and an approach to the use of historical sources to discover the reality of which these sources are traces. (Dean, 1994, p. 14)

Foucault did not assume genealogy as a formal method, but he reshaped and repositioned the role of history inside his philosophical critique, which can be considered as a historical method.

Regardless of such methodological discussion, the task of identifying the exact moment when genealogy emerged and which are its principles is complex. Rabinow (1997, p. xv) claims that Foucault's 1976 course, entitled *Society Must be Defended* (2003), was the exact moment when Foucault formally assumed he was shifting from an analysis of knowledge and discourses to power relations.

However, Foucault's inaugural lecture at the Collège de France in 1970 (*The Order of Discourse*) already demonstrated a clear concern about the production of discourses and how they were affected by power. He says: "Discourse is not simply that which translates struggles or systems of domination, but is the thing for which and by which there is struggle, discourse is the power which is to be seized." (Foucault, 1971, pp. 52-53).

With that in mind, Foucault presented a methodological prescription in *The Order of Discourse* with four principles that governed his following works and clarified his genealogical approach. Those four principles were: reversal; discontinuity; specificity and exteriority (cf. Foucault, 1971, p. 67).

The principle of reversal demonstrates an inverse and negative role of discourses, their emergence and contexts of dominance. For Foucault, we should abandon the fundamental notions of discourses and establish an opposite interpretation, highlighting their possible negativities, controversies and debates.

According to Foucault (1991, p. 56) the idea of discontinuity means a two-step process. First, it means to abandon continuities such as preconceived traditions, influences and habits of thought, making other discursive forms possible and visible. Secondly, it involves leaving aside psychological explanations of change and methodological individualism (the genius of great inventions, crises of conscience, etc.), turning to other transformations that constitute – and not simply provoke – a change.

Thirdly, specificity indicates substituting general forms, abstract elements and universal effects of discourses for an analysis of *transformations* in their own causable explanations and conditions (Foucault, 1991, p. 56). Accordingly, specificity does not assume pre-discourses or pre-established symbols that make a statement possible, but it considers a discourse as something specific from its own time and space.

Lastly, the principle of exteriority was extensively used by Foucault in his analyses of micro forms of powers, as Machado demonstrated in *Microphysics of Power* (2009)¹⁴. To search for the exterior elements meant taking into account the conditions of possibility located outside a discourse, such as external facts, forces, actors and power relations.

¹⁴ Available only in Portuguese, as *Microfísica do Poder*, first published in 1979.

Unlike archaeology, which sought to understand *how* discourses and knowledges emerged at a certain time and place, genealogy focused on *why* discourses emerged, depending of external forces that located outside discursive practice (Machado, 2009, p. x). Thus power relations, its mechanisms and strategies were Foucault's answer (and starting point) to accomplish a genealogy of power in modern society.

Between the end of 1960s and the beginning of 1970s (precisely between 1967 and 1972¹⁵), Foucault improved his genealogical notion by demonstrating how history represented an alternative to the study of possible connections between knowledge, power and truth. For Castro (2009, p. 185), Foucault accomplished that without referring to standard metaphysical institutions, such as *the* subject, *the* science and *the* philosopher.

Foucault affirms (1984b, p. 77): "Genealogy does not oppose itself to history [...]; on the contrary, it rejects the metahistorical deployment of ideal significations and indefinite teleologies. It opposes itself to the search of 'origins'". With that, Foucault suggested how genealogy does not deny history; instead, it re-interprets history not from its metaphysical and universal view, but borrowing historical ideas from a different perspective.

Moreover, historical facts should not be seen as a constant flow that presents an inviolable identity and steady origin. Actually, Foucault emphasized historical disparity and disagreement as the facts that must be taken into account. Insofar as the clash of ideas became the dominant rule, truth is reconstructed from a non-metaphysical principle. Foucault says:

A genealogy of values, morality, asceticism, and knowledge will never confuse itself with a quest for their "origins"; will never neglect as inaccessible the vicissitudes of history. On the contrary, it will cultivate the details and accidents that accompany every beginning; it will be scrupulously attentive to their pretty malice; it will await their emergence, once unmasked, as the face of the other. (Foucault, 1984b, p 80).

Genealogy focuses on details, accidents, forces and events that were responsible for the *emergence* – instead of the origin – of a discourse or practice. Foucault (2003, p. 9) considered genealogy an "antiscience" that rejected scientific

¹⁵ Foucault often referred to the role of history and his genealogical principles in his interviews: see his 1967 *On the Ways of Writing History* (1998b) and his 1972 *Return to History* (1998c), as well as in Foucault's 1971 essay *Nietzsche, Genealogy, History* (1998a).

positivism and the standard approach of macro history. Consequently, genealogy implies destroying reality, truth and identity and substituting those elements for discontinuity, specificity, exteriority and reversal.

Schematically, Foucauldian genealogy followed these steps (based on Foucault, 1998b, pp. 280-281):

1. To avoid macro political revolutions (such as French Revolution, Industrial Revolution, World Wars) as a historical form of periodization and demarcation;
2. To see delimited periodizations in history (and their events) not from a mere chronological point of view, but as complex system of various forces acting together;
3. To abandon the division between human sciences and history inasmuch as they mutually complement and influence each other;
4. To bring more historical types of analysis beyond the “single cause-effect” structure model; history is constantly influenced by several forces in different ways and directions.

In practical terms, Foucault replaced structural-macro analyses of history, such as those written by Lévi-Strauss and Jacques Lacan by Fernand Braudel’s way of interpreting history, which assumes multiple forces, variables and chronological periods for explaining historical changes and emergences (Foucault, 1998b, pp. 279-280).

A clear moment when Foucault used those genealogical principles and steps was in his analyses of power relations to understand how process of subjectivation appeared in modern society. In those analyses, the institution of the state was left aside and temporarily replaced by other micro social and political institutions that were also responsible for disseminating powers. Penal procedures, evolution and institutionalization of psychiatry and sexual controls and procedures were some of Foucault’s studies¹⁶ that involved analyzing social and political powers outside the institution of the state (or “micro powers”).

¹⁶ For instance, see *Discipline and Punish* (1975) and *The History of Sexuality 1: An Introduction* (1976).

To pursue a genealogy of power relations meant: first, to abandon the idea that power is always repressive and punitive; and secondly, to understand which procedures and strategies allowed the effects of power to circulate and create new forms of relations within the social body (Foucault, 1984a, p. 61). Foucault (2003, pp. 7-8) assumed he was concerned with “subjugated knowledges” ignored by standard historical and philosophical analyses of power, which left aside the role of many medical, sociological, political and economic forces.

Foucault investigated first those forms of power that he classified as disciplinary powers, as well as its disseminative institutions (prison, school, hospital, etc.) Nevertheless, although Foucault temporarily left the modern State figure aside during his disciplinary power analyses, he brought it back to the center of his attention in his mid-1970s investigations due to its relevance in micro and macro power relations. Later, he turned to a different form of power: the one which develops relations of productivity in human life.

For Foucault, we can grasp the genealogy of power relations by de-institutionalizing and de-functionalizing them. Or, putting that in a different way, we can see the way power relations were formed, how they connected to other elements, how they developed and, above all, how they emerged from processes that are something distinct from power. For instance, Foucault (2004, p. 119) exemplifies the army: we can say that the process of disciplinarization of the army is due to state control, but when we isolate the idea of the state away from the army, we can think beyond the macro institutions and consider other relevant actors in that process (floating populations, technical inventions, models of management, alliances). This, in Foucault’s view, is what a genealogy represents.

The complexity of the issue of power, its actors and its procedural tools (mechanisms, strategies, rationalities, actors) consolidated genealogy as one of Foucault’s axes of study, but genealogy was subdivided into three fields of analysis: disciplinary power¹⁷, biopolitics and governmentality.

Unlike analyses proposed by classical political philosophy (such as those ones offered by Niccolò Machiavelli, Thomas Hobbes and their heirs), which limited investigations on power to the institution of the state, Foucault approached power as something non-exclusive to state both in his analyses of disciplinary power and in

¹⁷ This study focuses on biopolitics and governmentality, as well as their connections to economic knowledge and practice. Disciplinary power is left aside in the present analysis.

governmentality, opening up a broader perspective. Nevertheless, Foucault could not reject the institution of the state completely, particularly as a relevant actor that absorbed forms of knowledges and produced new forms of power, hence consolidating a discourse of truth.

Foucault says:

What are the rules of right that power implements to produce discourses of truth? Or: What type of power is it that is capable of producing discourses of truth that have, in a society like ours, such powerful effects? What I mean is this: In as society such as ours [...] multiple relations of power transverse, characterize, and constitute the social body; they are indissociable from a discourse of truth, and they can neither be established nor function unless a true discourse is produced, accumulated, put into circulation and set to work. (Foucault, 2003, p. 24).

Truth cannot be dissociated from the exercise of power insofar as power relations produce and implement truths. However, Foucault was concerned with other non-repressive/non-punitive power relations and mechanisms, which led him to study forms of “biopower”.

Foucault claimed that a new form of power emerged during the 18th and 19th centuries, which was not a punitive one, but rather a productive one and it focused on human life as a whole. He designated this new form of power as “biopower” (2004, p. 1). Biopower represented a definite turn in his analyses once he re-inserted state as a relevant power institution, inasmuch as state centralizes and applies many forms of power relations. Foucault then shifted his analyses from a previous micro-institutional to a macro level.

For Foucault, it was during that time that the subject started being considered not only individually, but mainly collectively, emphasizing the notion of *population*. The transition from the individual to the population as the embodiment of a political subject occurred throughout the 18th century, a period of time when Foucault claims that one of the first novelties in techniques of power was the emergence of *population* as an economic, social and political issue (Foucault, 1978, p. 31). At that moment in time, governments realized that they could not manage isolated individuals only or people in general, but population in its own regularity and specific variables: birth, life expectancy, reproduction, productivity, habitat and death.

After investigating the role of the state in the construction of biopolitics – a technology of power that aimed at shaping and producing subjectivities through

biological processes of life – Foucault expanded his analyses of political and governmental power beyond the institution of the state. There, he substituted biopolitics for governmentality, a broader concept in which he included, for example, forms of government in Ancient times and neoliberalism (inasmuch as it limits the role of the state).

Biopolitics and governmentality had a narrow relationship with economic thought, power and practice, especially classical political economy and neoliberalism. Foucault (2003, p. 13) defends that the analysis of power can be deduced from the economy, leading to what he called economism” in the theory of power: the concepts of property, functionality, exchange, wealth and circulation can determine and solidify many forms of power relations.

The analyses of biopolitics and governmentality are presented in the next two sections, following Foucault’s historical division of economic thought, where it follows: first, biopolitics and classical liberalism; and secondly, governmentality and neoliberalism.

1.2 BIOPOLITICS AND THE CLASSICAL POLITICAL ECONOMY

1.2.1 Biopolitics according to Foucault

Foucault developed a genealogy of the governmental practices that occurred from the 16th to the 20th centuries to understand how the dynamics of biopower emerged and how biopolitical practices were executed. He accomplished this in order to articulate more accurately the governmental practices in mercantilism, classical liberalism and neoliberalism, highlighting the population management and the reinforcement of biopolitics as a technology of power. Therefore, biopolitics¹⁸ was intimately related to existent power relations between the state, population and economic knowledge, emerging as a key form of power in the process of the birth of capitalism.

The concept of biopolitics first emerged in Foucault’s works in his lecture *The Birth of Social Medicine*, which was delivered in 1974 at State University of Rio de Janeiro, Brazil. There, Foucault demonstrated how medical interventions became

¹⁸ Although Foucault made important contributions to the study of biopolitics and its implications, the term was actually created by Rudolph Kjellén – a Swedish intellectual – in his 1916 book *The State as Form of Life* (more on this, see Esposito, 2008, pp. 16 and 24).

institutionalized at three main levels: state medicine; urban medicine and labor force medicine, using the cases of Germany, France and Great Britain as illustration. Accordingly, in the beginning of the 18th century a set of mechanisms such as: medical researches; techniques of hygiene; life quality improvement; broader access to health services and other public policies consolidated the human body in its collective and private form as a social and political target, what Foucault called “biopolitics”.

He affirms:

What I maintain is that, with capitalism, we did not go from a collective medicine to a private medicine. Exactly the opposite occurred: capitalism, which developed from the end of the eighteenth century to the beginning of the nineteenth century, started by socializing a first object, the body, as a factor of productive force, of labor power. Society’s control over individuals was accomplished not only through consciousness or ideology but also in the body and with the body. For capitalist society, it was biopolitics, the biological, the somatic, the corporal that mattered more than anything else. The body is a biopolitical reality; medicine is a biopolitical strategy. (Foucault, 2001b, pp. 136-137).

Foucault connected the emergence and development of capitalism with the appearance of several mechanisms in the shape of public policies, discourses or techniques that aimed at maintaining regulating the human body. When Foucault differentiated the collective medicine from private medicine, he deconstructed the notion that private medicine was extended to the public sphere. On the contrary, first came collective medicine with its own procedures; later, private medicine emerged.

Foucault’s book published in 1976, *The History of Sexuality volume 1: An Introduction* provided an analysis of the notion of sexuality and how it was treated in the 17th, 18th and 19th centuries, indicating a break or rupture of the “repressive hypothesis”. There, Foucault demonstrated how sexuality was not treated as something that should be repressed or hidden, but rather as something that produced conducts, tactics, strategies and several policies that aimed at normalizing women, children and other abnormal groups.

In order to present how those life-apparatuses emerged and became institutionalized, Foucault turned to an analysis of the structural changes in sovereignty from the end of the 17th century to the beginning of the 19th. According to Foucault (1978, p. 131), throughout the history of sovereignty, the sovereign had a privileged role of acting directly over vassals, deciding upon their life or death. When

there was any kind of threaten to sovereign's position, he had a divine right to declare war and to sacrifice his vassals' lives.

Nevertheless, Foucault (1978, pp. 135-137) emphasized that there was an asymmetry of rights in that previous power relationship: the state exercised power in the form of a right over both life and death of people, but this did not mean that the state should consider the maintenance of life as part of its duties. It was only at the end of the 17th century that profound changes in power mechanisms emerged.

First, different modes of control, discipline and surveillance arose, aiming at producing docile, disciplined and "normal" individuals under a specific pattern of normality. Later on, at the end of the 18th century, a new type of power emerged and it became a sort of power that had to care after the maintenance of life and the well-being of population. Whereas the notion of territory used to be the main concern for the sovereign, population became the most valuable national resource, and so the center of attention for the state.

However, Foucault (2003, p. 242) noted that this change did not occur at once. At the beginning of the 18th century many techniques of power emerged and aimed both at the individual body as well as human kind collectively. They included devices that were used to ensure spatial distribution of people and their productivity, reproduction, sexuality, normalization, etc. In regard to this change in power mechanisms and the emergence of a power over life, Foucault claims:

In concrete terms, starting in the seventeenth century, this power over life evolved in two basic forms; these forms were not antithetical, however; they constituted rather two poles of development linked together by a whole intermediary cluster of relations. One of these poles--the first to be formed, it seems--centered on the body as a machine: its disciplining, the optimization of its capabilities, the extortion of its forces, the parallel increase of its usefulness and its docility, its integration into systems of efficient and economic controls, all this was ensured by the procedures of power that characterized the *disciplines*: an *anatomo-politics of the human body*. The second, formed somewhat later, focused on the species body, the body imbued with the mechanics of life and serving as the basis of the biological processes: propagation, births and mortality, the level of health, life expectancy and longevity, with all the conditions that can cause these to vary. Their supervision was effected through an entire series of interventions and *regulatory controls*: a *biopolitics of the population*. (Foucault, 1978, p. 139, original highlights).

Hence, the constitution of this power over life, *biopower*, was based on two main pillars: one was established during the 17th century and involved the anatomo-politics of an individualized body – disciplines or disciplinary power. Another one

emerged at the end of the 18th century – the biopolitics of the population – organizing power over life in its collective way. The latter constructed power relations that focused on the biological processes of life: birth, reproduction, growth, productivity, health, etc.

Foucault noted how biopolitics and disciplinary power were complementary forms of power whose combination constituted biopower. For Foucault, the appearance of biopolitics did not exclude disciplinary power; on the contrary, they worked together within different spheres of human species. Whereas disciplinary power exercised its power over individuals, biopolitics represented a power over life as a whole, exercising its forces over a multitude.

The division of biopower into two pillars aimed at controlling individuals in their totality, hence producing subjects (Foucault, 1978, p. 140). However, Foucault (2003, pp. 242-243) highlighted the different techniques that comprise disciplinary power and biopolitical practices. Biopolitics regarded human beings not in their individuality, but rather in their multiplicity, taken them as constituting a global mass that is affected by different processes that occur during their lifetime. These biopolitical techniques demanded a new set of knowledges (or *connaissances*) in order to assist the control and maintenance of their lives, such as statistical and forecasting devices, demography, public policies, and discourse legitimacy.

These knowledges provided regulatory mechanisms that had as their prime goal the equilibrium and stability of the population and its environment. Whereas individualization, punishment and exclusion of the abnormal were the common set of practices for the disciplinary power to control and discipline, biopolitics began using what Foucault called as “security apparatuses” to regulate the collectivity through the notions of equilibrium, regularity and normality.

Thus biopolitics replaced the issue of disciplinary control by security:

Instead of a binary division between the permitted and the prohibited, one establishes an average considered an optimal on the one hand, and, on the other, a bandwidth of the acceptable that must be not exceeded. (Foucault, 2004, p. 6).

The mechanism by which biopolitics exercised its power was through a “security apparatus” or (*dispositif*). It could be characterized as a technique, a *connaissance*, a calculus or a policy. It acted over a space (not a territory anymore),

encompassing a multiplicity of subjects and where the population exercises its economic activities. Its main goal was to normalize the population and to make sure that all activities related to population's equilibrium and normality would work well. For instance, Foucault exemplifies the problem of food scarcity in the middle of the 18th century: when confronting such issue, physiocratic knowledge managed to avoid food scarcity not by lowering prices and controlling economic variables, rather by conceiving *laissez-faire* as an economic policy where prices could float freely within the market sphere.

In this sense, political and economic techniques could be considered as modern security apparatuses. Foucault (2004, pp. 11-15) says, unlike disciplinary forces, security apparatuses act using broader forces, taking economic principles beyond the economic sphere and re-using it within political domain. Permission and normalization became then its main guide. Therefore, security was a collective power which considered population as its political subject, aiming its normalization and controlled permissiveness.

Foucault (2003, p. 250) claims the exercise of biopolitics has been effected by both state and non-state apparatuses and institutions since the 19th century, contradicting the idea of biopolitics being exclusively a state form of power. The institutions related to biopolitics also included, for instance, medical institutions, insurances and welfare funds, which have become more accurate and collectively spread throughout the 20th century.

Within biopolitical dominance, economic reality as a whole also became important, including both its theories and practices. Capitalist system became an inherent part of biopolitics, contributing to a development of extensive techniques of power not taken in Marxist binary analysis (a class struggle of the proletariat against bourgeois); but rather a more open and complex dynamics of productive powers which include both economic and non-economic apparatuses.

Foucault claims:

What does this new technology of power, this biopolitics, this bio-power that is beginning to establish itself, involve? [...] a set of processes such as the ratio of births to deaths, the rate of reproduction, the fertility of a population, and so on. It is these processes – the birth rate, the mortality rate, longevity, and so on – together with a whole series of related economic and political problems [...] which, in the second half of the eighteenth century, became biopolitics' first objects of knowledge and the targets it seeks to control. (Foucault, 2003, p. 243).

Accordingly, insofar as the population and its biological characteristic became a political subject, the role of economic discourse and analysis arose as a biopolitical mechanism in terms of theory and practice.

Foucauldian genealogy considered that economic ideas – especially the ones produced by the classical political economy – were majorly relevant for the analysis of the birth and growth of biopolitics. Foucault's lectures presented in Collège de France between 1978 (*Security, Territory, Population*) and 1979 (*The Birth of Biopolitics*) highlighted the central and strategic role played by economic theories and ideas in the biopolitical process. According to Foucault, economic theories should not be taken only as a set of discourses, but also as political practices that were embodied by the state and other institutions as a way of producing new power relations.

The development of political economy became, for Foucault, the major locus of biopolitical practices, inasmuch as it was the first main school of thought - in particular the British economists from the end of the 18th century to mid-19th century - to focus on issues related to economic management and care of the population, opening up a new set of ideas, theories and practices.

Understanding to what extent biopolitics and classical political economy were correlated in rationalizing and applying new forms of power mechanisms demands an analytical and historical retrospect of British classical political economy. Actually, Foucauldian genealogical method can shed light concerning economic ideas and theories, and his method is used here as a guide to seek for the discontinuous, exterior and specific issues that enabled political economy to enhance biopolitical powers.

This genealogy of British classical political economy aims at returning to the emergence of pre-classical economic thought (mercantilism and physiocracy) to understand which ideas were key aspects of their thought, how they were articulated and how they left economic sphere and became a part of governmental practices.

In order to expose under which conditions a "liberal art of government" emerged and how biopolitical practice was intrinsically related to it, section 1.2.1 focuses on the notions provided by classical liberal economists by highlighting some of their main ideas regarding care of the population and the role of the state.

1.2.2 Role of the state and care of the population in British classical political economy

For the purpose of this study an investigation of the historical changes in state policies concerning population's care demands an integrated analysis. First, it involves a more attentive consideration of the Foucauldian thesis regarding the evolution of power relations throughout the 16th to the 19th centuries; and secondly, it requires a better understanding about the relationship between the concept of biopolitics and classical liberal considerations regarding the role of the state in economic, political and social terms. Insofar as economic ideas were converted into political practices with specific consequences, the main goal of this section is to understand how this process evolved.

Foucault had to approach the classical political economy of the 18th and 19th century, especially the British¹⁹ one whose main icons included Adam Smith, Thomas Malthus and David Ricardo. He focused on those authors because a new state rationality became a central issue in the analyses of the first thinkers of that school insofar as they were concerned with national economic growth and opulence of population. It was also for this reason that this school first had to question the mercantilist doctrine in what concerned with the centrality of the state, later addressing a critique of the sovereign, since the state should have a less interventionist role in managing society.

Foucault's intellectual developments regarding economic ideas focused on the shifts from mercantilism and physiocracy to political economy, emphasizing how the power dynamics established between the state, markets and population suffered significant changes from the 16th to the end of the 18th century. According to Foucault (2004, pp. 312-315), mercantilism was characterized by the institution of the *police*²⁰, which represented a specific form of public administration throughout the 16th, 17th and 18th centuries. While mercantilist doctrine pursued economic opulence of the

¹⁹ Foucault (2008, pp. 13-14) did not differentiate the British political economy from others national schools of thought, but the relevance of the British school becomes clear when Foucault approached essentially the same intellectuals highlighted in this paper (Adam Smith, David Hume, David Ricardo and Thomas Malthus).

²⁰ According to Schumpeter (1994, p. 159), the State of police was a form of public administration that emerged in Germany and Italy between the 16th and 17th centuries. It involved the main principles of public administration and bureaucracy, encompassing issues such as public security and civil protection, hygiene and health, education, moral conduct and other areas of population's lives, influencing directly on modern forms of "policy-making" (more on this, see Foucault, 2004, and Smith, 1978).

nation through state control of markets and trade, the police was responsible for administering public affairs in a broader sense, which included all spheres in regard to life: security, labor, trade, morality, health and happiness.

The institution of the police and its measures towards the population must not be confused with biopolitical practices. Biopolitics only emerged in the end of the 18th century, whereas the police emerged in the end of the 16th century along with the economic doctrine of mercantilism. In mercantilism the population did not represent a collectivity with its own regularities, but rather a mass of vassals that represented a national property of the sovereign.

When physiocracy emerged – not as a proper school of thought, but as an organized set of ideas, according to Schumpeter (1994, pp. 223-224) – it brought new concepts on how to fight scarcity through agriculture and free competition, where prices, supply and demand would fluctuate freely. Also, it provided new theories regarding self-interest and criticized mercantilist overregulation towards economic sphere and trade (see Schumpeter, 1994, pp. 209-248). Furthermore, physiocracy was a relevant theoretical frame because of its primary criticism towards mercantilism, what represented in Foucault's terms the beginning of the shift to a new governmentality²¹.

However, Foucault claims that political economy in fact was the first economic school of thought to represent the beginning of a new governmentality by dividing power, knowledge, government and science properly. Foucault (2004, pp. 350-351) says that, unlike the resorts used by 17th century *raison d'Etat* – or the calculations of forces, diplomatic calculations and trade balance –, classical political economy launched a type of scientific knowledge which was external to the state and entered governmental practices through different analytical methods. About that, Foucault says: “two poles appear of a scientificity that, on the one hand, increasingly appeals to its theoretical purity and becomes economics, and, on the other, at the same time claims the right to be taken into consideration by a government that must model its decisions on it.” (Foucault, 2004, p. 351).

Then, as Smith (1976a, p. 428) once considered, the duty of political economy was to architect and rationalize politics that aimed at the opulence of the nation and

²¹ In Foucault's work, governmentality represented governmental techniques, or modes of governing a population through institutions, procedures, analyses, reflections, calculus and tactics which allowed the exercise of a certain form of power. During his investigations of power, Foucault studied pastoral governmentality, liberal governmentality and neoliberal governmentality.

its population. Thus, this school of thought acquired a normative tone beyond the analysis of pure economic data, creating a strategic role in terms of governmental policies.

When economic ideas reached governmental level of action, economic liberalism was consolidated as a technology of government, transforming the markets, utility and interests as self-limiting principles of governmental reason. This represented to Foucault (2008, pp. 27-28) the empowerment of the liberal art of government and the provision of the idea of “frugal government”. This meant that the state did not establish its principles, actions and reasoning through concepts of power, laws, wealth and strength anymore, but through the restriction of the power of the state based on economic rules, principles and actions.

Foucault affirms:

In other words, it is the natural mechanism of the market and the formation of a natural price that enables us to falsify and verify governmental practice [...]. Consequently, the market determines that good government is no longer simply government that functions according to justice. The market determines that a good government is no longer quite simply one that is just. The market now means that to be good government, government has to function according to truth. [...] Political economy was important, even in its theoretical formulation, inasmuch as (and only inasmuch as, but this is clearly a great deal) it pointed out to government where it had to go to find the principle of truth of its own governmental practice. [...] The market must tell the truth (*dire le vrai*); it must tell the truth in relation to governmental practice. (Foucault, 2008, p. 32, original highlights)

According to Foucault, when the knowledge produced by political economy consolidated the ideas of the mechanism of markets and natural price it had an impact not only on economic ideas, but also on governmental practices. The principle that natural economic forces would lead to desirable results of market promoted a change in governmental practices, which shifted from the focus on issues of law, justice and national opulence to the primary economic supervision of markets. Thus the duty of the state was to supervise the functioning of market relations and to ensure the freedom of the agents within the economic scenario not by intervening in the economy directly, but by preserving the interests, trades and economic processes.

For instance, an extract from an 18th century edition of the *Evening Mail* (London) described how the state should perform as a supervisor when managing the society and the economic reality:

[We are] now at a period in the life of society when commercial knowledge had risen to perfection, and when it was demonstrated by daily practice that more advantages were derived from unrestrained modes of barter and exchange, than from any regulation which the limited understandings of a Legislature could devise. (The Evening Mail, 1797, p. 3).

The constitution of a specific form of power in the end of the 18th century was defined by a liberal art of government which emerged from two forces: first, the knowledge theorized by political economists, and secondly, the consolidation of market forces as a system of truth which demanded a different function to state. Once markets were believed to be a part of a “natural” and “truthful” regime, the role of the state changed from an intervener to a supervisor in economic thought.

Introducing liberal economic principles within the sphere of actions of the state led to a redesign of its practices, especially regarding the treatment of the population. Justice, security, freedom, education, health and wellbeing became an agenda of policies which were not found in the old state of police during mercantilism. In this new scenario, when state became a supervisor of the economic activities, this led to several political and social consequences which were conceptualized by Foucault in the shape of a new technology of power, biopolitics.

Insofar as biopolitics constituted itself from the perspective of security, Foucault (2008, pp. 65-66) emphasized the emergence and reinforcement of control mechanisms as a counterpart of liberal economic ideas and the establishment of markets as a truth regime. If biopolitics arose as a technology of power that aimed at regulating and controlling the population through wellbeing policies and types of knowledge known as security apparatuses, political economy was also responsible for rationalizing such policies through the role of the state concerning population issues.

The writings of Thomas Malthus concerning population treatment indicated a biological and economic concern of the collectivity, what Foucault referred to as a bioeconomic analysis. He claims:

When it became possible not only to introduce population into the field of economic theory, but also into economic practice, I think the result was that one ceased analyzing wealth and a new domain of knowledge, political economy, was opened up. [...] In the nineteenth century the problem of population is still really central in all political economic thought. [...] For Malthus, the problem of population basically has to be thought as a bio-economic problem. (Foucault, 2004, pp. 76-77).

For Foucault, Malthus's analysis had different conditions of possibility of emergence when compared to earlier political economists – that is, Smith and Hume –, which explains the manifestation of a bioeconomic analysis. The appearance of a new social mass – manufactory workers – demanded that economists should consider the First Industrial Revolution differently, and this reflected on the political economy writings in terms of practical recommendations concerning the role of the state.

When Malthus (1998, p. 5) discusses the differences between food expansion (arithmetical growth) and population increase (geometrical growth), he demonstrates great concern in defending a set of control mechanisms, in Malthusian terms, to maintain the naturalness and regularity between the growth of population and land production according to natural laws. This represented a concern regarding demographic control, public hygiene, economic production and population's statistics (see Malthus, 1998, p. 10).

Furthermore, defending the annulment of Poor Laws²² and the consequent expansion of labor force indicated a clear instance for state action: how should the state intervene so that markets could work properly? In this case revoking the Poor Laws would have forced low-income individuals to enter the labor market and to release the supply and demand mechanism of wages, making them fluctuate freely.

Other means of action regarding the role of the state towards population lied on preventive checks. According to Malthus, the discouraging of early marriages depended on moral and educational pillars, which, in Smith's opinion (1976b, pp. 781-786) should be an ethical duty of the state.

About this issue Smith says:

²² The Poor Laws were constituted as a set of poverty relief policies (monetary, food, clothing, etc.) established since the Tudor era (16th century) until the end of the 19th century in the UK (see Polanyi, 2001). However, according to Deane (1979, p. 152), the Poor Laws were directed mainly to rural workers and it did not reach many manufacturing workers, although the system suffered many critiques.

Though the state was to derive no advantage from the instruction of the inferior ranks of people, it would still deserve its attention that they should not be altogether uninstructed. [...] The more they are instructed, the less liable they are to the delusions of enthusiasm and superstition, which, among ignorant nations, frequently occasion the most dreadful disorders. An instructed and intelligent people besides are always more decent and orderly than an ignorant and stupid one. They feel themselves, each individually, more respectable, and more likely to obtain the respect of their lawful superiors, and they are therefore more disposed to respect those superiors. They are more disposed to examine, and more capable of seeing through, the interested complaints of faction and sedition, and they are, upon that account, less apt to be misled into any wanton or unnecessary opposition to the measures of government. (Smith, 1976b, p. 788).

According to Smith, although the state could not take direct advantage of investments on education, these could provide a larger benefit in terms of national peace, wellbeing and most of all, governability.

David Ricardo's (see 2001, pp. 96 and 105) criticism of governmental taxes over foreign trade and national capital well portrayed how the state could become an obstacle to an increase on economic returns from industry, agriculture and foreign trade. This follows Foucault's argument about the double-sided consequences of political economy: the defense of less state intervention on economic forces (and in case of intervention, it should occur only when necessary or to ensure the proper functioning of markets); and the emergence of numerous policies which involved the population's biology.

It is worth exploring more carefully the counterpart of the liberal art of government: once it established markets and *laissez-faire* as a principle of truth, it also created several mechanisms to regulate the population's economic activity. Inasmuch as the knowledge provided by political economy ascended as a set of political practices, the institution of the state remained as a manager of the security apparatuses, – as Foucault argued.

The issue of security and its apparatuses emerged as a consequence of the liberal art of government insofar as self-regulating markets demanded the control of the state as a condition to its proper functioning. Liberalism does not mean freer, anarchic policies, but a form of government that seeks economic de-regulation combined with specific forms of population control.

Therefore, the empowerment of economic liberalism and the emergence of biopolitical practices are codependent. The rise of economic liberalism and the redesign of the role of the state do not mean that this regime of government is free,

tolerant or permissive. Although it produces liberalizing discourses within the economic context, it has consequences regarding the control of individual and collective lives since it “creates” certain punctual freedoms within a controlled space.

Foucault asks:

There must be free trade, of course, but how can we practice free trade if we do not control and limit a number of things, and if we do not organize a series of preventive measures to avoid the effects of one country's hegemony over others [...]?. (Foucault, 2008, p. 64).

The answer relies on the regulation and organization of security apparatuses (or *dispositifs*), which cannot be restricted to the economic context. Security apparatuses produce regulative consequences, but they also produce freedom, since they allow population to be “free” under certain limits and boundaries. For Foucault, this resulted at the birth and consolidation of biopolitics: the emergence of several institutions and policies which aim the population's care and wellbeing in accordance with a discourse of freedom associate with markets regularity and naturalness.

For instance, social and political consequences of the biopolitical process can be derived from the 19th century Great Irish Famine, when British Tories and Whigs saw that historical fact “as scientifically inevitable and necessary to clear away the surplus Irish population”, and a necessary “mechanism for reducing surplus population” (see O'Boyle, 2006, p. 6)

Other examples of these biopolitical practices include a recent emergence of medical, educational, sexual, urban, moral and economic devices throughout the 20th century. They produce a constant search for equilibrium, normality, longevity and optimum planning (economic and urban).

The counterpart of this system is emphasized by Lemke:

The liberal relationship between freedom and security is even more complex. Liberalism does not only produce freedoms, which are permanently endangered (by their own conditions of production) and require mechanisms of security. Danger and insecurity (the threat of unemployment, poverty, social degradation, etc.) are not unwanted consequences or negative side-effects, but essential conditions and positive elements of liberal freedom. In this sense, liberalism nurtures danger, it subjects danger to an economic calculus, weighing its advantages against its costs. (Lemke, 2011b, p. 46).

For Lemke, liberal ideas do not just guarantee freedoms, such as trade freedom, private property freedom or self-interests freedom, but also organize the conditions that individuals should follow, indicating a positive effect of liberalism regarding governmental action. To the extent that liberalism produced security apparatuses, a natural side effect of that would be positive and desirable consequences (unemployment, poverty), leading to a constant maintenance of the liberal system of power and the imposition of biopolitical practices which still remain today.

What differentiates biopolitical forms of power from others, such as disciplines, lies on the elements of naturalness and equilibrium that rule the discourse of biopolitics. The apparatus of security acts within spaces that are occupied by a collectivity of human beings – not individuals, but a population. As a consequence, the main goal of security is not to punish separated individuals through coercion or prohibition. On the contrary, security and risk management emerge as forms of power that seek to limit and regulate the population within a controlled environment.

Along with this dynamics, a culture of fear arose: how to avoid that an individual's behavior and interest would not become a danger to another individual? Foucault (2008, pp. 65-67) answers this question by asserting that a global risk management, which involved medical institutions (medicine, psychology, psychiatry, sexuality), urban planning, economic planning, economic policies and all kinds of insurances and social security, would prevent that to happen. The exercise of biopolitical practices involves both the institution of the state and other non-state institutions related to it.

Therefore, the exercise of biopolitics demanded a complex shift on three pillars: the emergence of the knowledge produced by the British classical political economy; the consolidation of a liberal art of government in terms of governmental power; and the establishment of markets as a system of truth (or regime, in Foucauldian terms). These made possible the double-game of forces of liberalism: freedom and security combined.

However, during his lecture *The Birth of Biopolitics*, Foucault questioned how other forces whose aim was also to regulate and normalize the population could exist and perform outside the institution of the state. For that, Foucault had to think outside the modern political structure that surrounds the constitution of the state, which he referred to as “governmentality studies”, or studies about the various modes of

governing. Next section emphasizes this particular questioning and demonstrates how it connects to economic neoliberalism.

1.3 GOVERNMENTALITY AND NEOLIBERALISM

1.3.1 Rethinking governmental practice as a technology

Foucault (2004, p. 108) defines governmentality²³ as a field of study that focuses on the multiple techniques, mechanisms, procedures and strategies of a particular form of government at a certain time and place. It attempts to answer how one should govern an individual or a population using a set of tactics, calculus and procedures that does not necessarily assume the presence and action of the modern framework of the state.

In his lecture *Security, Territory, Population*, Foucault attempts to understand the genesis of a political knowledge that puts the notion of population and the mechanisms for ensuring its regulation – or biopower (Foucault, 2004, p. 363). To follow this genesis, Foucault took the notion of government as his guideline in a much broader sense, undertaking an investigation of notions, procedures and means to ensure the government of men in our society.

Foucault (2004, p. 363) traced back to Greek and Roman societies, widening the notion of a government that is intrinsically connected to the state. He noticed that other forms of government appeared in the Greeks and in the Hebrews: a form of “government” as an activity that undertook to conduct individuals throughout their lives by putting them under the authority of a guide who was responsible for what they did and for what happened to them.

Following Guillaume de la Perrière’s work *Le Miroir Politique* (1567), Foucault deconstructs the notion of a state government that demands the existence of a modern institution to govern human beings. As said in section 1.1.2, Foucault rejected some of the classical analyses of political philosophy such as those

²³ According to Bröckling, Krasman and Lemke (2011, p. 1), *governmentality* comes from the French adjective *gouvernemental*, and already had some currency before Foucault made it into a central concept of his works. For instance, in the 1950s Roland Barthes presented a similar idea to Foucault’s future concept of governmentality: a “barbarous but unavoidable neologism (...) to denote a mechanism inverting cause and effect and presenting the government as the author of social relations: as the Government presented by the national press as the Essence of efficacy”. (Barthes *apud* Bröckling Krasman and Lemke, 2011, p. 1).

defended by Hobbes and Machiavelli whose notion of government assumed the existence of a sovereign who was exterior to its realm.

The main issue with those classical approaches was they did not consider the sovereign as an inner part of the territory and population. On the contrary, the sovereign's duty was to protect his territory – which was conquered or inherited – and the principality as a relationship of the sovereign to his vassals, and not directly the territory that was constituted by inhabitants. Furthermore, the means by which the sovereign conquered its power and prestige was not by a government that resembled care or administration, but by force and coercion.

Quoting Foucault:

We see that governing, the people who govern, and the practice of government, are multifarious since many people govern – the father of a family, the superior in a convent, the teacher, the master in relation to the child or disciple [...]. On the other hand, all these governments are internal to society itself, or to the state. It is within the state that the father governs his family, the superior governs the convent, and so on. There is then both a plurality of forms of government and the immanence of practices of government to the state, a multiplicity and immanence of this activity that radically distinguishes it from the transcendent singularity of Machiavelli's Prince. (Foucault, 2004, p. 93).

Foucault defends a plurality of concept when approaching governmental contexts, thus separating political government of the state from other social spheres (family, educational, religious). What it should be noted here is how Foucault dealt with the problem of institutional hierarchy: he did not consider the institution of family, religion or educational as something that annulled the governmental action of the state; on the contrary, it acted over individuals as a power force that complemented the government of the state.

Gordon (1991, pp. 2-3) points out the complexity of the term “governmentality” insofar as it could be interpreted in two different ways: in a wider and narrow sense. First, in a wider sense, Foucault proposed a definition of government as “the conduct of conduct” or as an “art of government”, which means a form of activity aiming to shape, guide or affect the conduct of one or many individuals²⁴. Secondly, in a narrow sense, government could be characterized as an activity concerning relations

²⁴ Foucault's 1983 lecture called *The Government of Self and Others* (2010) demonstrates how there are two possible forms of government: governing others, such as political, religious or educational government, and self-government, which means the way individuals govern themselves through ethics, aesthetics of existence or other techniques that creates behaviors and conducts (see Burchell, 1996).

between the individual and himself/herself, private interpersonal relations involving forms of control or guidance, relations with social institutions and communities, and relations concerned with the exercise of political sovereignty.

During his 1978 (*Security, Territory, Population*) and 1979 (*The Birth of Biopolitics*) lectures, Foucault applied the perspective of governmentality to four historical domains as Gordon puts it (1991, p. 3): (1) in Greek and in early Christianity philosophy, constituting the idea of a pastoral power; (2) doctrines of government in early Europe associated to a reason of the State (or *raison d'Etat*); (3) the 18th and 19th century classical liberalism; and (4) postwar forms of neoliberal thought in Germany, the USA and France.

One should note how the notion of governmentality acted according to Foucault's analytical and methodological proposal of genealogy. Insofar as governmentality promoted a discontinuity and a rethinking of standard notions of sovereignty and governmental practice, Foucault was able to think about the mechanisms and techniques used by the state and other institutions to promote a government of individuals and populations. Therefore, governmentality can be considered as a broader domain in which other forms of power, such as disciplinary and biopolitical are inserted.

In regard to that, Gordon (1991, p. 4) emphasizes that governmentality did not represent a discontinuity between microphysical (disciplines) and macrophysical (biopolitics) forms of power. On the contrary, governmentality allowed Foucault to go beyond political institutions of power in order to understand how other forms of government could act among individuals and in different historical contexts. Or, as Foucault (2004, p. 117) puts it: "This kind of method entails going behind the institution and trying to discover in a wider and more overall perspective what we can broadly call a technology of power".

Considering that governmentality represents, broadly speaking, "a set of technologies of power", this notion can be divided into different areas as Gordon defends it. Diagram 2 demonstrates how governmentality represents a broader domain in the exercise of power and its techniques:

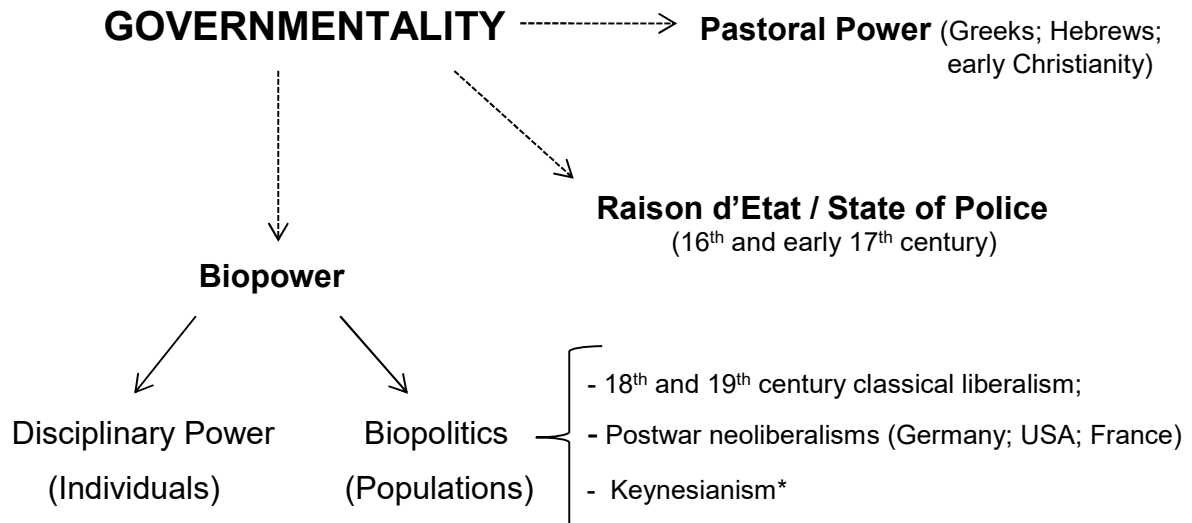


DIAGRAM 2 – Governmentality, biopolitics and disciplinary power from a dynamic perspective

Source: Author's own work based on Gordon (1991).

(*) This study analyzes the possibilities of John Maynard Keynes's thought and policies as a new type of biopolitical governmentality that reigned between 1930 and 1973, especially after the Second World War (WWII). This issue will be developed throughout Chapters 3 and 4.

Diagram 2 shows to what extent the notion of governmentality can be divided into three different domains without assuming a pre-existence or a complete influence of the institution of the state: pastoral power, *raison d'Etat* and biopower.

In Foucault's thought, pastoral power represented the genesis of "the government of others" and it was found in Ancient societies such as Egyptian, Hebrew, Greek and in early Christianity (2nd and 3rd centuries). For Foucault (1994, pp. 123-127), pastoral power represents a metaphor in the sense that the interactions between religious power, men and their god could be interpreted as the sovereign playing the role of a shepherd and men as his flock. Insofar as this shepherd governs a flock –and not a territory –he is entitled to look after his flock and act with zeal and devotion as their savior.

Nevertheless, one should note that pastoral power did not connect to disciplinary power or biopower in any possible way. Disciplinary power and biopower only emerged around the end of the 17th century and the beginning of the 18th century, the same time in which Foucault considers the end of the pastoral power.

Foucault (2004, p. 227) emphasizes that in the 16th century (more specifically between 1580 and 1660) there was a shift from the pastoral of souls to political government of men. The dissolution of feudal structures and colonial empires, together with the reformist and counterreformist movements led to a government of men beyond its ecclesiastical and spiritual context. Pastoral power did not disappear, but suffered a transition to public sphere whose principles of rationality and action had the specific domain of the state.

The development of a state rationality gave a scientific tone to political power, whose division relied in two main axes: (1) the doctrine of the reason of the state (*Raison d'Etat*), which dictated the relationship of one state to others externally; and (2) the doctrine of the police, which defined the domestic practices of the state (Dean, 1994, p. 107). First, the doctrine of the reason of the state attempted to give political power its own rationality, means and ends, thus differing from other forms of government (family, religion). Secondly, the doctrine of the police defined the nature of the objects of the state's rational activity – already defined by the reason of the state – and which aims will be pursued (Foucault, 2001a, pp. 312-313).

Foucault highlights some works made by European intellectuals from the 16th and 17th centuries (such as Giovanni Botero, G.A. Palazzo and B.P. Chemnitz), who were responsible for pursuing and formalizing a reason of the state. According to them, a reason of the state was “a perfect knowledge of the means through which states form themselves, endure and grow” or an “art” and a technique conforming to certain rules (Foucault, 2001a, p. 314). Then, the reason of the state was not an art of government according to divine, natural or human laws, but rather a governmental rationality that acts according to the state's own strength and power.

In practical terms, the reason of the state was consolidated by the institution of the police, which was mentioned before in section 1.2.1 as the governmental practice of the state that involved mercantilism. Unlike the modern notion of the word “police”, conceived as a body of officials or officers whose rationale is the prevention and detection of crimes (Dean, 1994, p. 108), that classic notion of police as a form of governmentality is defined by Smith (1978, p. 331) as the same as *policy* or *politicks* [sic]. The police of the 16th and 17th centuries was a form of public administration made by a specific agency whose goals included religion, morality, health, public works, security and commercial activities in general. For instance, in Germany and in

France those administration theories became known, accordingly, as cameralism and colbertism²⁵.

While accomplishing an investigation of 16th and 17th centuries governmentality, Foucault (2004, pp. 337-338) noticed how the institution of police controlled all main spheres of life and made them something inherent to the power of the state. He also stressed the role of mercantilism as being an instrument, a technique that used economic practice in order to maintain and expand the institution of the police and the power of the state.

However, Foucault (2004, pp. 31-33) attributes the downfall of mercantilist practice to a new emerging reality at the beginning of the 18th century. An increase on technological innovations, wars, monarchy's indebtedness and a significant population growth caused a food crisis that questioned the mercantilist rationality of circulation and led to an emergence of physiocracy – and, later, classical political economy (see Mokyr, 2009).

During Foucault's studies of power technologies – particularly biopolitics and governmentality – he gave special attention to economic thought and discourse, going from mercantilism and physiocracy to classical political economy and neoliberalism. It is worth mentioning that his historical context might have influenced his political and critical orientation. Gordon (1991, p. 6) notes that Foucault's 1978 course coincided with an unexpected defeat of socialist parties in French parliamentary elections, and his 1979 course ended a few weeks before Margaret Thatcher's election as the British Prime Minister.

Postwar orthodoxies became particularly popular in the decade of 1970, a period in which low economic growth, high inflation and increasing unemployment rates (stagflation) led to several criticisms of Keynesian-inspired economic policies. Instead, free markets, less governmental intervention and the role of individual action and interests emerged as a new political and economic paradigm. In *The Birth of Biopolitics* (1979, pp. 318-323), Foucault suggests that neoliberalism – understood as a form of governmentality – constituted a tool for the criticism of reality; in that case the postwar context of over-administration and economic interventionism, which differed from the conditions of possibility that allowed classical liberalism to emerge.

²⁵ Both cameralism and colbertism were national practices of mercantilism that acted according to specific national laws and rules. About that, De Roover (1955, pp. 180-181) stresses that mercantilism was not a unified practice. For him, only Great Britain can be truly considered mercantilist, whereas Germany should be considered as cameralist, and France as colbertist.

Nevertheless, neoliberalism was particularly challenging inasmuch as neoliberal discourse emphasized a “new” form of freedom at the same time it produced other forms of individual and collective subjectivity. In that context, how can we understand the specific problems of life and population that have been put within a neoliberal technology of government? Foucault attempted to answer that question in his lectures, constituting neoliberalism as an economic and political force that could not be ignored.

The next section of this study analyzes critically the issue of “neoliberalisms” (German ordoliberalism and American neoliberalism) within Foucault’s works, and how it can be reconsidered as a technology of government with its own specificities and consequences to the government of living beings. This is done from an economic perspective; or, put differently; this study (1) reads Foucault’s notions and critical processes emphasizing the main aspects of economic theory and thought; and (2) emphasizes how the evolutionary process of neoliberal rise and its main notions could constitute a new governmentality with several consequences for the study of economics.

1.3.2 Neoliberalism as a contemporary technology of government

For the purpose of this study an investigation of the historical changes in neoliberal thought and its economic and social policies cannot be taken separately. Neoliberalism (particularly its German and American forms) played an important part in Foucault’s ontology of the present as a new form of political and economic rationality whose foundations differed from disciplinary power and the exclusion/isolation of undesired individuals or conducts. Several Foucauldian scholars²⁶ have questioned the epistemological, ontological and critical foundations and consequences of neoliberalism, especially regarding its effects to the governing of individuals and the collectivity.

As Foucault (2008, p. 117) affirms, neoliberalism is something completely different from classical liberalism: “We should not be under any illusion that today’s

²⁶ Some authors include: Colin Gordon (1991); Andrew Barry, Thomas Osborne and Nikolas Rose (1996); Roberto Esposito (2008); Peter Miller and Nikolas Rose (2008); Lois McNay (2009); Mitchell Dean (1994, 2010); Majja Nadesan (2008); Ulrich Bröckling, Susanne Krasman and Thomas Lemke (2011); Thomas Lemke (2011a, 2011b); Maurizio Lazzarato (2012) and Johanna Oksala (2013).

neoliberalism is, as is too often said, the resurgence or recurrence of old forms of liberal economics which were formulated in the eighteenth and nineteenth centuries". Therefore, its conditions of possibility and its internal rationalities are essentially different, which creates new forms of power relations, interventions and subjectivities.

Although the first neoliberal critiques can be traced back from the 1970s, the same time when neoliberalism began to establish itself as an economic policy, it was only the 2008 financial crisis that led to a deeper rethinking of neoliberal discourse and policy agenda. Household indebtedness, increasing inequality, mass unemployment and poor economic growth were only some of the neoliberal consequences of a political and economic agenda that dominated since the beginning of the 1980s.

Even though Foucault's 1979 lecture represented an original analysis of neoliberalism not as a discourse, but as a political and economic practice – or as an art of government – many intellectuals who were inspired by Foucault have not taken into account all aspects, origins and possibilities of neoliberalism as a school of economic thought. A possible explanation for that can be the lack of economists and historians of economic thought interested in Foucault's contributions to reconsider the effects of neoliberalism and other economic discourses.

One should note how economic knowledge and discourse shape social and political order, particularly from the 18th century Industrial Revolution to present days, including other schools of thought that criticized liberal or neoliberal principles, such as Keynesianism. In the particular case of neoliberalism, Guala (2006, pp. 438-439) emphasizes that point by looking at two main things: (1) the consolidation of neoliberal economics applied to reality and political decision-making; and (2) the number of Nobel Prizes in Economics in recent years: Hayek, Friedman, Buchanan and Becker. Indeed, it seems that most part of mainstream economists have tended to ignore or not investigate properly the narrow connections between reality (ontology), economic knowledge (epistemology), institutions and possible effects.

Neoliberalism should not be considered as an autonomous and homogenous body without paying reference to how, when, where and who was responsible for such a discourse or practice to emerge. This study actually proposes an opposite view by combining economic ideas with its political and social role in the governance of living beings. For example, Steger and Roy (2010, p. 11) affirm that neoliberalism comes in several strands and variations, and we should think of it as three

intertwined manifestations: (1) an ideology; (2) a mode of governance (or, in Foucauldian terms, an art of government or a governmentality); and (3) a policy package. Therefore, we should consider neoliberalism in its plural form (“neoliberalisms”) as a complex research program. This is not different than other research programs in economics, such as classical liberalism, neoclassicism, Marxism and institutionalism, whose notions differ depending on their generations, internal debates, and context – both historical and national.

Considering neoliberalism as a form of governmentality demands a definition of what is neoliberalism and what does it stand for. Howard and King define neoliberal ideology as:

The ideology is that all, or virtually all, economic and social problems have a market solution, or a solution in which market processes will figure prominently. Proponents of neoliberalism do not always regard markets as perfect, but they negate their recognition of market failure by arguing that state failure is typically far worse. The practice is the continuing application of this doctrine to an ever expanding area of life in the real world, through the privatisation of state companies and public services, loosened regulation of private economic activity, the elimination of ‘dependency cultures’ through the reform of welfare programmes and taxation systems, and the introduction of market-mimicking arrangements to those areas where genuine markets are inappropriate. [...] Thus neoliberalism does not entail a massively reduced ‘weight’ for states or a reduction in their core powers. What is emphasised by neoliberals is that state activity must be significantly restructured and redirected. Political authorities will continue to raise substantial amounts in taxation and to finance, and supervise and regulate a very broad range of goods and services. But the goods and services will be provided more by private corporations, and, if provision remains public, will be delivered through markets or market-mimicking mechanisms. (Howard and King, 2008, pp. 1 and 3).

Accordingly, neoliberalism does not simply advocate market superiority only as a form of economic dominance, but as an entire agenda that brings the market mechanism into all aspects of life. Moreover, neoliberalism does not exclude the state, but rather restructures it and redirects it into the political arena, leaving other areas “free” to function according to market and competition mechanisms.

Foucault had to approach different types of “neoliberalisms” to understand how the mechanism of economic rationality affected life, freedom and control in different aspects, which created a new form of governmentality. For that, he first investigated postwar German ordoliberalism and later changed to American neoliberalism of the Chicago School to see how they differed in their concepts and rationality, internal struggles and practical policies.

The intellectual roots of neoliberalism derive from the decade of 1930 and the postwar period, although it only became a consolidated economic and political practice at the end of the decade of 1970 and the beginning of 1980. Howard and King (2008, pp. 193-194) attribute this fact to a number of causes: first, to a long period in the development of the productive forces and associated changes in the production relations (for instance, the role of technology) that modified the economic and social structure, thus affecting the social consciousness and promoting the strategic and necessary role of market; and secondly, to what they call the “age of catastrophe” defined by the two World Wars and the Great Depression, which accelerated the protectionist tendencies.

Nevertheless, Foucault (2008, p. 76) traces back the origins and rationality of early forms of neoliberal thought and discourse, emphasizing the common theme of a “state-phobia”. According to Foucault, this phobia had many agents and promoters, such as Austrian School economists Ludwig Von Mises and Friedrich Hayek, who promoted anti-statism against three main threats: (1) the Soviet socialist experience; (2) German Nazism; and (3) Keynesian postwar planning.

Additionally to that embryonic environment for the rise of neoliberal rationality, Philip Mirowski and Dieter Plehwe’s book, *The Road from Mont Pèlerin* (2009) revisits the historical origins of neoliberal knowledge in four countries (France, Germany, United Kingdom and United States) to trace some of the key debates, conflicts and common ideas concerning economic and social policies. Plehwe (2009, p. 4 and pp. 12-13), and David Harvey (2005, p. 20) attribute to the establishment of two historical events, the Walter Lippmann Colloquium in 1938 in Paris, and the Mont Pèlerin Society in 1947 in Switzerland the formal intellectual organizations that allowed neoliberalism to rise and spread as a school of thought²⁷.

The Walter Lippmann Colloquium²⁸ included German ordoliberal Wilhelm Röpke and Alexander Rüstow; Austrian School Friedrich Hayek and Ludwig von

²⁷ Although the formal emergence of neoliberal thought is linked to the post-war period (after 1945), Plehwe (2009, pp. 10-11) claim that the first appearances of the term *neoliberalism* were found in early 1920s (in Eli Heckscher and Hans Honegger’s writings). Honegger used “theoretical neoliberalism” as a concept based on the works of Alfred Marshall, Eugene von Böhm-Bawerk and Friedrich von Wieser, whose theories relied on the rejection of socialist regimes combined with economic notions of perfect competition and entrepreneurship, where the state had a negative role.

²⁸ The Walter Lippmann Colloquium was a conference organized in Paris in the honor of Lippmann’s book, *An Inquiry into the Principle of the Good Society* (1937). According to Plehwe (2009, p. 13), “his core message was the superiority of a market economy over state intervention, a principle that was [...] leaning against the wind in the depths of the Great Depression.”

Mises, and other intellectuals such as Michael Polanyi and Raymond Aron. It is interesting to point out that they would all subsequently participate of the first reunion of the Mont Pèlerin Society nine years later. Harvey (2005, p. 20) notes that the group members depicted themselves as liberals in the traditional European sense of the term due to their commitments to ideals of individuality and freedom. Actually, the neoliberal label signaled their adherence more to the free market and competition principles of mid-19th century neoclassical economics, found in the works of Alfred Marshall, William Jevons and Carl Menger, than to the old liberal principles of classical political economy.

The nascent version of German neoliberalism or “ordoliberalism” emerged from a collection of essays written by Walter Eucken, Rüstow, Röpke and Alfred Müller-Armack around 1932 and 1933 in the immediate aftermath of the Great Depression. Ordoliberalism consolidated itself as a formal school of thought around 1937, when the core of the Freiburg School – Walter Eucken, Franz Böhm and Hans Grossmann-Doerth – published a journal called *Ordnung der Wirtschaft*, or simply *Ordo*.

Ptak (2009, p. 101) stresses that, unlike Austrian and Chicago neoliberalism, German ordoliberalism emphasized a prominent role of the state in establishing and securing a capitalist market economy, demonstrating how ordoliberals had a strong concern to design specific public policies that enforced the role of the market. As Rüstow’s title of his lecture in 1932, *Freie Wirtschaft, starker Staat* (Free economy, stronger state) suggests, he recommended a limited interventionism as long as it went in the direction of the market’s laws (Hartwich, 2009, p. 14).

Main ordoliberal ideas included: first, a critical position concerning the possible application of Keynesian methods in German economic reality, which, accordingly, were questionable; (as Eucken advocated in his 1932 article *Staatliche Strukturwandlungen und die Krisis des Kapitalismus*, see Eucken, p. 11, 1992). Secondly, a rejection of the *laissez-faire* model, as Eucken claims:

The argument today is not at all that between *laissez-faire* and economic planning. It is not a matter of conflict about whether the state should interfere only a little or somewhat more. Actually the defenders of *laissez-faire* have completely disappeared. The conflict is a different one. One side, to which I belong, is of the opinion that the state must influence, or even directly establish, the forms and institutional framework within which the economy must work. It should, however, avoid the attempt to steer directly the everyday business of the economy. Others believe that the state must not just establish the framework, but must influence the day-to-day working of

the economy on the basis of central planning. (Eucken, *apud* Nicholls, translation, 1994, p. 185).

Eucken (1992, p. 334) demarks a difference between *laissez-faire* and perfect competition. According to Eucken, it was believed that by abolishing public monopolies, privileges and vetoes, the conditions for perfect competition would be produced, but that was an error that *laissez-faire* economists made. For Eucken, the free-market model based on perfect competition should not be adopted without an institutional action that guarantees the proper function of markets. Put differently, the state is employed to initiate and ensure a competitive order (Ptak, 2009, p. 102).

Thirdly, ordoliberals distinguished themselves from a Hayekian tradition that emphasized the Rule of Law. Tribe (1995, pp. 207-208) points out that, despite Hayek was a close associate of ordoliberals and early Freiburg School, it would be a mistake to assume that ordoliberalism assumed all Hayekian principles, including his critique to planning and the Rule of Law by which the state should only intervene legally. On the contrary, Tribe claims that ordoliberals sought to elaborate a conception of the functioning of market mechanisms beyond the Rule of Law, where the state had an important role. Tribe stresses the intrinsic difference of ordoliberals: "It is nevertheless possible to discover in the writings of Eucken and some of his Freiburg colleagues a conception of economic organization that represents a genuine effort to move beyond the sterile contraposition of market to plan and vice versa". (Tribe, 1995, p. 209).

Lastly, ordoliberalism offered an alternative solution, a social market economy model together with a social interventionist policy called *Vitalpolitik*. Ptak (2009, p. 102) affirms that German ordoliberals saw the "social market economy" as an alternative to address issues of social cohesion in direct competition with confidence in the efficacy of the state for that particular end. They provided a theoretically grounded political program for postwar Germany, which did not include the rejection of the role of the state, but its action to guarantee that the forces of market would work properly.

Vitalpolitik (or "vital politics") referred to a new form of political intervention that was grounded in anthropological and social needs with an ethical orientation. Lemke (2011a, p. 105) notes that unlike social policies, whose focus relied on material interests, vital politics took into account other factors that determine people's

happiness, well-being and satisfaction. Vital politics had a supra-economic ideology beyond the material conditions of a society, such as better wages and income equality: ordoliberals sought for the well-being and happiness of the individual human being (see Rüstow, 1961, p. 178).

A concrete example of how ordoliberalism transcended from ideological positions and economic philosophy to form economic policies and institutions is mentioned by Foucault about Ludwig Erhard, a German politician. According to Foucault (2008, p. 79-81) Erhard says in one of his public discourses “we must free the economy from state controls” and “avoid both anarchy and the termite state”, in which the borders and the limits of state control should be fixed.

Even though ordoliberalism is often linked to a social market economy shaping and a more “moderate” philosophic approach (see Rittershausen, 2007, p. 4), what Foucault highlights about German ordoliberalism is how they had consolidated themselves as a strategic analysis using many technical devices (effective policies) and fighting their obstacles and enemies (socialism and Keynesianism) that were different from classical liberalism. This, Foucault says, had a new consequence: there is a necessary link between economic organization and the growth of the state, which means that several elements of the economic system cannot be adopted without an organization of the institution of the state. That was something different than the simple Rule of Law, the Keynesian welfare state and the totalitarian forms of the state (Nazism and socialism).

Thus, Foucault concludes:

[...] let's ask the market economy itself to be the principle, not of the state's limitation, but of its internal regulation from start to finish of its existence and action. In other words, instead of accepting a free market defined by the state and kept as it were under state supervision – which was, in a way, the initial formula of liberalism – the ordoliberals say we should completely turn the formula around and adopt the free market as an organizing and regulating principle of the state [...]. In other words: a state under the supervision of the market rather than a market supervised by the state (Foucault, 2008, p. 116).

Unlike classical liberalism, German neoliberalism changed the role of the state and put it under market supervision, where the state had to guarantee that the market would function well. That is precisely why we cannot assume neoliberalism as a resurgence of classical liberalism, but something that offers an inverse rationality.

However, Foucault emphasizes how that process was not a characteristic of German neoliberalism alone, but of other variations of neoliberalisms as well. He identified a connection between German ordoliberalism in its nascent Freiburg School and American Chicago neoliberalism in Austrian intellectual Friedrich Hayek (who Foucault calls an “intermediary”). Besides getting in touch with early ordoliberals from the Freiburg School, Hayek was an important part of neoliberal think-tanks: the Walter Lippmann Colloquium in 1938 and the Mont Pèlerin Society in 1947 (see Plehwe and Mirowski, 2009). Furthermore, he was a key influence for the neoliberal thought in Great Britain (as a lecturer of the London School of Economics) and on the United States (as a member of the University of Chicago).

Van Horn and Mirowski’s historical perspective concerning the emergence of Chicago neoliberalism in the decade of 1940 highlights the role of Hayek and other intellectuals such as Jacob Viner and Milton Friedman together with some anti-New Deal American entrepreneurs, who contributed to the rise of the neoliberal movement with financial support (see Van Horn and Mirowski, 2009, p. 141).

Among the most important neoliberal ideas, (1) the Hayekian theory of the Rule of Law (see Hayek, 2011 and Friedman, 2002); and (2) the possible undesired effects of welfare policies and economic control (that could lead to totalitarian powers) remained as the bases for American neoliberalism. There, the state must not interfere in the economic agenda (inequality, earnings, prices, consumption patterns), but only in legal-formal terms, thus defining a framework within which economic agents can make their own decisions freely. As Foucault (2008, p. 173) defines it, “the economy is a game and the legal institution which frames the economy should be thought of as the rules of the game”.

In addition to the exclusion of the state in the economy, neoliberalism re-conceived the individual as a competitive entrepreneur, in which the entrepreneur is the main driving force of the market process. Neoliberalism did not assume a natural force that would drive and select the individual interests (*laissez-faire*), but recommended an institutional framework to enable that entrepreneurial process (Boettke and Leeson, 2009, p. 448). For example, when Hayek (2008, pp. 10-12) advocates for private enterprises to issue their own money, he addresses to the enterprise a new form of private-individual control that used to be exclusive only to the human-individual agent in old classical liberalism.

As a consequence, neoliberal principles became consolidated as the accepted mode for formal analyses. Although Hayek and other Austrian School intellectuals expressed their concerns to excessive mathematization and modeling, it is undeniable that many of the neoliberal roots relied on marginalist economics and on the ideal of utility. Or, as Van Horn and Mirowski (2009, p. 161) claim, “Chicago neoliberalism transcends the classical liberal tension between the self-interested agent and the patriotic duty of the citizen by reducing both state and market to the identical flat ontology of the neoclassical model of the economy.”

Foucault (2008, pp. 219-220) demonstrates that by assuming Chicago’s lecturers Gary Becker and Theodore Schultz as neoliberals, although their formal theories are close to neoclassical economics. The theory of human capital²⁹ (see Becker, 1975) expresses how neoliberal principles, insofar as they are combined to other changes in economic theory and methodology, can create an analytical framework that has individual freedom (and agents as private enterprises) and mathematical models.

This notion of human capital, of transforming education and labor as *investments* and wages into *results*, demonstrates the epistemological transition from classical political economy to neoliberalism. The working force becomes an investment in which the “[h]omo economicus is an entrepreneur, and entrepreneur of himself” (Foucault, 2008, p. 226).

How can we conceive neoliberalism as governmentality? What consequences in terms of government techniques, or governmentalities, do ordoliberalism and neoliberalism create? How can we rethink the epistemological change from classical political economy to neoliberalism in terms of individual and collective conduct? Those are the questions that Foucault tries to answer in the final lectures of *The Birth of Biopolitics*.

Inasmuch as neoliberalism (both German and American) created a rationality that sought to interpret social, political and human actions economically, it emerged as a new form of government that disseminates strategies and techniques of conducts to normalize individuals and populations in accordance to economic laws. For instance, the issue of human capital raises another political question about which individuals should the state or other institutions invest on; under which

²⁹ The theory of human capital (see Becker, 1975) assumes that knowledge and other intangible skills (talent, skills, abilities) represent an investment that could lead to bigger earnings in the future.

circumstances; and how other forms of intervention can complement the human capital discourse by using medical, educational and psychological apparatuses to accomplish that particular end.

Furthermore, if neoliberalism excludes the state, or, put differently, re-allocates it into a Rule of Law position in which it must guarantee a good market functioning, it creates a different art of government than classical liberalism. Miller and Rose (2008, p. 33) characterize that as a “political power beyond the state”: even though the formal institution of the state is ruled out – or left aside – in many contexts, other institutions would replace it, creating new forms of government. That is why postwar neoliberalisms were classified as a specific type of biopolitical governmentality on Diagram 2 on the previous section.

As Foucault (2008, p. 219) himself concludes, neoliberalism was something more than an art of government or a governmental style: it was a way of thinking, rationalizing and calculating life meticulously. The self is now seen as an enterprise that makes its own decisions based on the economic calculus of utility, a sort of power that is entirely different than discipline or repression: it creates and produces normalized subjects.

1.4 PARTIAL CONCLUSIONS

Foucault’s studies on power relations represent the theoretical background used in this study. He opened up many possibilities for a rethinking of the condition of subjects within modern society, conceiving them as a product of a specific time and place. This demanded a reflection about which sorts of knowledge, power and truth regimes (or systems) emerged. In order to understand our current condition, Foucault returned to history so he could see which truth systems and institutional supports were responsible for producing new forms of power relations, creating different frames of subjects.

For Foucault, it was not possible to understand our contemporary condition as subjects without considering the issue of economic practice. Inasmuch as power relations, economic practice and the institution of the state cannot be dissociated, the knowledge created by economic thought transcended the world of ideas, reaching state practice through the use of economic rules as a set of prescription of *do*’s and *don*’ts. Indeed, Foucault considered power, knowledge and truth as a system that

had mutual influences, and economic knowledge played a key role in this dynamics. As a consequence, state became the locus where power techniques were disseminated, especially those designed by economic ideas and discourse.

The emergence of classical political economy represented a change in the action and role of the state, which contributed to the birth of biopolitics. According to Foucault (2008, p. 1), biopolitics “starting from the 18th century [has rationalized] the problems posed to governmental practice by phenomena characteristic of a set of living beings forming a population: health, hygiene, birthrate, life expectancy, race.” This means that biopolitics was a specific technology of power that had biological and social issues of the population as its main target.

Foucault turned to classical liberalism, German ordoliberalism and Chicago neoliberalism to understand the creation of biopolitical technologies of government and particularly how they created behaviors, conducts and modes of thought. Although the principles of denial and restriction of state action became a popular discourse among those schools, Foucault demonstrated how this in fact represented a shift in the role of the state, thus being directly influenced by economic rationality. Within liberal and neoliberal dynamics, other non-state institutions acted in disseminating biopolitical power techniques – such as medical, psychological and educational –, an issue extensively studied by Foucault during his intellectual career.

Foucault increased our possibilities to think beyond the given structures and institutions of contemporary era. For instance, to conceive neoliberalism as a more “free” or “permissive” discourse was something that not only he denied, but he pursued the roots of liberal and neoliberal thought, their particular historical contexts and their main icons.

Nevertheless, as a meticulous interpreter of economic thought, he left aside other economic schools of thought that are critical to liberalism. For instance, Foucault did not approach Keynes’s contributions for the reconstruction of economic theory and power, especially after the Great Depression and during the postwar period until the decade of 1970. In *The Birth of Biopolitics* Foucault did not go further when quoting Keynes or other Keynesian authors, except when comparing them to neoliberalism.

Chapter 2 presents some of the main ideas that contributed to the constitution of Keynes’s thought, using Foucault’s notion of genealogy as an intellectual guide.

PART II

2. A GENEALOGY OF JOHN MAYNARD KEYNES'S PHILOSOPHY, ECONOMIC THOUGHT AND POLITICAL VIEW

Following one of the main objectives of this study, which is to trace John Maynard Keynes's intellectual context and ideas that were relevant for rethinking the issue of power and the role of the state, the purpose of this chapter is to present some of the origins of John Maynard Keynes's mode of thought and to identify his main intellectual and economic influences that were relevant for constituting his discourse about the role of the state from a genealogical point of view.

This study seeks to identify a Keynesian view of the normative role³⁰ of the state based on his philosophical and ethical view, his intellectual experiences in Cambridge and his role as a Statesman. Even though Keynes is recognized for his valuable contributions concerning the role of economic policies (particularly fiscal and monetary policies) and a strong social state, these facts cannot be fully understood without an accurate reading of his world vision.

The evolution of Keynes's political and economic view was quite pragmatic (cf. Brittan, 2006, pp. 180 and 188). He saw the solution of the economic problem as a prerequisite to a better society, in which most people could concentrate on the "matters of supreme value", what Keynes designated as *arts of life* (see Keynes, CW IX, 2013e) or *good life* (see Skidelsky, R. and Skidelsky, E., 2012). More importantly, we shall not recreate a Whig form of history of Keynes's thoughts and facts that simply follows a chronological evolution and the individuality of Keynes as an economist only, but rather a more diverse and open approach based on a genealogy.

To accomplish this critical task we use Michel Foucault's notion of genealogy presented and discussed in chapter 1. The reason why genealogy represents an analytical method that suits the study of Keynes's thought, view and discourse is because Foucault's proposal focused on the discontinuous, reverse and specific facts of a discourse, thus becoming an alternative approach to the study of Keynesian ideas. Put differently, we can use again Foucault's example of the birth of the modern structure of the army (2004, p. 119) to confirm what he meant by

³⁰ This will be discussed throughout Chapter 3.

genealogy: we could simply say that the process of disciplinarization of the army is due to state control. But when we isolate the idea of the state away from the army, we can think beyond the macro institutions and consider other relevant institutions or actors in that process (floating populations, technical inventions, models of management, political alliances).

In this sense, building a genealogy of Keynes and what he represented for rethinking economic thought and theory, the role of the state and how new forms of power emerged in the middle of the 20th century is a complex task that does not only involve a biographical or macro-historical work. Indeed, Keynes was a classic intellectual – not only an economist – that made several important contributions to the study of philosophy, arts, ethics, politics, economic theory and policy, being responsible for an ontological and epistemological turn in economics from the 1930s until the present day.

We cannot avoid the rise of many of Keynes's followers and critics, which resulted in a significant number of publications, journal papers, dissertations, official reports and news involving Keynes's name or his intellectual inheritance. Because of such complexity, this study follows the works of Keynes himself and some writings of the Post-Keynesian³¹ school of thought, particularly Joan Robinson, Paul Davidson, Victoria Chick, Sheila Dow and Tony Lawson. Also, some authors that are not considered Post-Keynesians *per se* but have many aspects in common with Keynes and his followers – such as Robert Skidelsky and John B. Davis – are also indicated throughout this study.

A Keynesian genealogy follows Foucault's two methodological postulates. First, to search for the main influences, institutions and/or actors that standard forms of historical investigation (such as biographical ones) do not emphasize or do not consider relevant for the constitution of a knowledge. From this point we can focus on Keynes's philosophical influences, such as his ontology, epistemology and methodology. If Keynes had a different view of the nature of the individual and the world when compared to liberalism, Keynesian policy-making does not sees

³¹ Indeed, as Dow (2002, p. 172) claims, Post-Keynesian economics involves a re-reading of Keynes himself (or "fundamentalism Keynesianism"). For Dow, Post Keynesianism may be defined methodologically as being based on a vision of the economy as being organic and in which institutions, behavior, knowledge (and uncertainty) act upon it. That type of Post-Keynesianism is different from New Keynesians and IS/LM Keynesians, as Harcourt (2006, p. 2) demonstrates. Besides Keynes himself, other intellectuals were responsible for endorsing a Keynesian revolution, such as Richard Kahn, Richard Goodwin, Nicholas Kaldor, Luigi Pasinetti, Joan Robinson and Piero Sraffa, or the "Keynesian pioneers" as Harcourt (2006, p. 1) calls them.

individuals as atoms, but complex agents that are embedded in an organic and complex reality in which uncertainty dominates collective behavior.

Secondly, re-interpret facts, ideas and/or theories from a different point of view that takes into account reverse, discontinuous and exterior facts in order to fully comprehend Keynes's mode of thought (see Dow, 1996, p. 10).

Following Davis's argument about Keynes's theoretical displacements and some changes in his ideas (cf. Davis, 1994a, pp. 1-8), we cannot ignore the fact that Keynes's *oeuvre* is complex and that it has its conflicts and changes, hence a genealogical approach may suit well the Keynesian theory and discourse. In this sense, we should turn to Keynes's direct and indirect intellectual influences from Cambridge that helped shape his theory, as well as Keynes's debate with Hayek, which worked as a non-influence (or a reverse, or "negative" influence) in terms of improving and clarifying some points of the Keynesian theory to respond to Hayek's liberal arguments.

Indeed, Keynes's three renowned biographers, Roy Harrod (1983), D.E. Moggridge (1992) and Robert Skidelsky (2003) emphasized several events of Keynes's personal and professional life that were responsible for constructing his world view, besides demonstrating the various contexts in which he wrote his books, articles and letters. These three works are very important for the development of this chapter, but taken alone they are not sufficient to investigate how Keynes built a normative view of the state and his view on the issue of power, particularly state and non-state forms of power that aimed at the population. Our aim in this study is not to make another biography of Keynes or to criticize those works, but to understand which main forces and notions constituted his thought and world view.

Following Foucault's inquiry (1991, p. 56) of "what actually constituted – and not just provoked – a change?", we re-interpret his question by asking: (1) How did Keynes and the Keynesian tradition influence in the constitution of new economic and social policies after the Second World War? (2) How did the state and its correlated institutions create new forms of power relations throughout the postwar decades in Western societies that adopted Keynesian economic and political principles as their role model? (3) How did those forms of power act? To answer these questions we first must understand the constitution of Keynes's ethical, philosophical political and economic views from a genealogical point of view, which

may demonstrate the change that occurred concerning the role of the state in that historical period.

This chapter is an attempt to divide Keynes's influences and ideas that later constituted and constructed his view concerning the management of the population due to a change in state practices. Taking Foucault's principles of exteriority and reverse into account, we should first leave aside the usual approach of Keynes's philosophy from a chronological point of view, as many authors do (Baldwin, 2006; Bateman and Davis, 1991; Carabelli, 2002; Davis, 1989, 1991, 1994a and 1994b, 1996 and 2003; O'Donnell, 1989; Runde and Mizuhara, 2003, to name a few). They all analyze Keynesian philosophical writings from a chronological perspective, following Keynes's life events together with his intellectual developments. The order then follows: first, general ethics and aesthetics; secondly, epistemology (probability, uncertainty); thirdly, methodology and lastly, the issue of ontology and its connections to politics or/and ethics.

This study proposes a reverse order in Keynes's historical facts and influences. First, we investigate Keynes's ethical and philosophical foundations starting from his ontological vision of reality, followed by his methodology and his ethical system, all in the light of primary sources and Keynes's interpreters. Secondly, we determine Keynes's political and economic view based on his main intellectual influences, both formal (such as Malthus and Marshall) and personal (his context at Cambridge). Comprehend the differences and main concerns of Keynes's theory regarding the economic context and the action of the state.

2.1 ETHICAL AND PHILOSOPHICAL FOUNDATIONS

This section attempts to investigate Keynes's main philosophical foundations (ontological, methodological and ethical) not from a biographical point of view, but from a conceptual constructive analysis. Our aim here is to understand the evolution of Keynes's thought from his world vision until his political and economic recommendations concerning the state and the economy. Following the Foucauldian genealogical method, we try to build a historical ontology of Keynes's thought without attributing his intellectual evolution to a methodological individualism or to macro-

historical facts, but rather to a change in his concepts, world view, personal acquaintances and other relevant issues that constituted that change.

Skidelsky (2003, p. 70) attributes Keynes's first ethical and philosophical readings to his time as a student at Eton and later as a Cambridge undergraduate around 1902, where he was particularly interested in the ethical works of George Edward Moore (or G.E. Moore) and in the metaphysics of John McTaggart Ellis McTaggart (or J.M.E. McTaggart). By the same time, Keynes had become a personal acquaintance of both intellectuals (Moggridge, 1992, p. 64), and by 1903 he had become a member of the Cambridge Conversazione Society, or Apostles.

Undoubtedly, Keynes's early years in Cambridge determined his constitution as a student of philosophy, ethics, aesthetics and the arts, but that was not the only explanation for Keynes's interest in philosophy. We can add three other reasons that contributed to that issue.

First, the influence of the Cambridge scenario that the belief in religion as the predetermination of one's life and one's society was being replaced by the notion that by studying the principles of the "moral sciences" one could recognize the source of social order and wisdom (see Greer, 2000, p. 20). Secondly, the social and political context of the Post-Victorian England, in which political and social revolutions brought anxiety, uncertainty and expectations for the next generations about the future of the country (see Moggridge, 1992, p. 55). Lastly, the fact that Keynes was a product of an English reaction to industrial life based on the cult of dead languages, chivalry, moral utopias and the rejection of commercial careers also contributed to his development as an intellectual who criticized some old patterns (see Skidelsky, 2003, p. 76).

The constitution of Keynes's ethical and philosophical discourse began when he joined the Apostles group, especially after the publication of three works that exercised great influence in his philosophical and ethical view: G.E. Moore's *Principia Ethica* and *Refutation of Idealism*; and Bertrand Russell's *Principles of Mathematics*. Although their influence on early Keynesian philosophical ideas is undeniable, Keynes's critiques of Moore's ethics³² actually resulted in several essays and letters in which Keynes developed his own view on the subject of ethics.

³² Baldwin (2006, pp. 237-256) demonstrates some of the weaknesses of Moore's work. He stresses Moore's critics to other ethical works, such as John Stuart Mill's, claiming that they had a "naturalistic fallacy" and did not picture well some real ethical issues. Indeed, we cannot avoid to consider the

As Skidelsky (2003, p. 85) points out, “philosophy provided the foundation of Keynes’s life. It came before economics; and the philosophy of ends came before the philosophy of means.” From 1904 to 1906, Keynes wrote three (unpublished) essays, *Ethics in Relation to Conduct* (1904); *Misellanea Ethica* (1905) and *Egoism* (1906) that demonstrated his concern for issues such as: goodness, love, conduct and language, which were much influenced by Keynes’s readings of Moore’s work³³. More precisely, Keynes’s *Treatise on Probability* published in 1921 was a reply to some of Moore’s notions, such as of *indefinable* – the object or idea that “good” stands for is indefinable –, which Keynes re-applied to probability (see Davis, 1994a, p. 19).

It is worth noticing that the works involving Keynes’s probability and its connections to philosophy had dominated Keynesian and Post-Keynesian writings within the 1980s (see Bateman, 2003, p. 69-70), particularly with the works of Lawson and Pesaran (1985a); Lawson (1985c); Carabelli (1988); and O’Donnell (1989), which often remained restricted to the issue of epistemology; mainly probability and uncertainty. Indeed, they cannot be left aside on such analysis and their relevance is crucial for a proper understanding of Keynes’s philosophy.

Nevertheless, as Lawson himself (2003, p. 155) stresses, Keynes had an ontological – or, in Lawson’s terms, a *realist* – orientation in which he draw special attention to reality as a complex institution, characterizing it as an *open* system (more on this, see Chick and Dow, 2003) that had important implications for understanding economics both as a practice and as an end.

The next three sections focuses on Keynes’s methodology, ontology and political philosophy, stressing his conception of reality, how economics would fit in and what sorts of forces, powers and actors might interact within the economic and social system.

specificity of Keynes’s own time and place in the construction of his view when he claimed that Moore’s book “remains nearer the truth than any other I know” (see Baldwin, 2006, p. 237).

³³ Skidelsky (2003, p. 89) points out the four main building blocks in Moore’s ethical system. First, the notion of the indefinability of good, where good was something simple and non-natural. Secondly, the only things valuable in themselves are states of mind. Thirdly, the idea that right actions are aimed at bringing about desirable states of affairs. Lastly, a doctrine of organic unities, which stated that the best achievable states of affairs are bound to be “complex wholes”.

2.1.1 Ontology and reality in Keynes

The role of ontology in Keynes's works has received far less attention than his epistemology by his interpreters until the mid-1990s, when critical realism emerged as a critical field of study within economics, especially through Tony Lawson's (1997, 2003) and Uskali Mäki's (2001) works. A reason for that lack of attention is that for some time his methodology was over-shadowed by his other works on economic theory and policy analysis (cf. Lawson and Pesaran, 1985b, p. 1).

As an ontological turn emerged in economics – mainly guided by critical realists and Post-Keynesians that questioned the current state of economic analyses (for instance see Chick, 2003; Dow, 1996; Jespersen, 2009; Jespersen and Madsen, 2012; Lawson, 1997) –, Keynes's ontological view became a relevant approach to understand how economics deals with individuals and reality, especially when the issue of uncertainty emerges.

Lawson defines ontology as:

By ontology I mean the study (or a theory) of being or existence, a concern with the nature and structure of the 'stuff' of reality. Now, all methods have ontological presuppositions or preconditions, that is conditions under which their usage is appropriate. To use any research method is immediately to presuppose a worldview of sorts (Lawson, 2003, p. 12)

Put differently, ontology focuses on the issue of reality itself and its phenomena: which methods does one choose and use to analyze reality, what are the characteristics of that reality and how does it influence the behavior and decisions of individuals.

Quite often Keynes did not make reference to the issue of reality itself in the sense of a formal ontological investigation, but rather to other concerns that involved reality and logic in a bigger picture. For instance, how can we represent reality and its phenomena from a point of view that can actually grasp them? Which elements and methods should we take into account? What is our appraisal of the nature of the reality itself? Lawson (2003, p. 173) emphasizes that Keynes's approach to social theory was an ontologically oriented one even before he turned to economics, particularly in his early philosophical writings.

Indeed, Keynes's writings were very complex. This characteristic resulted in many different interpretations, setting a debate about the possibility of his writings

being continuous (see Carabelli, 1988; Lawson, 1985c and O'Donnell, 1989) or discontinuous (see Bateman, 1987; Davis, 1994a and 2003). According to the latter view we could not avoid a *das Maynard Keynes Problem* (see Bateman, 1991 and 1996), which is analogue to Adam Smith's critique when his readers noted a paradox between his early and late ideas. Nevertheless, Davis (2003, p. 105) demonstrates how Keynes's early and late thoughts are different, but not actually conflicting.

As Davis stresses, Keynes did not give up all his early philosophical commitments, but he changed the way he saw some issues due to some critics (see Ramsey, 1978), particularly the issue of judgment (or "intuition"). In his early thought, Keynes assumed each individual autonomously sees into the underlying nature of reality. On his late view, however, judgment is neither autonomous nor concerned strictly with the underlying nature of reality, but a social combination of reality and society.

One of the reasons for that shift might have been caused by his dramatic change about economics, particularly how Keynes had established himself as an economist that criticized standard economic methods and approaches. About that, Dequech (1997, p. 104) and Runde (2003, p. 48) note how Keynes's appraisal of economics and decision-making processes had changed when comparing his 1921 *Treatise on Probability* to his 1937 *Quarterly Journal of Economics* article "The General Theory of Employment" (see Keynes, 1937b). In this later article, Keynes admitted that his analysis differs from orthodox classical economics, especially concerning its quantifiable methods and its equilibrium vision.

In this sense, we can say that Keynes's economic theory was structured to represent an alternative and a critique to all the main foundations of classic orthodox theory, including their view about ontology (and if we should consider it relevant). Following Davis's and Dequech's conclusions about Keynes's theoretical changes, his notion of uncertainty can represent the embodiment of a complex representation of reality that completely denied the classical view of probability and risk³⁴.

³⁴ About the classical view of economic reality and its predictive power, Keynes says: "Perhaps the reader feels that this general, philosophical disquisition on the behavior of mankind is somewhat remote from the economic theory under discussion. But I think not. Tho [sic] this is how we behave in the market place, the theory we devise in the study of how we behave in the market place should not itself submit to market-place idols. I accuse the classical economic theory of being itself one of these pretty, polite techniques which tries to deal with the present by abstracting from the fact that we know very little about the future." (Keynes, 1937b, p. 215).

For that reason we should concentrate on Keynes's late works as an attempt to understand his ontology and vision of the world.

Keynes's *The General Theory of Employment, Interest and Money* (or simply *The General Theory*) [1936] (2003) makes reference to several issues related to reality and society based on a complex view of the world that is not usually portrayed by orthodox economics. Throughout *The General Theory* Keynes underpins the role of conventions, expectations and confidence in a world where uncertainty dominates our decisions about the future, which are not captured by standard orthodox economics.

Indeed, the emergence of those notions is not random, but strategically put into Keynes's rhetorical strategy and that established him as a critic of the orthodoxy. Bateman (2003, p. 74) challenges why Keynes suddenly included expectations and uncertainty throughout his drafts of *The General Theory* during the spring of 1934. The answer for that, Bateman says, can be found in two primary sources: first, in his long-standing feud with Pigou and others who disagreed with him; and secondly, in his ongoing work as an investor, which gave him a strong sense of how economic reality looks like.

For example, Keynes's appraisal of Marshall and Pigou's measure of the national dividend (or current output or even real income) is, as Keynes claims, "a grave objection" because they should consider the community's output of goods and services as "a non-homogeneous complex which cannot be measured, strictly speaking, except in certain special cases, as for example when all the items of one output are included in the same proportions in another output" (Keynes, CW VII, 2013c, pp. 38). In a Keynesian view, heterogeneous and incommensurable issues should not be put aside by economic analysis, and that includes uncertain episodes of life.

Keynes notes how uncertainty can affect individual and collective decisions, particularly those related to consumption (chapter 8), long term expectations (chapter 12), the future and the properties of interest rates (chapter 13 and 17), liquidity (chapter 15), the nature and efficiency of capital (chapter 16), prices (chapter 21) and business cycles (chapter 22). Even though uncertainty became a relevant concept within Keynesian theory – if not the most important one – additional interpretations of this subject should emphasize the role of uncertainty and Keynes's vision of reality.

Lainé (2012, p. 60) calls the attention to chapter 18 of *The General Theory*. For Lainé, this chapter demonstrates an ontological view based on the role of experience, radical uncertainty, logical necessity, an organicist standpoint and the role of moral duty. In two different moments in chapter 18, Keynes says:

Our present object is to discover what determines at any time the national income of a given economic system and (which is almost the same thing) the amount of its employment; which means in a study so complex as economics, in which we cannot hope to make completely accurate generalisations, the factors whose changes *mainly* determine our *quaesitum*. Our final task might be to select those variables which can be deliberately controlled or managed by central authority in the kind of system in which we actually live. (Keynes, CW VII, 2013c, p. 247)

Now, since these facts of experience [fluctuations] do not follow of logical necessity, one must suppose that the environment and the psychological propensities of the modern world must be of such a character as to produce these results. It is, therefore, useful to consider what hypothetical psychological propensities would lead to a stable system; and, then, whether these propensities can be plausibly ascribed, on our general knowledge of contemporary human nature, to the world in which we live. (Keynes, CW VII, 2013c, p. 250)

As Keynes demonstrates, he had a holistic moral view of the economic system “in which we live”, and underpins its complexity and uncertain nature. Insofar as many economic events cannot be predicted, he recognized the role of psychological propensities and environmental characteristics that can influence economic results.

It is possible to infer from those statements that Keynes’s ontological view influenced on his epistemology – which focuses on the grounds of scientific knowledge and on the *modus operandi* of economics –. Considering his view of economic reality and how it connects to society and to individual psychology, the combination of those elements may shed some light on a Keynesian ontological view of the world mainly constituted by (1) uncertainty, (2) expectations and (3) conventions.

First, approaching Keynesian uncertainty from a genealogical point of view does not mean to review chapter 12 of *The General Theory*. On the contrary, one should emphasize the constitution of that concept, as well as demonstrate its varieties that may affect the society’s behavior when facing uncertainty and the possible results that may affect economic reality as a whole. Dequech (1999, p. 88; 2000, p. 50) defines Keynes’s uncertainty as “fundamental” or “strong” in the sense that it refers to issues that “we simply don’t know”, such as the prospect of an

European war. Fundamental uncertainty is different than what Dequech (2000, p. 51) calls “weak” uncertainty (risk) or “ambiguity”, which refers to a situation in which there is uncertainty about probabilities due to lack of information.

We can attribute that difference to the ontological content of uncertainty, which is an intrinsic characteristic of reality. Keynes did not see reality as something that could be fully predicted, and he warned us about how often we tend to use conventions and other psychological games in an attempt to predict the future. He stresses:

The future never resembles the past – as we well know. But, generally speaking, our imagination and our knowledge are too weak to tell us what particular change to expect. We do not know what the future holds. Nevertheless, as living and moving beings, we are forced to act. Peace and comfort of mind require that we should hide from ourselves how little we foresee. Yet we must be guided by some hypothesis. We tend, therefore, to substitute for the knowledge which is unattainable certain conventions, the chief of which is to assume, contrary to all likelihood, that the future will resemble the past. This is how we act in practice. (Keynes, 1937a, p. 13).

Even though reality is ontologically uncertain, Keynes emphasizes the pragmatic consequence action facing uncertainty: we are forced to act based on conventions and expectations of what we think it *might* happen in the future. As a convention, we tend to bring present or past events to future events, expecting that they will remain the same. This combination of psychological, social and cultural features had a considerable impact on economic decision-making, which demonstrates how Keynes’s view of reality was not restricted to economic events only.

As Mäki (2001, p. 53) claims, this vision was possible because Keynes did not see the economic agents and economic reality as something detached from the social context. Following an analogous version of Karl Polanyi’s view of embeddedness – that economics is not an independent body, but it actually emerged from society – Keynes underpinned the real effects of his theoretical assumptions and analyses by bringing reality back to the study of economics. Therefore, Keynesian analyses of economic phenomena rely on different bases (and results) than orthodox classical economics.

Additionally to that, Lawson (2003, pp. 173-180) identifies two specific moments where Keynes made his point about ontology clear, but are not restricted to these two:

1. In his critique of Tinbergen's project of econometrics inasmuch as it assumes isolated events; atomic factors and a closed social world. He says:

In chemistry and physics and other natural sciences the object of experiment is to fill in the actual values of the various quantities and factors appearing in an equation or a formula; and the work when done is once and for all. In economics that is not the case, and to convert a model into a quantitative formula is to destroy its usefulness as an instrument of thought. [...] I also want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations psychological uncertainties. One has to be constantly on guard against treating the material as constant and homogeneous. (Keynes, CW XIV, 2013h, pp. 299-300).

2. In his 1926 notes about Edgeworth's biography that the social phenomena cannot be regarded as atomistic entities because the sum of the parts may not represent the whole when it comes to social systems;

The atomic hypothesis which has worked so splendidly in Physics breaks down in Psychics. We are faced at every turn with the problems of Organic Unity, of Discreteness, of Discontinuity – the whole is not equal to the sum of the parts, comparisons of quantity fail us, small changes produce large effects, the assumptions of a uniform and homogeneous continuum are not satisfied. (Keynes, CW X, 2013f, p. 262).

A consequence of that view falls on Dow's (1996, p. 15) and Lawson's (2003, p. 173) observation about the connections of Keynesian ontology and critical realism³⁵.

In this context one can assume Keynes as a realist in the sense that he brought the issue of real problems and concerns back into economic theory and analysis. His ontological view of the world had a very clear framework that encompassed a socially embedded (macro)economic vision and some complex and non-predictable issues such as uncertainty, conventions and expectations, which emphasize the psychological role of economics. Nevertheless, this did not resemble

³⁵ Critical realism is a philosophical approach that has been brought to economics with the works of Tony Lawson (1989, 1997) and Mäki (1998), both influenced by Roy Bhaskar's (1944-2014) analyses that combined transcendental realism with critical naturalism. Bhaskar demonstrated that the objects of knowledge are real structures which exist and act independently of the pattern of events they generate, and these objects have "causal powers" that have the ability to shape or to transform social reality (more on this, see Bhaskar, 1989).

a nihilist point of view, but actually indicated to a teleological way of analyzing and interpreting economic and social facts inside a complex reality.

This analytical framework had a direct impact in Keynes's methodological aspects, particularly when developing a macroeconomic analysis of economic events. Indeed, Keynes provided a different perspective from the methodological point of view, bringing the economic collectivity back in a moment when marginalism and classical economics focused on methodological individualism. This micro-macro division can be understood from Keynes's vision of reality and its possible discussion about atomism and organicism. This particular issue is discussed further on the next sub-section.

2.1.2 Keynesian methodological aspects: atomism and organicism

Keynes's concern in approaching the issues of the real world in his economic theory led him to build up a specific form of knowledge about it that took into account a critique of classical orthodox theory and a complex vision of the individual and the world. More precisely, this sub-section aims to investigate the methodological grounds of Keynes's theory in terms of a system, emphasizing some rules and circumstances of his epistemology that are strictly connected to his world vision.

Keynes's world view is relevant to our analysis in the sense that it enlightens us about how Keynesian policies later saw the nature and interaction of individuals and populations. Put differently, whereas liberalism relied on methodological individualism and on atomic individuals with self-interests that influenced directly on its economic policies, Keynesianism proposed an organic view of the world, which sought to promote collective policies towards the population and the "macro" economy, which had different results and effects in terms of power relations.

One cannot separate Keynes's methodological aspects from his philosophy. They constitute a complete system in which the nature of reality, the knowledge about that reality and the ways to achieve this particular knowledge mutually influence each other. In this sense, possible controversies mentioned in section 2.1.1 about Keynes's continuity or discontinuity hypothesis also influenced on his methodological aspects, particularly how he saw social and economic systems.

Dow (1996, p. 14) defines that debate into two possible views: one, following Davis's (1989, p. 1159) claim that Keynes's stuck to his organicist view throughout

his whole intellectual life and only retained key atomist assumptions as an instrumental form. Another view such as the one found in Lawson (1985c, p. 919) and Rotheim (1989, p. 316) suggested a coexistence of atomism and organicism in Keynes's works. For them, Keynes combined individual rationality and social embeddedness and recursive interdependencies between wholes and parts both in his *Treatise on Probability* and in *The General Theory*.

A proper way to understand such controversy about Keynes's methodology is to trace back the original philosophical notions of atomism and organicism. Dow (1996, pp. 14-16) divides those two concepts according to their dual philosophical nature and world vision in order to emphasize their structural differences. For Dow, atomism (or reductionism) follows from the logical structure of Cartesian and Euclidean thought, which considers basic axioms as self-evident and deductive propositions as small components, such as atoms in physics or individuals in economics. In that sense, variables and systems could always be isolable from all levels and values, ignoring unpredicted effects. Put differently, atomism presupposes a *closed* and controlled system of reality.

Opposite to that, organicism derives from a Babylonian approach (see Dow, 1996, pp. 14) that considers the subject-matter of science as organic, which admits the existence of uncertainty, complexity, interdependency and collective causality. Unlike atomism, one can consider organicism as an *open* or complex system that admits various possible causes and effects of events.

The efforts mentioned above to classify Keynes's methodological view as atomist or organicist actually point out to a broader discussion of Keynes's view of nature and entities. Indeed, Keynes had a complex conception of organic entities and often combined an analysis of the individual and its own psychological aspects (expectations, confidence) with the role of the social context (conventions, uncertainties). Lawson (1985c, p. 919) was probably one of the first Post-Keynesians to realize that issue, and for that he brought up a specific methodological discussion about subjectivity in Keynes. For Lawson, Keynes integrated into his analysis and world view the notion of a meaningful subject that presupposed individual intentions, deliberations and power to choose.

Furthermore, Lawson admitted a combination of rational behavior and social embeddedness when analyzing *The General Theory*. He says:

This view of rational behavior requires that underlying any particular action are good reasons based upon such (possibly extensive) knowledge as is available. Indeed it is only in so far as knowledge and reason guide action that people are free to discern alternative possibilities and to frame purposes. The available knowledge however, or so I am suggesting, is, in part, acquired through the individuals partaking in society and the social practices which continually reproduce it. Thus notions of the active subject and social practices in effect presuppose each other. (Lawson, 1985c, p. 919).

For an individual to act rationally he/she must have a basis to act as such, and knowledge and reason are the motors of an action. However, as Lawson puts it, part of that knowledge or reason is only available through social practices and interaction, and we cannot assume the opposite because individuals are social agents at the same time. In this sense, Lawson might have suggested a combination both of atomism and organicism when defining Keynes's methodology. In Lawson's conception it would be impossible to assume one without the other³⁶.

Following Lawson's point of view, Rotheim (1989, p. 319) suggests an interaction of parts and wholes in Keynes's works. He says that while Keynes denied the existence of atomistic individualism in his interpretation of the social world, that did not necessarily mean that individuals and individual decision-making were of no consequence. In that sense, the role of individual rationality and decision-making cannot be left aside, and they are not simply a product of reality, but a combination of individual action and collective reality. Rotheim emphasizes:

Individuals do not become mindless as a result of their existence in an organic interdependent world; rather they become mindful that the basis upon which they act is not independent of the world in which they live or that the results of their actions might cause them to arrive at positions different from which they first envisioned themselves. (Rotheim, 1989, p. 319).

Therefore, Lawson's and Rotheim's line of thought do not oppose atomism and organicism in order to define Keynes's methodological aspects. On the contrary, they advocate towards a coexistence of atomistic individual decision-making that is embedded in an organic and complex reality that may not present the desired results.

³⁶ In a certain way that line of thought resembles Foucault's genealogical method in the sense that for one to assume the existence of a certain knowledge, practice or rule, one must also admit the existence of its opposite element and investigate it. Therefore it would be impossible to assume the existence of organicism and deny completely the issue of atomism. Indeed, that approach may be dualist (see Dow, 1996), but it is a critical form to approach not only a concept, but its other existential possibilities as well.

Another line of thought such as the one advocated by Davis (1989, p. 1160) believes that Keynes had always relied on a larger organic view of reality that included the role of the individual. Actually, Davis says that Keynes believed in the possibility of speaking of the individual mind as an organic unity itself, only referring to the individual as an instrumental form. Hence atomism would be embedded in Keynes's organicism, which would be his true methodological principle.

Indeed, the issue of individual – its rationality and psychology – was not ruled out completely of Keynes's rhetoric even in *The General Theory*, which is considered by many Post-Keynesians an organicist work. Both Davis's view of instrumental atomism and Lawson's and Rotheim's analyses indicating a combination of atomism and organicism can actually point out to the same direction. Keynes's references to the role of individual decision-making, expectations and confidence confirmed the relevance of the individual and his/her power of action within economic and social contexts. Furthermore, assuming the existence of a significant individual is both instrumental and ontological. But that does not mean to label Keynes's works as atomistic in the classic-orthodox sense of the word, which emphasizes strict individual action and axiomatic effects.

If Keynes's indeed made reference to an instrumental or ontological atomism, he surely combined that with an organic reality. Actually, we can think of Keynes's methodology as something more complex than simply deciding which view (atomistic or organicist) he chose to characterize his methodological framework. A genealogical analysis of a theory or concept actually points out to that direction: to avoid dualisms, ruling out completely one or another view. Keynes's own definition of what he considered atomism is a much more complex view that takes into account economic and social contexts, thus differentiating from the standard isolated notion of atomism as separate and independent entities.

Carabelli (1985, p. 122) makes that distinction clear by stressing Keynes's critique to the excessive use of mathematical formalism and econometrics in economic analysis (see also Lawson, 1997 and 2003). Nevertheless, as we shall see in Chapters 3 and 4 of this study, this was perhaps the most important element that settled the differences between Keynes's economics and what became Keynesian Economics as a highly-technical and mathematized economic theory.

In the *Treatise on Probability*, Keynes defines atomism:

The system of the material universe must consist, if this kind of assumption is warranted, of bodies which we may term [...] legal atoms, such that each of them exercises its own separate, independent, and invariable effect, a change of the total state being compounded of a number of separate changes each of which is solely due to a separate portion of the preceding state. [...] *Each atom can, according to this theory, be treated as a separate cause and does not enter into different organic combinations in each of which it is regulated by different laws.* Perhaps it has not always been realised that this atomic uniformity is in no way implied by the principle of the Uniformity of Nature. Yet there might well be quite different laws for wholes of different degrees of complexity, and laws of connection between complexes which could not be stated in terms of laws connecting individual parts. *In this case natural law would be organic and not, as it is generally supposed, atomic.* (Keynes, CW VIII, 2013d, pp. 276-277, emphasis added).

Even though Keynes defines atomism as separate entities with independent causes, he stresses that natural laws cannot, in general, be supposedly atomic, but actually organic, which means it is connected to reality and its events. About that particular case Carabelli (1985, p. 122) and Pratten (2015, pp. 4-5) claim that Keynes was critical of attempts at representing subjective chance by a mathematical theory of chance, and he was worried about the increasing tendency to apply the frequency theory of probability (and also mathematics and econometrics) in a general way to a wide range of situations.

Carabelli (1985, p. 123) emphasizes that point by saying that, for Keynes, the atomic hypothesis would only be acceptable in cases where the world had mathematized characteristics, and a *blind* application of the calculus meant to attribute probabilistic statements to limited reality and under the presupposed conditions of that scenario. This is very similar – if not identical – to what Keynes (CW VII, 2013c, p. 3) argued about classical orthodox postulates and method about supply, employment and prices theory in Chapter 01 of *The General Theory*.

Therefore it is not incorrect to assume the existence of the individual and its intrinsic characteristics (such as rationality, decision-making processes, tastes, expectations, etc.), but we should realize that he/she is embedded in a larger social perspective that influences his/her decisions and behavior. In this context, atomism would exist in Keynes's theory both as an analytical instrument (as Davis claims) and ontological entity (as Lawson's and Rotheim's claims).

Broadly speaking, the debate between atomism and organicism can also shed light on Keynes's criticism to classical premises and methodology, such as methodological individualism and the notion of self-adjustment. Keynes made valuable contributions to a new form of epistemology in economics,

“macroeconomics”, given that he presented an alternative view to microfoundations and ontological individualism by underpinning the importance of collective decisions and economic aggregates, such as aggregate consumption, national income, investment function, national employment level and aggregate stock of money (Mäki, 2001, p. 227).

This fact demonstrated to what extent the holistic, organic reality needed be considered together with individual decision-making in economic analyses. Indeed, Keynes admitted that “[e]conomics is essentially a moral science, and not a natural science. That is to say, it employs introspection and judgments of value” (Keynes, CW XIV, 2013h, p. 297-300). Therefore, economics is a complex science that combines moral aspects with representations of reality in the shape of models. If so, one cannot presume that Keynes adopted a dual view where organicism and atomism were seen separately, but rather a combination of both.

Additionally, at a late stage in his life, Keynes claims in his essay *My Early Beliefs* (see Keynes, CW X, 2013f, pp. 433-451) that “I myself was always an advocate of a principle of organic unity, which still seems to me only sensible”. He used that definition to demonstrate his opinion towards states of mind, and how they cannot be analyzed into parts, but as a whole. Not only this underpins Keynes’s organic view regarding the world and its events, but it reinforces Dow’s (1996, p. 14) claim that Keynes ended as an organicist.

That particular discussion of Keynes’s methodological aspects also brings up his reasons for economic analysis itself. If he had a complex view of reality where uncertainty and other social, political and psychological aspects dominated, Keynes’s ambition was to provide an investigation that could actually come with real solutions for our economic problems. The next sub-section focuses on the connections between Keynes’s ethical view and his economic recommendations, highlighting the search for a good life as a teleological end of economic activity.

2.1.3 Ethical conduct and the search for the good life

Conceiving a genealogy of a theory or thought may also demand a search for the conditions and influences outside a field of expertise. This is the case of Keynesianism, particularly its strong connections between ethics, ontology and

economics. Following the rule of thought that was exposed in the last two sub-sections, we aim at presenting Keynes's view of ethical conduct and how his search for a good life actually guided his economic thought and his practical actions as a Statesman.

Indeed, we shall not follow Keynes's ideas from a chronological point of view. This study seeks to gather his main ideas concerning the particular subject of ethics as an attempt to understand how Keynes constituted a precise notion of economic practice that did not rule out the issue of good life, well-being and ethical self-government. The construction of his ideas may later indicate how Keynes's opinions and recommendations transcended from theory to economic decisions and the government of populations.

Keynes was much influenced by ancient Greek ethics, particularly Platonic and Aristotelian ethics and politics (see Carabelli, 2002 and Crespo, 2004). Keynes's developments on the issue of good and the absorption of the good in itself were influenced by Plato (see Keynes, 2013f, p. 445), whilst the search for the good life was based on Aristotle's idea that economics is the use of what is necessary for "life in general" and for the "good life" (Crespo, 2013, p. 105). Indeed, the issue of good life must be investigated further in this sub-section inasmuch as Keynes believed that fine actions were compatible to economic activities, so economics would lead to the good, beautiful life.

As Keynes admits in *My Early Beliefs* (see Keynes, CW X, 2013f, pp. 433-451), he was influenced not only by G.E. Moore's works, but also by the Apostle's group (which included Keynes's early days as an undergraduate in Cambridge) and later by his meetings with the Bloomsbury group³⁷. Other possible names who were linked to philosophy and that had influenced Keynes sometime in his life were: Voltaire, Rousseau, Kant and Hegel (see Andrews, 2010, p. 5), Sidgwick (see Shinoya, 1991, p. 6), Burke (see Helburn, 1991, p. 30), Russell, but in the sense of a

³⁷ The Bloomsbury group was an informal association of intellectuals, writers and artists, such as Keynes himself, Virginia and Leonard Woolf, Lytton Strachey, Duncan Grant, Clive Bell and E.M. Forster. The name came from "a particular kind of social and cultural life which grew up among a group of friends in a couple of adjacent squares in that unfashionable part of London" (Skidelsky, 2003, p. 143). As Moggridge (1992, p. 213) demonstrates, the sources and roots of their friendship were various, some of them had their roots in Cambridge, but they all lived in Bloomsbury, London. The Bloomsbury group had a key relevance to Keynes's constitution as an intellectual particularly between 1909 and 1914, particularly because in those days, the Bloomsburies were partly cultural and sexual revolutionaries. However, Skidelsky (2003, p. 197) underpins that things changed dramatically with the outburst of the First World War, when Keynes established himself as a Statesman.

mutual influence (see Skidelsky, 2003, pp. 95 and 286) and Wittgenstein (see Davis, 1996, p. 433).

Skidelsky (2003, pp. 211 and 253) points out to the changes in Keynes's ethical thought due to the outbreak of the First World War, especially after 1914, when he dedicated himself more to the activities in the British Treasury, politics and public life. Curiously, Keynes's broadly referred to this period as "early days" (CW X, 2013f, p. 445), which was around 1903 and 1904. In genealogical terms, that change cannot be attributed to war itself, but to the professional conditions and political situations that led Keynes to deal with a different reality than his previous intellectual context.

Nevertheless, Keynes's *My Early Beliefs* (CW X, 2013f, p. 442) also demonstrated some continuity issues, particularly concerning non-moral ethics. Following Moore's distinction between goodness (a state of mind) and rightness (a moral duty), Keynes stood for his early vision by claiming that he was against customary morals, conventions and traditional wisdom. About ethical sense, Keynes says:

We accepted Moore's religion, so to speak, and discarded his morals. Indeed, in my opinion, one of the greatest advantages of his religion, was that it made morals unnecessary – meaning by 'religion' one's attitude towards oneself and the ultimate and by 'morals' one's attitude towards the outside world and the intermediate. [...] There was not a very intimate connection between 'being good' and 'doing good'; and we had a feeling that there was some risk in practice the latter might interfere with the former. But religions proper, as distinct from modern 'social service' pseudo-religions, have always been of that character; and perhaps it was a sufficient offset that our religion was altogether unworldly – with wealth, power, popularity or success it had no concern whatever, they were thoroughly despised. (Keynes, CW X, 2013f, pp. 436-437).

Keynes had a clear notion of ethics that rejected the strict character of religion and moral norms. Furthermore, he clearly separated ethical sense from hedonist and Benthamite choices that involved greediness for wealth and power. In this sense, Keynes's ethical vision was much more related to an ethical conduct as ancient Greek philosophy advocated, which focused on states of mind and the good. As Skidelsky (2010, p. 131) points out, "his [Keynes's] conclusion was that the pursuit of money – what he called "love of money" – was justified only to the extent that it led to a 'good life'".

Davis (1994a, p. 77) and Carabelli (2002, p. 255) emphasize Keynes's division of ethics and morals based on his *Miscellanea Ethica* (unpublished), an ethical treatise that Keynes wrote between July and September of 1905 under the influence of G.E. Moore and Franz Brentano. For Keynes, whereas speculative ethics concerns ultimate ends and values which are intrinsically good, practical ethics are analogue to morals and judgment of value. According to Carabelli (2002, p. 255), speculative ethics is what Keynes called as his "religion", which included love, friendship, beauty, truth and knowledge among its intrinsic values.

However, one must note that Keynes did not consider those values as incompatible with the material life, as Skidelsky (2010, p. 134) demonstrates. For one to reach good life as a state of mind, Keynes believed that he/she first needed the life of actions, or to accomplish the means to achieve the good life. This included business, political, artistic and philosophical endeavors. In Skidelsky's words, "Keynes made the common-sense judgment that it is easier for people to be good [...] if they have a certain level of material comfort".

As Keynes did not consider ethics as a moral behavior, he could accept certain forms of behavior and conduct that would not represent necessarily a moral behavior. This resembles Aristotle's *Nicomachean Ethics*, which focused on *eudaimonia*, or happiness, success, virtue, fulfillment and flourishing. For Aristotle, economics and other activities in the *polis* (or civil community) such as justice, are the means to achieve a good and happy life (see Crespo, 2013, p. 106 and Aristotle, 2011, p. 270). This is essentially different than a moral normativity of do's and don'ts and a religious morality, but actually represents a more complex exercise of the individual with itself and with others during his/her whole life.

The influences of Aristotelian ethics in Keynes's thought also point out to the role of virtues as intrinsically connected to achieving a good life. In Aristotle's conception, virtues are all parts of a whole in one's soul, and he emphasizes the virtues that contribute to good relations in our associations with others (such as political virtues, justice) (2011, p. 264, interpreted by Bartlett and Collins). In a Keynesian conception, those virtues also included material endeavors (not hedonism) as the means to the good life, but this was not incompatible with an ethical conduct that appreciated the role of good actions, happiness and pleasures. The search for the good life does not represent a moral normalization of one's

behavior, but it emphasizes the actions one ought to seek in order to achieve a good, beautiful life.

Carabelli (2002, p. 256) summarizes Keynes's ethics by underpinning the organic characteristic of his thought and his concerns with the conducts of the whole life, and not just isolated events or actions. Furthermore, not only the agent's acts are relevant, but the motives, intentions and emotions. As Carabelli stresses. "Human goodness requires not just obeying certain external rules, but also forming choice, desire, passion, and attention, in a comprehensive and exacting way over the course of an entire life [...]."

In practical terms, Keynes approached the issue of good life in his 1930 essay *Economic Possibilities for Our Grandchildren* (CW IX, 2013e, pp. 321-332). There, Keynes emphasized the idea that society as a whole could only enjoy and experience leisure, culture and other universally-desired values after reaching an economic optimum, which he designated as "arts of life" or "good life". Seeking the economic optimum is the end of the economic activity and policy; hence economics (as a moral science) would supply the material conditions to reach the good life.

Keynes (CW IX, 2013e, p. 326-327) stresses the role of technological improvements and economic conditions, such as fiscal and monetary policies, to reach a better standard of life. Although he admits that technical efficiency may cause temporary unemployment, he calls it a "temporary phase of maladjustment" so in the long run the economic problem of mankind would be almost solved. Moreover, if the economic problem is not a permanent one, this means that individuals would need to work less to achieve the level of necessary income which would allow them to actually enjoy the "real values of life", such as leisure, philosophy, arts and freedom.

In a Keynesian sense of the term, economic policies in general would focus on the means for achieving the specific end of the wellbeing of the population, which would not only include pecuniary wealth as an end to itself, but justice, security and productive leisure (arts, philosophy, culture). By those specific ends one cannot classify Keynes as an anti-capitalist or as a socialist, but he indeed sought for the actual benefits that economic activity may provide us. Although he recognizes that the "love of money" is what drives capitalist activities, the abundance would make capitalism unnecessary in the long run.

As Skidelsky (2003, p. 373) points out, Keynes calculated that if capital increased at a 2 per cent rate per annum, population growth leveled off and productivity rose at 1 per cent per annum, in one hundred years the population of the civilized world would have a standard of living between four and eight times higher than in Keynes's days in the 1920s. As a consequence people would need to work less to satisfy their needs and would be able to enjoy leisure, virtues and pleasures of a good life. In this future scenario, the good would overcome the useful.

That conflict between what is good (in an ethical, qualitative sense) and what is useful (in an economic, quantitative sense) has been dominating the core discussions about economic growth and development since Keynes until our present days. Keynes demonstrates in his 1930 essay that economic activity can be used to reach the ethical ends of a good life.

However, Robert and Edward Skidelsky (2012, p. 135 and 141) draw critical conclusions by saying that Keynes rejected the possibility that capitalism in its current form might be evolving forms of the good life as it matured. Indeed, as Keynes reminded what money can potentially provide us in terms of a good life, he criticized the strict love of money. In this sense, capitalism should put the issue of ethics back in, together with appropriate policies or forms of investment that involved the arts, architecture, sports, education and other leisure activities.

One cannot ignore how Keynes's economic and political recommendations were closely linked to his philosophical and ethical standards. As his activities as an economist increased, especially after the First World War, the origins and constitution of his economic principles – such as effective demand, unemployment and his criticism to liberalism – must also be investigated from a genealogical point of view. The next sub-section focuses on the construction of some of Keynes's political and economic views from his main influences.

2.2 BUILDING AN ECONOMIC VIEW FROM CAMBRIDGE

As sub-section 2.1 emphasized, Keynes's period in Cambridge – both as an undergraduate and as a lecturer – was crucial to his development as an economist and as a Statesman. He had an active role in the Cambridge Conversazione Society, or Apostles, which influenced greatly in his philosophy and ethics, and he was a student of Alfred Marshall and Arthur Pigou, which can be considered as a “reverse

influence” in the sense that Keynes managed to use their mathematical and models language to propose his own theory and critique to his predecessors, rhetorically demonstrating their flaws.

One of the topics of this section discusses the influences of Marshall’s language to Keynes’s economic analysis, particularly Keynesian rhetoric. Although Cambridge was responsible for the significant background of Keynes’s philosophy and economics, other economists were also influential in his analyses.

In *The General Theory* Keynes used Thomas Malthus’s concept of effective demand, a choice that highlights his option for a form of economic analysis that differs from the Ricardian classic approach, as Keynes proposed in Chapter 1 of GT. The Malthusian influences in Keynes’s theory can be traced back in his concept of effective demand and in his view about the growth and size of the population in Keynes’s lecture entitled *Some Economic Consequences of a Declining Population*, which was given in the Eugenics Society in 1937 (see Keynes, 1937a).

Harcourt (2012, pp. 219-233) delimitates a school of thought called “the Cambridge approach to economics”, whose icons are traced from Malthus and Marshall until their heirs: Pigou, Keynes, Joan Robinson, Richard Kahn and Piero Sraffa. This study reconsiders Harcourt’s approach as the appropriate one to use in a Keynesian genealogy of influences, emphasizing the role of the Cambridge school of economics and its actors.

2.2.1 Academic context at Cambridge and its main contributors

Section 2.1 attempted to demonstrate Keynes’s ontology, methodology and ethics based on his intellectual background and influences, namely the work of G.E. Moore to Keynes’s view of the good and its implications for investigating reality and ethical conduct. Indeed, Keynes’s early period as an undergraduate was much influenced by philosophy, as Skidelsky (2003, p. 66-98) demonstrated extensively.

Nevertheless, Keynes did not leave the role of economics aside. He was also a pupil of Alfred Marshall in Cambridge, whose contributions to the development of economic teaching and analysis were very significant as Keynes himself argues in his *Essays in Biography* about Marshall (CW X, 2013f, p. 222): “Marshall was the first great economist *pur sang* that there ever was; the first who devoted his life to

building up the subject as a separate science". Moreover, Keynes had strong ties with other economists and intellectuals.

This section focuses on the various connections that Keynes had during his time at the University of Cambridge, particularly the decades of 1920 and 1930. We seek to delimitate who were the economists and intellectuals that may have influenced on Keynes's writing of *The General Theory* and on his broader economic views as a whole, underpinning which key concepts might be relevant for understanding his late economic and political recommendations, and their influence on the construction of a Keynesian art of government (later discussed in Chapter 3).

Following Foucault's methodological aspects of a genealogy, we shall focus on the development of the main ideas, concepts, possible conflicts and critiques that might have come from his acquaintances and influences. This means that this study does not accomplish a biographical re-appraisal of Keynes's personal and professional circle, but underpins the emergence and trajectory of concepts and influences.

Perhaps Keynes's biggest contribution to the study of economics in methodological terms was his reaction to the "classic" system of thought associated with Marshall and Pigou, particularly due to their dichotomy between real and monetary world and the causes and solutions for unemployment. As Keynes stressed, the classical economic theory was merely one special case, and could not be applied to a general analysis as the Keynesian critique once proposed.

Furthermore, Keynes was an economist of the real world, as Davidson claims (2007, p. 1-2). During Keynes's time, British Prime Minister Winston Churchill fought to preserve the British Empire through economic policies based in the 19th century classical economic theory, which had a propensity to two faults: first, a failure to provide enduring full employment; and secondly, an arbitrary and inequitable distribution of wealth and incomes (Keynes, CW VII, 2013c, pp. 372-373).

In that troubled context one of the duties of the state and other economic institutions is to be the guiding influences on the propensity to consume, on the inducement to invest and other policies that seek to diminish the side effects of capitalism (see Keynes, CW VII, 2013c, pp. 379-380). However, as Skidelsky (2003, pp. 77 and 135) and Moggridge (1992, p. 190) point out, Keynes actually changed his economic and political views through time. In November, 1903, Keynes defended free trade in a speech delivered in the Cambridge Union Society, which he repeated

seven years later in 1910, coming to the point where Keynes became secretary of the Cambridge University Free Trade Committee. By 1925 in his essay *Am I a Liberal?* Keynes acknowledged that vision as inadequate (see Keynes, CW IX, 2013e, pp. 295-306).

Cambridge's academic environment was undeniably a major influence for Keynes, in philosophical (as section 2.1 investigated), economic and political aspects, particularly connecting the last two. Skidelsky (2003, p. 77) underpins that at Keynes's undergraduate time, Marshall and other Cambridge economists believed in free-trade and economic liberalism, hence it would be natural that Keynes's first political causes had gone to that way. In fact, before the First World War that was the only political cause of the young Keynes, an issue that changed drastically through his following years as a professor at Cambridge starting in 1907, and as a statesman in the Treasury between 1914 and 1919.

Many years later, from January to May, 1931, a group of young Cambridge colleagues called Cambridge Circus gathered to discuss informally Keynes's *Treatise on Money* (2011) [1930]: Richard Kahn, James Meade, Austin and Joan Robinson and Piero Sraffa, all teachers in Cambridge except Meade (Skidelsky, 2003, p. 482). As Moggridge (2013, p. 338) stresses, practically no documentary record of their discussions remains, but it is possible to affirm that the Circus influenced on several points of *The General Theory*, such as the issue of multiplier and the relevance of short-term analyses for understanding economic problems.

Diagram 3 summarizes Keynes's strong connections and influences in Cambridge, considering his period as a young economist and a lecturer, focusing on the decades of 1920 and early 1930s:

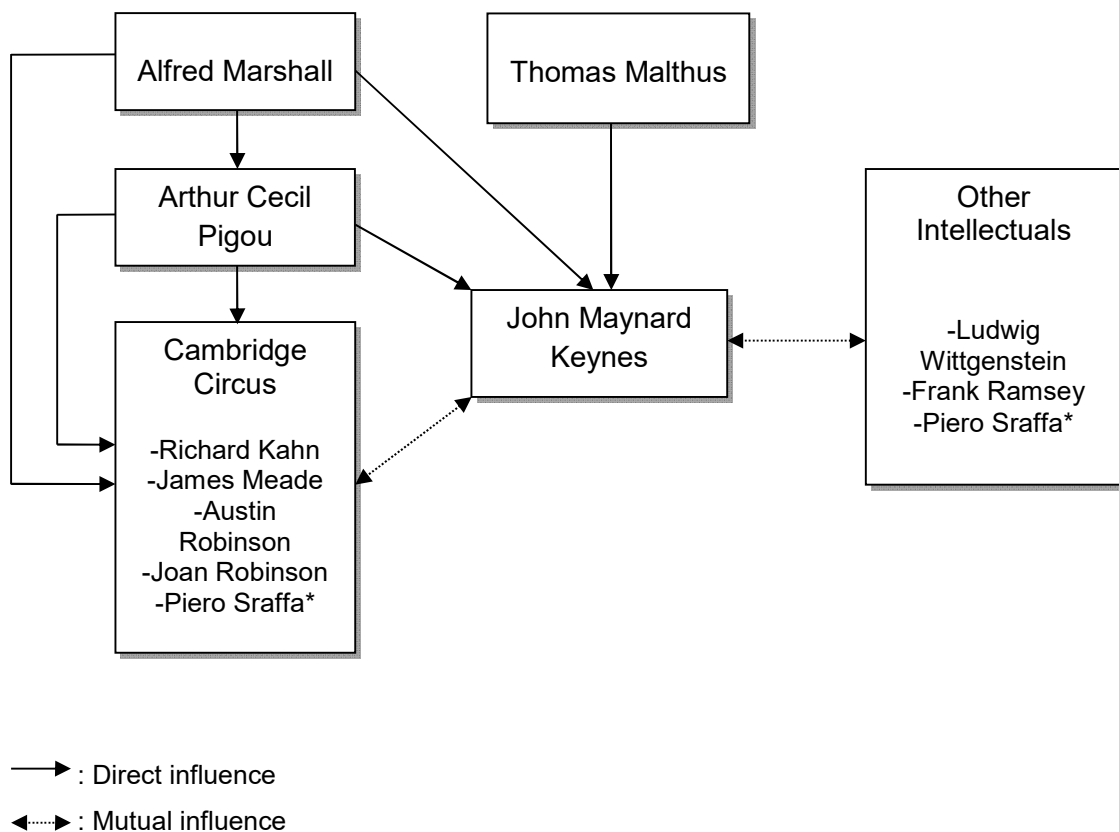


DIAGRAM 3 – Keynes's influences and intellectual inheritance in Cambridge

Source: Author's own work based on Moggridge (1992); Skidelsky (2003); Marcuzzo and Rosselli (2005) and Harcourt (2012).

(*) Moggridge (1992); Skidelsky (2003); and Marcuzzo and Rosselli (2005) mention Sraffa's participation in both social circles.

Diagram 3 exposes the direct influences of Keynes during his time in Cambridge after he returned to the academic context as a lecturer of monetary theory. Although we can say that he had direct influences from Marshall and Pigou, they actually worked as reverse influences in the sense that Keynes had been their student and was aware of their classical theories, Keynes absorbed their premises and conclusions to propose something different using their same models and rhetoric. Hence the relevance of the Cambridge Circus, which was influenced by Keynes, but also gave him intellectual support on his analyses (see Keynes, CW XIII, 2013g).

Much has been discussed about the influences of Kahn, Joan Robinson and Sraffa in Keynes's theory, particularly during his drafts of *The General Theory*.

Marcuzzo (2005, p. 20-24) underpins the role of Kahn in assisting Keynes with his analysis of aggregate supply and demand for a short period analysis of price levels, saying that Kahn was responsible for clarifying the notion of the multiplier for Keynes, as well as the importance of the short period analysis (see Harcourt and Kerr, 2009).

As Kahn, Joan Robinson also contributed to some points of *The General Theory*, later converting herself to one of the first real Keynesians by being in total agreement with Keynes's work (see Robinson, 1972, p. 4). Amongst her contributions, she questioned the equilibrium method of classical theory and improved the connections between savings, investment and their influences on output. Actually, the latter issue became part of a "Manifesto" that Robinson, Meade and Kahn wrote to Keynes (see Keynes, CW XXIX, 2013o, pp. 42-48).

The Manifesto questioned two general points of Keynes's theory. First, the possible effects of an increase in the investment level that leads to an increase in the general level of output. More specifically, Keynes's general assumption was that for the investment level to increase (ΔI), the income level ($\Delta E'$) must increase more than the expenditure level (ΔF), so that $\Delta I = \Delta E' - \Delta F$. This would suit Keynes's argument about the relevance and necessity of constant investment for an expansion of the output level $[(+)\Delta I (+)\Delta O]$. However, Robinson, Meade and Kahn point out that if an increase in the level of expenditure occurred without a correspondent increase in the level of income, this might affect the results in output, which could not necessarily enlarge.

Secondly, the Circus criticized Keynes's correlation of the investment level and the level of supply and demand. The general rule assumed that an increase in I (investment level) will lead to a rise in the demand for consumption goods, that is, the demand for consumption goods on the part of producers of capital goods will increase when the value of their output increases. But is it possible to assume that that the level of output would still increase even when there is not an increase in the level of investment?

Although Keynes's answers for those critiques indeed enlightened the reader about his premises and conclusions that differed from the classical theory, he did not seem to refashion his approach. Nevertheless, the Circus still worked as an influence for the Keynesian theory in the sense that it helped to refine and clarify many issues regarding the theories of output, investment and demand.

Keynes was not just in touch with other economists during his time in Cambridge, but also with intellectuals that shaped his political and philosophical views, such as Ludwig Wittgenstein, Frank Ramsey and Piero Sraffa – who Keynes often met in informal lunch meetings (see Skidelsky, 2003, p. 402) –. We can say that this particular connection also represented a mutual influence, where Keynes influenced on the works of Wittgenstein, Ramsey and Sraffa.

First, even though the role of Piero Sraffa was quite prominent in Keynes's context, he was more an indirect influence for Keynes's economics than Kahn's and Robinson's. Marcuzzo (2006, p. 126) says that Sraffa was neither a teacher nor a pupil in Cambridge, but Keynes had always been quite fond of him in the sense that he helped Sraffa several times as a friend and as an academic colleague.

Indeed, we cannot deny the personal connections of Keynes and Sraffa, but the contribution of Sraffa to Keynes's economic theory is quite controversial (see Harcourt and Kriesler, 2013, pp. 4-5). Some say that Sraffa was more concerned with a return to classical political economy – mainly Marxian – than with a monetary theory of production, whereas Harcourt and Kriesler (2013, p. 46) underpin Sraffa's devastating critique of Marshallian economics of supply and demand, as well as his proposal that the alternative should be a reappraisal of classical economics (more on this, see Sraffa, 1960).

Considering the Cambridge environment from a broader perspective outside pure economic influences, one should turn to the role of Frank Ramsey and Ludwig Wittgenstein as possible contributors to Keynes's works. Although Sraffa also had an influent presence in that intellectual group³⁸, where the four men often discussed issues such as probability and business cycles over lunch (see Newman, 1987, p. 42); Skidelsky, 2003, p. 402; Marion, 2005, p. 382), we shall focus on the role of Wittgenstein and Ramsey as possible influences for Keynes.

The possible convergences of Keynes's and Wittgenstein's late views was investigated by Davis (1996, pp. 433-448), but their possible connections and influences still remain rather ignored by economists and philosophers. Actually, as Davis (1996, p. 434) puts it, there may be mutual influences between the two intellectuals, but in the indirect sense of the term insofar as Wittgenstein understood little economics, and by the end of the 1920s Keynes was more interested in pure

³⁸ In his preface of *Philosophical Investigations* (2009, p. 4e) [1953] Wittgenstein thanks Ramsey and Sraffa for their invaluable contributions to his philosophical investigations.

economic issues. For instance, in a 1924 letter from Wittgenstein to Keynes, Wittgenstein thanks Keynes for sending him his new book, *The Economic Consequences of Peace*, but then he adds: “Es hat mich sehr interessiert, obwohl ich von dem Gegenstand natürlich so gut wie nichts verstehe.” [It interested me very much, although of course I understand practically nothing about the subject] (McGuinness, 2008, p. 153).

Hence we can say that Wittgenstein’s indirectly influenced Keynes in the sense that they were both part of an academic context that indeed questioned many foundations of their disciplines, namely Russellian logical atomism and Marshallian atomistic individualism. Indeed, Wittgenstein was, to say the least, a very controversial intellectual. As Davis (1996, p. 434) stresses, both of them shared a climate of ideas in Cambridge in the 1930s and were simultaneously seeking for revolutionary ideas that could transform their respective disciplines.

Following Davis’s argument (1996, pp. 438-441), it is possible to say that Keynes’s late concerns about the role of conventions and behavior were at least partly influenced by Wittgenstein’s notion of language-games, which depend on a practical interaction of individuals beyond atomist structures. In their own disciplines they analyzed the constitution and consequences of rules as social practices, and how it influenced on behavior, expectations and conventions (according to Keynes) and language and discourse (in Wittgenstein’s view).

Wittgenstein also played an important part in Keynes’s theory by criticizing Keynes’s early assumption that probability is a logical relation, shaking him out of his pre-war certainties (Skidelsky, 2003, p. 402), although the role of Frank Ramsey as a critic of Keynes’s *Treatise on Probability* was more prominent. Curiously, Keynes may have borrowed – or was influenced by, to say the least – Wittgenstein’s and Ramsey’s appraisal of the concept of vague, which they applied to formal logic. Keynes developed a new argument when analyzing something as complex as social reality, thus constructing his concept of “uncertainty” (see Coates, 2007, p. 8).

In philosophy, vague stands for intrinsically uncertain states of things, which is different than ambiguity and generality (Stanford Encyclopedia of Philosophy, 2015). In this sense, we cannot ignore the role of Wittgenstein and Ramsey as possible influences in the development and improvement in Keynes’s thought, especially the issue of uncertainty.

Frank Ramsey was a Cambridge prodigy who actively participated in several philosophical, mathematical and economic discussions with Keynes, Wittgenstein and Sraffa. Furthermore, he made important contributions to economics, such as economic growth; theories of expected utility and of decisions under uncertainty; public finance and monetary economics (see Duarte, 2009, pp. 445-446).

In Ramsey's *Truth and Probability* (1978, p. 62) [1926], he questioned the Keynesian view of probability as something objective and logical, underpinning the relevance of subjective perception and the social dimensions of intuition (see Davis, 1994a, p. 70). Considering the relevance of Ramsey's critique of Keynesian notion of intuition, Davis (1994a, p. 5) stresses how it helped Keynes to change his view about the individual and intuition in economics, thus embracing a broader notion that covers social dimensions, self-perspectives and rules of thought.

In that sense we can summarize Ramsey's positive critique as a direct contribution to Keynes's late notions of conventions and expectations, particularly under uncertainty, thus emphasizing the role of subjectivity. A possible second contribution may also be worth of attention, but it does bring up a disagreement among scholars (see Bateman, 1987). For Davis (1994a, pp. 39 and 69), Ramsey's critique may have brought up Keynes's earlier doubts about intuition and culminated in him putting aside the issue of probability as a logic and abstract analysis, later leading Keynes to turn to other topics about individuals' behavior in economic and political life.

Although briefly summarized, the main influences from the Cambridge academic environment go beyond the Cambridge School of Economics exclusively. As demonstrated above, other intellectuals such as Wittgenstein and Ramsey played an important role in Keynes's theoretical developments. The next two sub-sections focus on two of his direct influences: Alfred Marshall and Thomas Malthus.

2.2.2 Alfred Marshall and the formal language

The question whether Keynes presented himself as a Marshallian and remained or not as a Marshallian in the course of his life still dominates several academic discussions until present days. Many scholars have dedicated themselves to the subject, such as Jensen (1983); Carabelli (1991); King (2004); Leijonhufvud (2006); De Vroey (2008) and Jespersen (2009), to name a few.

Biographically, Moggridge (1992, pp. 81-85) and Skidelsky (2003, pp. 99-101 and 127-128) highlight the role of Professor Alfred Marshall as the responsible for Keynes's early economic interests. Actually, Marshall was the main responsible for launching a separate tripos (similar to a Bachelor's degree) in Economics at the University of Cambridge, thus creating a new and respectable scientific field that is separated from moral and philosophy. Accordingly, Moggridge (1992, p. 85) claims:

Marshall's mission was to establish economics as a respectable, recognised Science – a status that the old political economy had lost in the face of attacks from Comtists and historical economists, disciplinary disunity and low public esteem. This process had two important strands: institutional and theoretical. At the institutional level Marshall's efforts in Cambridge would be directed towards the recognition of economics as an independent, respectable field of study with, if necessary, its own tripos. Nationally the institutional change would come in the founding of the British Economic Association, later the Royal Economic Society, with its associated professional *Economic Journal*. At an intellectual or theoretical level, Marshall's efforts would be directed in two directions: in developing a rationale for the subject and defining its place on the map of learning which would provide the underlying consensus for day-to-day work in the field; and at providing the discipline with an authoritative statement of theoretical principles – his projected multi-volume *Principles of Economics* [...]. (Moggridge, 1992, p. 85).

For Moggridge, not only was Marshall the main responsible for creating a separate specialization for “Economics” (not Political Economy) in political terms, but he was also intellectually responsible for developing a unique rationale for economics as a science, not as a moral or a political study, which culminated in his masterpiece *Principles of Economics* (1890)³⁹. Giving Keynes's academic context between the decades of 1900 and 1930, one can see why Marshall was highly influential.

The strength of the classical theory relies in its well organized system of thought, method and doctrine, which emphasizes the “scientific” character of the theory with a well-designed rhetoric. The theoretical core of Marshallian theory involved a marginal analysis, that is, it attributed to partial equilibriums, *ceteris paribus* conditions and supply and demand schedules based on utility, prices and quantities the explanations and conclusions for economic events in the short period.

³⁹ It is worth mentioning that despite Marshall's key role in developing a scientific theory of Economics, he also had a distinguished view of economic morality and social improvement, especially on what concerns poverty. More on this, see Mattos (2014).

Methodologically, Marshall created a new science that took from physics and mathematics its main principles and methods, as well as its mechanisms. It excluded – or it did not put much emphasis on – several other items that may influence the results of economic analysis, such as behavioral, psychological, social, power and cultural aspects, which actually helped in consolidating the scientific status of Economics. Additionally, the marginalist school as a whole (which was composed by Marshall, William S. Jevons, León Walras and Carl Menger) considered macroeconomics only as an aggregative category of microeconomics and its microfoundations, such as market clearing and separate markets where employment and relative prices were determined.

As Jespersen (2009, p. 21) puts it, before Keynesian macroeconomics establish itself as a proper field of study, the notions of supply, demand and market prices of separate markets were only organized into a macroeconomic unity via the quantity equation of money and prices (or the Quantitative Theory of Money). This tradition started from the early classics, such as Smith and Ricardo, and was carried by Marshall and Pigou as the basis for policy evaluation and advice until the rise of Keynes's theory.

Keynes's economics was indeed Marshallian, as Bateman and Backhouse (2006, p. 156) define it. Keynes was a student of Alfred Marshall, and the framework within which he thought about economic problems was the one he inherited from Marshall. We cannot infer that Keynes did not depart from Marshall, which he actually did. However, in crucial aspects he remained as a Marshallian for two main reasons: first, because of his theoretical background; and secondly, because of his own form of rhetorical critique that used the Marshallian formal language and method to criticize its core assumptions. Nevertheless, Keynes managed to overcome the paradigm of Marshallian economics in the sense that he made a well-founded critique of the classical theory.

More specifically, Keynes started the construction of his "general" theory in chapter 3, where he adapted the Marshallian apparatus to the economy as a whole (Leijonhufvud, 2006, p. 64). His principle of effective demand involved a combination of intersecting aggregate supply and demand functions, constructed from Marshallian micro demand and supply functions, together with a rejection of Say's Law. On Chapter 2 of *The General Theory*, Keynes (CW VII, 2013c, pp. 4-22) presents the

classic postulates about employment, wages, prices and supply, underpinning how the classics focused on the supply-side and neglected the role of demand.

Hence we can say that, although Keynes was a product of Marshallian economics in its conceptual use and formal language, he went beyond it in the sense that he provided several new premises, contributions and critiques that constituted the school of Keynesian economics. For instance, we can point out the relevance of involuntary unemployment, liquidity preference, effective demand and the role of investments in a monetary theory of production, and how his theory presents itself as a proper background for understanding real economic problems.

Therefore we cannot ignore Marshall's influential role in the constitution of Keynesian theories. Perhaps without it Keynes would not have succeeded in the same way as he did if he had used a different form of economic language. Marshallian economics had indeed created some conditions of possibility (to use Foucault's terminology) that conditioned the rise and development of Keynesian theory, not simply because of Marshall's personal direct influence over the young Keynes, but due to its intellectual influence over the British academic scenario in the beginning of the 20th century, which determined the action of "Marshallian actors" within economics. As Keynes (CW X, 2013f, p. 224) notes, "[i]t is through his pupils, even more than his writings, that Marshall is the father of Economic Science as it exists in England to-day [sic]."

In one of Keynes's radio talks (which was later printed in *The Listener* in 1934, see Keynes, CW XIII, 2013g, pp. 487-490) he claimed he belonged to a group of "heretics" that, despite its agreement about many orthodox postulates, did not accept the classical treatment towards the rate of interest, what culminates in a unsatisfying approach about the theory of effective demand and the volume of employment. Indeed, Keynes recognizes the strength and power of the self-adjusting school, as he calls it. He says:

The strength of the self-adjusting school depends on its having behind almost the whole body of organised economic thinking and doctrine of the last hundred years. This is a formidable power. It is the product of acute minds and has persuaded and convinced the great majority of the intelligent and disinterested persons who have studied it. It has a vast prestige and a more far-reaching influence than is obvious. For it lies behind the education and the habitual modes of thought, not only for economists, but of bankers and business men and civil servants and politicians of all parties. (Keynes, CW XIII, 2013g, p. 488).

Noteworthy how Keynes stressed the power of economic orthodoxy, particularly because its rhetorical and epistemological strength that influenced intellectuals, businessmen and policy-makers. Actually, in that same talk Keynes also included himself as one who recognizes “a large part of the established body of economic doctrine” as “broadly correct” (see Keynes, CW XIII, 2013g, p. 489), but recognizes the flaws of that theory and proposes new ways of thinking outside that paradigm.

In that context when Keynes designated himself as a heretic, he made his point by saying that “[t]he heretics of today are the descendants of a long line of heretics who, overwhelmed but never extinguished, have survived as isolated groups of cranks” (Keynes, CW XIII, 2013g, p. 488). In that lineage he included among some economists of his own time – such as Gesell, Major C.H. Douglas and John Hobson – the 18th and 19th century intellectuals Mandeville and Malthus, who, according to Keynes (CW VII, 2013c, p. 370) started that critical doctrine by following their intuitions and preferred to see the truth obscurely and imperfectly rather than to maintain error.

Though we consider Keynes as a Marshallian in some aspects, particularly on the issue of formal language, one cannot ignore some influences of the 18th and 19th century classic school of economics in his ideas. Some Post-Keynesians consider Keynes an old-fashioned classical intellectual in some sense – in the sense of classical political economy’s terms – , insisting that he also gave special attention to the issue of labor as a crucial variable in his works (see Kregel, 2013, p. 46).

Indeed, Keynes did not focus on a specific critique about labor in the classical sense of analysis, such as discussing the determination of value in the way that Smith or Ricardo accomplished it. Nevertheless, Keynes agreed with a mercantilist “pre-classical doctrine” associated with John Locke and David Hume that emphasized the role of factors of production (labor, natural resources, rent) and the macroeconomic elements of accumulation, distribution and monetary theory (see Keynes, CW VII, 2013c, pp. 368-370). Actually, Keynes (CW VII, 2013c, pp. 333-334) corroborates his point of view by claiming that Marshall’s analyses had no regard for the mercantilist theory and did not mention its elements of truth, hence the importance of underpinning mercantilist notions for Keynes’s general theory.

In the last section of Chapter 23 of *The General Theory* – a chapter dedicated to the contributions of mercantilism, or the “pre-classical doctrine” – Keynes

demonstrates how that doctrine referred to one of the constituents of effective demand, that is, the inducement to invest. Albeit ignored by several intellectuals of the 17th, 18th and 19th centuries, some thinkers such as Mandeville and specially Malthus brought the notions of underconsumption and thrift back into economic discussions, despite of the lack of attention to such matters by classical economists such as Smith and Ricardo.

In the light of what Keynes's advocated as his possible influences, not only one should look at Marshall's role, but also Malthus's as determinant of Keynesian thought and method. The next sub-section focuses on the possibility of considering Keynes a part-Malthusian based on Keynes's own writings about Malthus, the issue of population and the concept of effective demand.

2.2.3 Thomas Malthus and the principle of effective demand

One can trace back the influences of Thomas Robert Malthus in many of Keynes's writings (see Keynes, 1935; 1937a; CW VII, 2013c; CW IX, 2013e; CW X, 2013f; CW XIII, 2013g). Actually, in addition to Alfred Marshall, some scholars (see Petersen, 1955; Moggridge, 1992; Kates, 1994; and Skidelsky, 2003, to name a few) often quote Malthus as the intellectual that most influenced in the construction of the Keynesian theory, reaching to the point where Skidelsky (2003, p. 462) claims that "Keynes's favourite economist was undoubtedly Thomas Malthus".

This sub-section focuses on the role of Malthus as a strong direct influence to Keynes's economic writings, particularly on the issue of the effective demand, which rejects Say's Law and underpins the dangers of a deficient effective demand for the economy.

Indeed, both of Keynes's biographers, Skidelsky (2003, p. 327) and Moggridge (1992, p. 374) claim that Keynes remained a Neo-Malthusian throughout his life in the sense that he had a "Malthusian pessimism" concerning the issue of population and its policies, emphasizing the role of population control. Moreover, John Toy's *Keynes on Population* (2000) stresses two of Keynes's papers about the issue of population that are crucial for a proper understanding of his theory. One, entitled *Population* (1914) (unpublished), and Keynes's lecture *Some Economic*

*Consequences of a Declining Population*⁴⁰, which was given in the Eugenics Society in 1937 (see Keynes, 1937a).

Kates (1994, p. 1) returns to Keynes's first contacts with the Malthusian theory. He observes that the issue of effective demand has not appeared once in Keynes's *Treatise on Money* (1930), but became a key concept in *The General Theory* a few years later. Kates attributes Keynes's interest in Malthus to his readings in 1932, mainly because Keynes was in the process of updating his essay on Malthus for including it in *Essays in Biography* (CW X, 2013f) [1933]

Keynes (1935, p. 234) claimed for Malthus "a profound economic intuition and an unusual combination of keeping an open mind to the shifting picture of experience and of constantly applying to its interpretation the principles of formal thought." Indeed, the Malthusian influences on Keynes were considerable, although we cannot simply assume that Keynes absorbed all Malthusian concepts without questioning, criticizing or rethinking them. Actually, as we can see from all of Keynes's direct influences, he has a critical connection with all of his major influences (such as Marshall and the Cambridge Circus) in the sense that he acknowledged their influences and main notions and methods, but did not apply them directly into his theory without questioning its premises and conclusions.

About the possibility of direct influence from Malthus to Keynes, Carabelli (1991, p. 119, note 3) recognizes that the methodological positions of Keynes and Malthus are commonly thought to have been similar, although this seems open to controversy. For instance, in Chapter 3 of *The General Theory* Keynes (CW VII, 2013c, pp. 32-33) recognizes the importance of Malthus's criticism to Ricardian neglect of aggregate demand functions. Nevertheless, Keynes criticized Malthus for being unable to explain clearly how and why effective demand could be deficient or excessive due to Malthus's rely on an empiricist mode of thought, which only grasped facts of common observation, and did not allow him to create a strong theory. In this sense, as Carabelli (2003, p. 209) suggests, Keynes was against inductive verifications and explanations reduced to simple generalizations.

Malthus (2011, p. 33) developed his writings on political economy to criticize Adam Smith's (and his descendants) view concerning wealth, parsimony, value and

⁴⁰ This lecture highlights some of Keynes's conclusions about the demand for capital, investments, life standards and technological changes in the case of a fall in population growth, an issue that Malthus pointed out in his writings and that had been ignored by several economists and policy-makers.

production. Indeed, Malthus brought up the issue of effective demand several times in his *Principles of Political Economy* (1836) and made important contributions to the development of demand-side analyses, although the concept of effective demand was not a Malthusian original. Actually, one can trace back the effective demand in Adam Smith's writings (see Smith, 1976a, p. 73), but Malthus (2011, pp. 113, 251, 277) is still the main classic reference to such issue inasmuch he underpinned the importance of an effective demand to ensure production, consumption and wealth. Keynes (1935, p. 233) even referred to him as "the first of the Cambridge economists".

Laidler (2006, pp. 41-42) demonstrates the dichotomy of Ricardo's and Malthus's visions concerning economic problems and adjustment, namely unemployment and social unrest. Whereas Malthus attributed those issues to a flaw in the mechanisms of economic growth that caused rapid capital accumulation and output growth to outrun the capacity of effective demand to absorb it, leading to an excess of commodities in the market, Ricardo's argument relied on interpreting unemployment as a misallocation of labor among industries, which would be solved by an adjustment of relative prices. As Keynes himself argues, the Malthusian vision lost its influential space to Ricardo's conception of relative prices and allocation, which led to an underestimation of effective demand.

Nevertheless, Keynes criticized some points of Malthus's theory for overlooking the role of the interest rate in the economy, particularly its effects when the rate falls to zero (see Keynes, CW X, 2013f, p. 102). About that criticism, Pullen (2001, p. 171) points out that Malthus never actually provided an explicit theory of interest, except for the fact that he believed interest rates would fall due to an increase on savings, thus implying that a zero or a low interest rate would stimulate the economy and lead it to a stage of full employment (see Malthus, 2011, p. 270). In this sense, if the only solution for full employment were a monetary policy that lowers the interest rate, then Keynesian fiscal policies that seek to stimulate economic activity would be useless during a recession.

Indeed, Malthus's theory did not involve a liquidity theory, nor investigated why one would hold money, thereby leaving aside a more accurate theory of the interest rate – what does not imply a complete rejection of his theory. Keynes found in Malthus's effective demand his explanation and justification for the problem of insufficient employment of resources and economic activity, thus providing a different

approach from the classical theory that assumed self-adjustment, mainly Ricardian. Furthermore, as Pasinetti (1997, p. 93) stresses, most of Keynes's analysis in Chapter 3 of *The General Theory* that presents the principle of effective demand was carried out to explain the behavior of a monetary theory of production, what demonstrates Keynes's use of a non-Ricardian alternative referential to support an economic reality where money had an active and influential use in the economy and in the agent's decision-making.

In that sense, Keynes's use of Malthusian effective demand indicated two key points that help conceiving a Keynesian genealogy of concepts and ideas. The first is Keynes's critique of the classic Marshallian and Ricardian theory that dominated the economic reasoning throughout the 19th century by using a Malthusian approach. The second is how Keynes's use of effective demand actually represented a return to a real approach in economics, focusing on the problematic elements of unemployment, conventions, expectations, unemployment, consumption and money, which were excluded or not approached correctly by the marginalists.

As for the first point we return to Leijonhufvud (1976), Boland (1985), Carabelli (1991), Davis (1994a) and Davidson (2013) to emphasize the Keynesian critique of the premises and conclusions of classical economics, particularly the issues of supply, full employment and economic adjustment. Keynes acknowledged the strength and consistency of orthodox theory (see Keynes, CW VII, 2013c, pp. xv-xvii) and relied on a classical method for presenting his theory. Nevertheless, his focus on institutional, psychological and social factors separated him from the classical approach.

Unlike classical approaches that underpinned the role of supply to encourage economic activity, Keynes could also have taken the importance of consumption to economic growth from Malthusian writings. Malthus (2011, p. 55) says: "[T]here is certainly no indirect cause of production so powerful as consumption", which implies that production does not occur if there is not a correspondent demanding force that motivates its *effective* production (see Pullen, 2001, p. 177). That premise is structurally different from a Ricardian-Marshallian theory of costs and relative prices.

Additionally, as Leijonhufvud (2006, pp. 65-66) suggests, Keynes was concerned with the real *motion* of the system in the sense that how demand would actually be "effective" in driving adaptations in the economy towards the full employment equilibrium. Hence Keynes used Malthus's conception of effective

demand and also developed two specific types of failures in effective demand: the saving-investment nexus (Keynes, CW VII, 2013c, pp. 61-63) and the multiplier (Keynes, CW VII, 2013c, p. 113). Keynes admitted that he was more sympathetic with that Malthusian approach in handling practical economic problems than with Ricardo's method because of Malthus's firm hold on what may be expected to happen in the real world (Keynes, CW X, 2013f, p. 87).

Undoubtedly, Keynes owed Malthus a great intellectual debt for the role Malthus represented as a dissident from Ricardian economic theory and method, calling him a "heretic" in the sense of a dissident. Although the Malthusian theory left several issues aside that Keynes considered crucial for a proper economic analysis – such as a more accurate look concerning the role of interest rates, money and a proper deductive method – we can consider Malthus as a direct influence for the development of Keynes's late notions, particularly those described in *The General Theory*.

Understanding Keynes's formal view about the world not only includes his thoughts and opinions about philosophy and economics, but also politics. As Keynes transformed into a Statesman after the World War I, we cannot avoid a comparison of the Keynesian view with the early 20th century liberal view, mainly because its utter dominance of the public sphere.

If a genealogy also comprehends analyzing influences, discourses and practices from a "reverse" point of view, a proper understanding of Keynes's political view would not be complete without building a parallel between Keynes "middle-way" and Hayek's liberal individualism that rejected the economic role of the State. The next sub-section focuses on that discussion.

2.3 THE LIBERAL CRITIQUE AND THE KEYNES-HAYEK DEBATE

Thinking about Keynes's political view demands an accurate investigation regarding his social context and professional evolution. Skidelsky (2003, p. 73 and 77) stresses that, as an undergraduate, Keynes was not particularly interested in politics as he was in philosophy and formal logic, but his interests changed after the First World War. For instance, in Keynes's *Essays in Persuasion* (CW IX, 2013e) [1931], we can see that he dedicated himself to discuss several political issues during the late 1920s and early 1930s.

Following Skidelsky's terminology (2010, p. 152), we can say that Keynes's view about the world offered both a "new way" and a "middle way". The new way refers to his macroeconomic theory, which identified the problems in an insufficient aggregate demand to solve the 1929 economic crisis. The middle way represented his political view that deviated both from Marxism and Liberalism, in which Keynes attempted to propose a social philosophy that would be a compromise between capital and labor, thus rejecting socialist forms of total control, liberal *laissez-faire* and individualism.

For Keynes (CW IX, 2013e, p. 285), socialism has lost its capacity to deal with real current problems due to its ideological dependence. Furthermore, it is noteworthy that Keynes does not separate socialism and liberalism in two complete opposites, but actually claims that both socialism and liberalism emerged from the same historical and theoretical origins (or "conditions of possibility"), thus emphasizing their acceptance or denial of the utilitarian character. Accordingly, he stresses:

Nineteenth-century State Socialism sprang from Bentham, free competition, etc., and is in some respects a clearer [...] version of the same philosophy as underlies nineteenth-century individualism. Both equally laid all their stress on freedom, the one negatively to avoid limitations on existing freedom, the other positively to destroy natural or acquired monopolies. They are different reactions to the same intellectual atmosphere. (Keynes, CW IX, 2013e, p. 291).

Keynes's middle way diverged from complete socialist planned intervention and from egoistic/individualistic liberalism, which put him in a very peculiar political position in his time. More specifically, we can define his middle way as a "social philosophy" that conceived politics, economics and society as three institutional spheres that worked together and contributed mutually from an ethical (not moral) sense of action.

The divergences between Keynes and liberalism deserve a careful explanation. In political terms, Keynes was indeed a liberal, as he explained in his 1925 essay entitled *Am I a Liberal?* (CW IX, 2013e, pp. 295-306). Nevertheless, economically speaking, he cannot be considered a liberal due to his rejection of core liberal ideas: methodological individualism; economic action based on the idea of self-adjustment; and limit the State to political and juridical issues.

It is in this sense that comparing Keynes to Friedrich Hayek's liberalism contributes to a better understanding of Keynes's political view in terms of economic and public action. Hayek was an Austrian economist of the Austrian Institute for Business Cycle Research that later joined the London School of Economics (LSE) faculty in 1931 under the influence of Lionel Robbins. Hayek contributed greatly to the rise and consolidation of the Austrian School in economics, especially regarding business cycles and liberal political theory.

Historiographers of economics describe that Keynes and Hayek exchanged several letters between 1927 and 1944 (see Ingrao, 2005), besides writing journal articles, newspaper notes and book reviews commenting and replying each of their works. Following Foucault's analytical method of genealogy, we can consider Hayek both as a discontinuous and reverse influence for the growth and development of Keynes's thought.

First, as a discontinuous influence because one cannot simply consider the traditional discourses and schools of thought as the only ones that were relevant for the construction of Keynes's theory, such as Malthusian and Marshallian economics. Secondly, as a reverse influence because inasmuch as Hayek represented the opposite of Keynesian thought, Keynes had to deal with Hayek's criticism and thereby create a strong, consistent theory. Therefore we must also emphasize the role of other possible indirect traditions in the constitution of a theory, which broadens our perspective about the rise and strength of an argument.

The next three sub-sections present some central points to understand Keynes's critique of liberalism and the necessity for governmental action in the shadow of Hayek's theory of spontaneous order and State limitation. The reason why those issues are crucial to our study relies on the fact that approaching Keynes's thought and recommendations from a reverse and discontinuous point of view may shed some light about the constitution of a Keynesian art of government and how it conceived interventions that affected the population and the economy, thereby indicating its policies and possible power relations.

2.3.1 Keynes's middle way and the critique of economic liberalism

Keynes was a liberal, but not in the traditional, economic sense of the term. He believed in the liberal view of doing politics and had an open mind to many social

issues, but he criticized economic liberalism and its assumption to reject state intervention, especially in times of economic crises. Keynes addressed a direct critique to *laissez-faire* liberalism and to Russian communism in four of his *Essays in Persuasion* (CW IX, 2013e), which constituted a separate section entitled “Politics”: *A Short View of Russia* [1925]; *The End of Laissez-Faire* [1926]; *Am I a Liberal?* [1925]; and *Liberalism and Labor* [1926].

In the second essay⁴¹ (see Keynes, 1926), Keynes investigated the origins and metaphysical foundations of the idea of *laissez-faire* liberalism, which he attributed to an intellectual agreement in the 18th and 19th century concerning the ideas of “natural liberty” of economic activities and “enlightened” self-interest. It is noteworthy that, for Keynes, those philosophical ideas accorded with the practical notions of conservative politicians and lawyers in the sense that they provided a satisfactory intellectual foundation to the rights of property and to the liberty of individuals to act freely. That is the reason why liberal ideas became so popular and effective in the 18th and 19th centuries.

Furthermore, in historical terms, *laissez-faire* and individualism emerged as a suitable ideology for that particular time and place. For instance, Keynes (1926, pp. 2 and 8) emphasizes how 18th century governments were corrupt and incompetent, besides stressing that from 1750 to 1850 material progress came largely from individual initiative and private enterprises, what endorsed individualism and *laissez-faire* as an acceptable philosophy for business, conservative men.

Nevertheless, when looking to the economic thought, Keynes deconstructs some myths about associating British classical political economy to markets deregulation. Quoting Keynes (1926, p. 4): “The phrase of *laissez-faire* is not to be found in the works of Adam Smith, of Ricardo, or of Malthus. Even the idea is not present in a dogmatic form in any of these authors.” Actually, aside from French physiocrats, only Jeremy Bentham mentioned the idea of *laissez-faire* in his late writings, but presenting it from his Utilitarian perspective that affected social and economic life in an intense way (Keynes, 1926, p. 4).

Economists played an active role in spreading the notion of *laissez-faire* to the public arena during the end of the 19th century, which demonstrated a narrow

⁴¹ Keynes’s *Essays on Persuasion* (CW IX, 2013e) [1931] published a different (and shorter) version of *The End of Laissez-Faire*, which excluded the three first sections of the original version of the pamphlet, published by Hogarth Press in July, 1926.

connection between the theoretical field of ideas and the public, practical sphere of public policies. Keynes (1926, p. 7) mentions two ideological assumptions that transcended from the ideological context of *laissez-faire* to the practical world of norms and rules: first, that individualism and self-interest led to a social selection norm that there must be no mercy or protection for those who were bankrupt or less efficient; secondly, how *laissez-faire* led to the institutionalization of the love for money in the sense that liberalism created a necessity for unlimited private money-making and enabled a system that put first those skillful or fortunate individuals.

Keynes criticized this form of individualistic capitalism. In his third essay *Am I a Liberal?* (CW IX, 2013e, pp. 295-306) [1925], he stresses his concerns with a liberal program not in the historic sense of the analysis, but how it affects current political and economic issues pragmatically. Interestingly, Keynes returned to Bentham's nomenclature of a political *Agenda* (see Bentham, 1843, vol. 3) to describe where the State should and should not interfere⁴². Keynes advocated that the ideal size for the unit of control and organization is somewhere in between the individual and the State: on semi-autonomous bodies within the State that use the criteria of public good as their guide of action, such as Universities or Central Banks. In this sense, Keynes's "middle way" proposal did not exclude the individual nor the institution of the State (see Keynes, CW IX, 2013e, p. 288-289).

Although not making this point clear, Keynes indicates that what he called as a "self-adjusting" economic approach (see Keynes, CW VII, 2013c, p. 339) actually had some issues in common with the *laissez-faire* ideology. His critique is similar to both approaches in the sense that they insisted on the role of market forces to solve economic problems and maladjustments, besides leaving economic institutions on their own without a proper control. Actually, Keynes's critique of economic thought and discourse has two main targets: Say's Law, whose approach denied the role of

⁴² According to Bentham's *agenda*, he defines it: "What the legislator and the minister of the interior have it in their power to do towards increase either of wealth or population, is as nothing in comparison with what is done of course, and without thinking of it, by the judge, and his assistant the minister of police. The cases in which, and the measures by which, the common end may be promoted by the hands of government, may be termed *agenda*. With the view of causing an increase to take place in the mass of national wealth, or with a view to increase of the means either of subsistence or enjoyment, without some special reason, the general rule is, that nothing ought to be done or attempted by government. The motto, or watchword of government, on these occasions, ought to be—Be quiet". (Bentham, 1843, original highlights).

demand as a relevant economic force, and Benthamian Utilitarianism, which sought to limit the actions of the State.

Keynes's philosophical thought influenced on the rationale of his policy proposals in two possible ways: the need for rules in policy-making under uncertainty; and the ethical end of politics.

As for the first element, Keynes defended that in face of risk and uncertainty the government should act to promote social contentment that not only involved strict political and economic tools, but broader social actions including the expansion of schools and universities, leisure centers for the population and supporting the arts.

As Davidson (2003, p. 228) claims, under uncertainty a *laissez-faire* market system cannot ensure an effective level of aggregate demand that makes profitable for firms to employ fully. In this case it is highly unlikely that, in the absence of active government policy, full employment can be achieved. Hence governments should act as a guide to economic activity both directly and indirectly: directly in the sense that governments can actually act as an economic entity that hires employees and controls capital flows via fiscal policies and investments; and indirectly in the sense that the state may affect economic reality via monetary policy, interest rates, taxes and international trade that result in incentives to production and employment (see Keynes, 2013j, CW XX, p. 328).

Secondly, politics for Keynes represented a form of practical ethics. As mentioned before in section 2.1.3, Keynesian politics did not rule out ethics. On the contrary, politics was a branch of practical ethics for Keynes insofar as it was the science of how governments should act and behave (see Skidelsky, 2010, p. 155). Accordingly, Keynes also criticized liberalism from an ethical point of view in the sense that he rejected the ideology of private money-making as an end and the love of money. In fact, both politics and economics were practical means of action to achieve the ethical end of good life in the sense that it was the government's duty to facilitate the pursuit of such goods by members of the community. For that, society demands a coordinated action of institutions that have that specific end of social contentment.

Skidelsky (1989, p. 151) and Davis (1994a, p. 158) underpin Keynes's growing interest in fostering the development of a persuasive public-spiritedness in economic life, which overcame a traditional political expansion of the state. We can see that when he advocated that self-autonomous bodies should be encouraged by state

action, he also included the social role of universities, leisure centers and the arts (see Keynes, CW XXVII, 2013m, p. 270), reaching a point where he also considered sex, population and drug issues as a relevant agenda (see Keynes, CW IX, 2013e, p. 301).

If we could summarize Keynes's view of the role of the state, Peacock's (1993, p. 15) classifies Keynes as an *end-state liberal* in the sense that he saw the state as a crucial institution for expanding confidence, promoting public policies and achieving its social ends – particularly under contexts of high uncertainty –, but he remained a “liberal” in an ethical-philosophical sense that diverged from contractarian liberals (such as Locke or Rousseau). For Peacock (1993, p. 26) Keynes's liberalism might have seemed “naïve” for contractarian liberals, whose assumptions put great weight on institutions that assure equal political rights and legal recognition. Actually, Keynes was more pragmatic as he considered ethics and the power of ideas as the great persuasive forces for practical governmental action. He did not seek to understand the formal means of the state legally and politically speaking, but he focused on real economic and political concerns of a historical period in which the state had a crucial role for promoting economic and social solutions, hence an *end-state liberal*.

Nevertheless, one cannot ignore the critics of Keynesian theory and economic policies that emerged in the decades of 1920 and 1930, particularly from free-market liberal economists. At that time, we could point out the London School of Economics (LSE) as a liberal *locus* that diverged from the Cambridge school of economics (for this terminology, see Harcourt and Kerr, 2009), particularly because of its free-market and individualistic notion that derived from Lionel Robbins and Friedrich Hayek.

Conceptualizing Keynes's arguments from a reverse perspective reinforces the strength and persuasion of his arguments, especially in that particular of a liberal critique. The Keynes-Hayek debate suits this reverse approach well in the sense that we can grasp Keynes's arguments about the need of state intervention in economics from a clear, critical point of view when replying to Hayek. For that, the next subsection focuses on Hayek's liberal arguments and the defense for a spontaneous order, followed by a presentation of their intellectual debate about the limits of state action.

2.3.2 Hayek's individualism and spontaneous order

As mentioned in Chapter 1, Hayek was a major influence for the 20th century schools of liberal economic thought, especially the Austrian school of economics, besides influencing some emerging principles of German ordoliberalism and American neoliberalism. Hayek was an important part of neoliberal think-tanks: the Walter Lippmann Colloquium in 1938 and the Mont Pèlerin Society in 1947 (see Plehwe and Mirowski, 2009). Furthermore, he was a key influence to nascent forms of neoliberal thought in Great Britain (as a lecturer of the London School of Economics) and in the United States (as a member of the University of Chicago), both notably known for its liberal influence.

Hayek developed a unique economic theory in the sense that he approached two domains of expertise: business cycles and political economic theory. This section presents some important insights of his political and economic philosophy, focusing on his defense of economic freedom from a libertarian point of view and his thoughts about the existence of the state and government intervention through the Rule of Law. One of Hayek's famous works is *The Road to Serfdom* (2001) [1944], which analyzes the possibilities and risks of emerging totalitarian regimes from government control and centralized decision-making, particularly because it suppresses the individual and its intrinsic freedom. He directed his critique to totalitarian regimes, such as communism, and to intervener modes of governance, such as Keynesian economic and social policies.

Regarding Hayek's theoretical background and political proposals, he was not a *laissez-faire* economist in the classical sense of the term that presupposed free trade. Actually, as Feser (2006, p. 6) argues, Hayek did not believe in free trade and self-interest as feasible economic principles. Indeed, Hayek was careful not to identify economic liberalism with *laissez-faire*, a mistake made by 19th century liberals. For instance, if one takes Bentham's utilitarian thoughts about the state, one will see a theory that defends a self-limitation of state action, whose core action relies on "doing nothing".

On the contrary, as Skidelsky (2006, p. 100) stresses, Hayek did not defend an exclusion or the rejection of state action. Actually, he saw the need of the state for multiple purposes, including the provision and enforcement of a legal framework for competition. More specifically, governments should guarantee a liberal order through

fixed rules to entrench economic liberalism intentionally. This is essentially different from a *laissez-faire* approach that defends the rejection of governmental action.

Following that perspective about the role of the state, Hayek also influenced the ordoliberal notion about a prominent role of the state in establishing and securing a capitalist market economy as presented in Chapter 1. Ordoliberals sought a specific type of state interventionism that went in the same direction of the market's laws, securing an institutional frame of the state that differed from *laissez-faire* (see Hartwich, 2009, p. 14).

The conception of Hayekian liberalism is a response to socialism and centralized forms of government, mainly because socialism is incompatible with individual freedom, which is a central feature for Hayek's theory (see Kukathas, 2006, p. 183). True individualism, for Hayek (1948, p. 4), emerged with John Locke, Bernard Mandeville and David Hume, and it was later improved by Adam Smith and Edmund Burke. Hayek considers individualism⁴³ a theory of society in which one presupposes the individual as the first ontological instance to understand the social processes. As Hayek (1948, p. 6) claims: "there is no other way toward an understanding of social phenomena but through our understanding of individual actions directed toward other people and guided by their expected behavior."

Without conceptualizing the individual, it would be impossible to understand our social dynamics. Individualism provides conditions of possibility to the constitution of spontaneous social events, which are the basis of Hayek's economic and political principles. With individualism also comes a limitation for coercive and interventionist powers, thus representing the Hayekian solution to avoid totalitarian powers in the sense that the state should only interfere through the principle of law. Therefore, Hayek's two main political principles that involve state action were based on spontaneous order and the Rule of Law.

First, Hayek considered the principle of spontaneous order as the basis for his libertarian system. For him (1982, p. 36-37), one can conceive the notion of "order" in two complete different senses: as an authoritarian, artificial, exogenously created system; or as a free, self-generating, endogenous force, such as the market force. Actually, he compared the latter form of order to a biological system that emerged

⁴³ It is noteworthy to point out Hayek's clear distinction of what he considers "true individualism" from other individualistic approaches. The first arose with the British tradition of Locke, Hume, Smith and Burke; whereas the latter emerged from Descartes and the French tradition (more on this, see Hayek, 1948, p. 11).

from natural forces: “[a]ll that is necessary to preserve such an abstract order is that a certain structure of relationships be maintained, or that elements of a certain kind (...) continue to be related in a certain manner.” (Hayek, 1982, p. 39). Therefore, a spontaneous order is a product of forces or systems that interact (such as human), but are not created from a pre-calculated and intended design.

Given that an order does not emerge with a specific purpose, but from a spontaneous process, institutions should not change its nature. This is why Hayek believed that society should rely on that principle of spontaneous order to limit the powers to control: those forms of control are created by society, which are not as effective as those institutions that emerge spontaneously. Hence in social contexts the economic order of the market would suit better the arrangements and organization of public action than an “artificial” governmental action over the economy.

Despite that rejection of direct state intervention on markets, Hayekian theory relied on the state to ensure that the spontaneous forces would be respected by society and individuals. Hayek (1990, p. 108) emphasized the role of the state and other formal institutions in freeing the spontaneous forces of the economic system, such as assuring that the market competition system has its necessary conditions to function well. This liberal approach did not assume a natural force that would drive and select the individual interests, but rather there should be an institutional framework to enable that process (Boettke and Leeson, 2009, p. 448).

Although Hayek is against the neoclassical premises of perfect competition theory and competitive equilibrium (see Hayek, 1948, pp. 95-96), he believed that competition is a natural force of the market, and therefore it should not be suppressed. Actually, Hayek’s thoughts about competition start from the context of individual behavior, which emphasized Hayek’s methodological individualism. He assumed the notion of enterprise to understand the decisions and actions of economic agents (see Hayek, 1948, pp. 96-97), in which the entrepreneur is the driving force of the market process that ensures the good functioning of the economy.

In order for the entrepreneur to carry out his decisions and activities, he/she must rely on an institutional basis that ensures the rules of the market. Hayek underpins the necessity of rules and principles for a proper intervention of the state in the economy, and this demands a critical analysis of his political view.

First, Hayek (1990, p. 10) links the issues of spontaneous order of the market and rules of law. Considering his theory of how that specific order emerges – it is not the result of a miracle, but a combination of unintended rules of conduct that constituted a system of repeated activities – the rules created with the aim of regulating the market order should actually improve and maintain the order, without annulling its influences and forces.

We can define the Rule of Law as the rules of the game, or the fixed rules that are announced beforehand that enable individuals to foresee the actions of the government. For Hayek, a liberal society demands the Rule of Law and justice to delimit the scope of individual freedom. Or, as Kukathas (2006, p. 185) affirms, “liberalism upholds the idea of a free society in which individual conduct is regulated by rules of justice so that each may pursue his own ends or purposes in peace”.

In *The Road to Serfdom* (2001, p. 75-76) Hayek claims the Rule of Law is what distinguishes free countries from totalitarian regimes. If a state only governs through the instrument of law, it avoids arbitrary decisions from statesmen and certain groups of power. In the case of the economy, governments should fix the laws that determine the conditions under which the available resources may be used, leaving to the individuals the decision for what ends they are to be used. Accordingly, economic planning should be avoided because it is unable to provide as many desired results as a free economy.

Shearmur (2006, p. 149-150) points out the essential difference between Hayek’s conception of the Rule of Law – understood in the Kantian *Rechtsstaat* tradition that takes into account a permanent, peaceful life as the basic condition for the happiness of people – and the contemporary Anglo-American jurisprudence. Hayek’s understanding was a moralized theory of the jurisprudence that should act according to universal principles of liberty. It was not enough that the law had retrospective and universal principles, but it also had to demonstrate an ethical character in the sense that it should protect individual freedom and the good functioning of competition and markets.

Thus we can define the limits of governmental action in the Hayekian conception as a recommendation that does not exclude the state, but imposes some rules of action. Quoting Hayek:

The basic principle of the liberal tradition, that all the coercive action of government must be limited to the enforcement of general rules of just

conduct, does not preclude government from rendering many other services for which, except for raising the necessary finance, it need not rely on coercion. (Hayek, 1990, p. 111).

For Hayek, keeping the state from acting coercively does not restrain it from providing some services and designing laws for individuals under certain conditions, such as supplying services that otherwise would not be supplied at all. In that sense, Hayek (1990, p. 111 and 2011, pp. 329-335) establishes an agenda that defines three principles in which government services are compatible with his liberal principles, as long as:

- 1) Government does not claim a monopoly for providing services, such as social insurance, and/or does not restrain the market to provide them;
- 2) the means are raised by taxation on uniform principles, and taxation is not used as an instrument for the distribution of income;
- 3) The wants satisfied are collective wants of the community as a whole and not merely wants of particular groups of interest.

Hayek's agenda to the state excluded the possibility of governments creating monopolies or other means that could interfere in markets or economic competition. Moreover, it disregarded the use of public means to promote income distribution and to promote group interests that did not coincide with collective interest. For Hayek, the state must not interfere in the economic agenda (inequality, earnings, prices, consumption patterns) as a mean to achieve social ends. In this case, the state should only interfere through legal-formal terms, thus defining a framework within which economic agents can make their own decisions freely.

For some Hayekian studios, such as Caldwell (2010, p. 9), Hayek's early political arguments were not against the welfare state and welfare policies, but against socialist modes of governance. In the *Road to Serfdom*, Hayek criticized economic planning, which he understood as a regime of nationalization of the means of production – which is something different from the welfare state. Nevertheless, in his later works (see Hayek, 2011, pp. 374-376) he also pointed out the dangers of transforming the welfare state in a coercive and controlling system that restricts our liberties, only more slowly.

As Caldwell (2010, p. 13) puts it, Hayek had a fear of the gradual encroachments of the welfare state in the economy and society, especially under the argument of social justice as a justification for interventions in the economy. Under the Hayekian logic, those arguments favoring social justice and income distribution may actually reflect the interests of some groups, and not the society as a whole. In this sense, welfare policies could present adverse results that sometimes do not promote real, collective welfare for all social spheres.

The ideological and theoretical differences between Hayek and Keynes about involving politics and economic policies are striking, despite their shared epistemological position about the nature and effects of uncertainty (see Skidelsky, 2010, p. 159). Their intellectual debate between 1927 and 1944 demands a separate investigation, underpinning their arguments about the limits of state action concerning monetary, fiscal and social policies.

2.3.3 Limits of state action: a Keynesian reply to Hayek

The intellectual clash⁴⁴ between Keynes and Hayek has dominated several academic and nonacademic publications, particularly after the 2008 economic crises when Keynesianism re-arose as an alternative to neoliberalism and markets superiority (for instance, see Shearmur, 1997; Cochran and Glahe, 1999; Steele, 2001; Ingrao, 2005; Skidelsky, 2006; Wapshott, 2011 to name a few). Keynes's and Hayek's views about the state and their prescriptions toward economic policies became increasingly popular insofar as they led to a broader debate concerning the limits of state action, power relations, public participation in the economy and individual liberty.

Indeed, re-analyzing their main arguments about governmental intervention; the nature of economic problems; and their possible solutions demands a critical reading of their original manuscripts in the light of their debate. As Steele (2001, p. 12-14) stresses, their controversy was not just about the political interventions of the state, but also about other issues that involved the role of money and monetary policy, inflation, interest rates and investment levels.

⁴⁴ It is noteworthy that, despite their differences, Keynes and Hayek shared a mutual opponent: Walrasian General Equilibrium Theory (cf. Skaggs, 2014).

Taking primary sources of their debate into account, Ingraio (2005, p. 237-239) establishes three main periods to investigate the correspondence between Keynes and Hayek: the first, between 1927-1929, which are of mainly biographical interest; the second, between 1931-1932, which addressed their main theoretical observations and critiques in private letters and public notes; and the third group, between 1933-1935, which handled broader issues such as social contacts and academic affairs.

Besides their correspondence, their public comments and notes on economic journals and newspapers are also worth of analysis, such as their public letter exchange in *The Times* in October, 1932⁴⁵, and their mutual book reviews, such as Hayek's 1931 review of Keynes's *Treatise on Money* and Keynes's reply (see Hayek, 1995, pp. 121-146) and Keynes's review of Hayek's *The Road to Serfdom* in 1944 (see Wapshott, 2011, pp. 198-200).

This section aims to present the main arguments that constituted Keynes's reply to Hayek's critique, focusing mainly on the limits of state action. More specifically, we turn to the arguments Keynes used to confront Hayek in regard to the following topics: (1) economic dynamics and the nature of economic problems; (2) to what extent should governments act to solve or to minimize them, and how to do so; (3) the ethical limits of state action towards the individual or the collective.

Focusing on the first element about economic dynamics and reality, it is noteworthy that both economists had a similar epistemological perspective about the existence of uncertainty in reality, particularly in the economic context (Skidelsky, 2010, p. 159). Whereas Hayek was more concerned about governmental uncertainty – and its incapacity to know exactly what society needs –, Keynes focused on the harmful economic effects of uncertainty, and how governments could act as a direct collective leader that should take precautions against it.

Hayek believed in the perspective of business cycles as a consistent theory to describe economic reality. For him, understanding the cycles demanded an “equilibrium theory” perspective in which economic dynamics would work from a self-adjusting process in the forces of supply and demand in a free market until they are equalized (Caldwell, 1995, p. 14). Although Hayek did not see money as completely neutral, he saw money as a limited element in the economy in the sense that he

⁴⁵ Original scan retrieved from:
http://austrianeconomists.typepad.com/files/cambridge_vs._lse_1932.pdf (accessed 19 May, 2015).

defended a neutral and stable money supply (thereby a limited monetary policy and gold standard), emphasizing other elements such as prices and interest rates (see Hayek, 1967, p. 131). Hayek was much influenced by Swedish economist Knut Wicksell, which assumed the price mechanism and the rate of interest as coordinators of economic activity that guide decisions to consume, to loan money and to invest, which affects savings and investments.

Both central banks and household consumption decisions can affect the cycle. An increase in household savings for future consumption lowers the interest rates in the present and pushes credit up, probably led by a change in intertemporal consumption plans. This causes an increase in credit supply, what induces firms to borrow with lower interest rates. With that newly created purchasing power, firms begin to lengthen their processes of production by taking into account only the future levels of consumption, forcing consumers to reduce their real desired consumption level at the present. This unmet demand for current consumption goods pushes the prices up, leading to higher market interest rates (see Hayek, 1967, pp. 62-65).

Similarly, if central banks inject newly created money in the economy, banks expand credit and cause a lowering in the market interest rate. However, in this case there is not an actual change in time preferences. When banks expand credit they induce higher levels of spending in the present, such as consumption, investments and loans, which leads to an unbalance between savings and investment and to a boom in the economy. The Hayekian (1967, pp. 90-93) solution is a “neutral” monetary policy that equals savings and investment levels again through an increase on the interest rates, not money expansion.

Keynes had a different thought from Hayek’s conception of economic reality. Keynes investigated a monetary theory of production in which money represents a non-neutral asset that influences individual and collective economic decisions and liquidity preferences. Additionally, Keynes saw a prominent role of non-economic elements and their possible effects in the economy, such as expectations, ontological uncertainty, social conventions and the role of confidence.

Keynes’s revival of the Malthusian notion of effective demand demonstrated how prior capitalist decision-making to invest affects current levels of employment, wages, prices and consumption in the sense that today’s expectations of what will happen in the future are crucial to what indeed will occur in economic reality. This is

why the role of the state is important for economic activity and recovery in times of a crisis – it acts as a guider of expectations and as a direct economic agent.

The 1929 crash can offer us a better understanding of Hayek's and Keynes's view of economic problems and the limits and the ways of state action to solve these issues. Indeed, they both offered divergent diagnoses about its causes (see Caldwell, 1995, pp. 16-17 and Steele, 2001, pp. 10-20): whereas Hayek believed that low interest rates caused low savings level and overinvestment in securities and real estate, leading to a boom and later to a bust, Keynes attributed the crisis to negative expectations of future profits from investors, leading to low levels of consumption and underinvestment. If a fall in consumption appears to be long-term, businessmen will lower their expectations to invest and to hire, causing an aggregate demand crisis.

As for the second topic that confronts Keynes's and Hayek's views about the limits of state action in the economy, the Great Depression offers a historical case study to enlighten their thoughts and proposals. Due to their different backgrounds and temperaments (for that terminology, see Skidelsky, 2006, p. 83), they presented opposite views of how to solve the crisis, besides conceiving economic agents and institutions in very divergent ways. As Backhouse (2006b, p. 35) summarizes, whereas Keynes argued that interest rate policy and public works expenditure (and at one stage even tariffs to protect industry) could be used to alleviate depression and to promote recovery, Hayek considered these precisely the opposite of what was required. Actually, for Hayek they would only serve to prolong an expansion that was unsustainable and was bound, eventually, to collapse. To follow such a course would not just postpone something that was inevitable: the longer the maladjustment continued, the worse would be the ensuing crisis.

Hayek and Keynes had different thoughts about procedural economic means that originated from different views about economic reality, institutions and agents. As Skidelsky (2006 p. 86) points out, they were both liberals and understood economics from their previous philosophical trainings, thus believing in the power of ideas, but they diverged on practical terms on how to achieve their goals.

For instance, Hayek's biggest critiques to the Keynesian theory included the attempts to stimulate the economy through injections of money and governmental intervention as an economic subject, which would only prolong the crisis. Accordingly, fomenting consumption demand would also be ineffective as a solution

to the crisis. Inasmuch consumption was an intrinsic characteristic of Hayek's business cycle, it should not be artificially stimulated through temporary policies.

In their letter exchange for *The Times* (October, 1932), they diverged about the motives of economic activity; more specifically, the role of spending, savings and private investments in that troubled economic scenario. Hayek's (and his LSE colleagues) first comment on October 10th defended a rise in savings and the relevance of private investments as the solution for the crisis, which indicated a direct defense for liberalizing policies that involved free trade, fluctuating prices and private investments.

In Keynes's (and his Cambridge and Oxford associates) reply on October 17th, they stressed the potential dangers of an increase in savings level, particularly because savings tend not to be spent on production or consumption goods during a recessive context, thus emphasizing the economic role of consumption for aggregate demand. Indeed, Keynes's comment derives from his core theoretical difference between savings and investment because of their magnitude and secondary economic impacts (albeit they are equal in amount, their nature and economic impacts are different). Furthermore, his comments underpin the problems of encouraging private investments without adequate policies: a depressive scenario blocks private investments due to lack of confidence and pessimistic expectations, thus resulting in no real stimulus for the economy to recover.

It is possible to investigate how each intellectual conceived the existence and the active role of the state as a policy-maker from their proposals and possible answers to the crisis. As noted in Hayek's writings in section 2.3.2, he did not reject the existence or the legitimacy of governmental intervention. Nevertheless, Hayek thought about the state not as an active economic subject, but rather as rule-maker that contributes indirectly to economic actions. For instance, in Hayek's reply to Keynes's letter on October 19th, he affirms:

If the Government wish to help revival, the right way for them to proceed is, not to revert to their old habits of lavish expenditure, but to abolish those restrictions on trade and the free movement of capital (including restrictions on new issues) which are at present impeding even the beginning of recovery. (Hayek, 1932).

Hayek believed in the role of private investments as the way to get out of the crisis: "We, on the contrary, believe that one of the main difficulties of the world to-

day [sic] is a deficiency of investment – a depression of the industries making for capital extension, rather than of the industries making directly for consumption.” (Hayek, 1932). Together with stimulus to private investments, Hayek and his LSE associates suggested a formal role of the state in the sense of creating and imposing rules and conditions to stimulate those private investments, rather than being economically active and increasing public expenditure.

Two years before, in 1930, Keynes presented his economic policies in an attempt to mitigate the effects of the crisis. In his essay *The Great Slump of 1930* (see Keynes, CW IX, 2013e), as well as in several of his letters to British statesmen and public radio broadcasts (see Keynes, CW XX, 2013j, pp. 312-401), he discussed unemployment and social policies, industrial incentives, international financial assistance and foreign trade. For Keynes, the biggest issue of that moment was the lack of investment and enterprise at home, together with an expansion of investments abroad, leading to a loss of gold, higher interest rates and credit reduction. Consequently, this discouraged investment and enterprise at home, causing unemployment and low profits. As a solution, in his 1930 BBC radio broadcast Keynes (CW XX, 2013j, p. 323) says he had been “in favour for a good long time of a large programme of capital expenditure at home that would employ men and would give an outlet for our savings without putting pressure on the gold reserves of the Bank of England”.

Indeed, Keynes’s plan required a direct guidance from the state in controlling public spending and reorganizing the expectations and confidence of the agents. As we can see, this reflected the Keynesian ethical-philosophical view of economic reality and method, emphasizing the role of the State as an entity that could change the future of society as a collective, organic entity. Actually, the connections between practical policy and ethics lead to a rethinking of Keynes’s and Hayek’s thoughts about public interference in the individual or the collective, which is our third topic of analysis.

Wapshott (2011, pp. 198-201) returns to an unpublished letter from Keynes to Hayek in April 4th, 1944⁴⁶ in which Keynes made some comments about *The Road to Serfdom*. There, Keynes defends a middle course of ideas and governmental action,

⁴⁶ This letter is available for consultation in the archives of LSE (Wapshott, 2011, p. 325, note 44).

criticizing Hayek's theory that socialism and other planned modes of production might lead to totalitarianism. Keynes stresses:

[W]hat we want is not no planning, [...] [b]ut the planning should take place in a community in which as many people as possible, both leaders and followers, wholly share your moral position. Moderate planning will be safe if those carrying it out are rightly orientated in their own minds and hearts to the moral issue. [...] What we need is the restoration of right moral thinking – a return to proper moral values in our social philosophy. (Keynes, 1944, *apud* Wapshott, 2011, p. 198).

In his letter to Hayek, Keynes defends a moderate governmental planning of domestic activities, particularly those that involve economic and social issues based on an ethical conduct. As we emphasized in section 2.1.3, Keynes had an ethical view based on individual conduct that diverged from morals, and actually sought for the practical means and behaviors that lead to the good life. Accordingly, from the letter we can see that Keynes believed in public-spirited people that worked for the collective good, emphasizing the social role of public action. Indeed, for Keynes ethics could not be separate from practical political and economic activities, such as policy-making.

Keynes's ethical view concerning individual action, the role of the social context and the ends of life diverged greatly from Hayek's view. Although they both believed in personal freedoms, subjectivism and procedural theories of justice, they disagreed about some ontological and epistemological issues of the individual and his /her connection to reality. Hayek recognizes the influences of the role of social institutions in human behavior, but he believed in the free force of market as a stronger institution that provides better results than a welfare state or other formal forms of governance (Shearmur, 2006, p. 154).

Following Skidelsky's (2006, p. 102) claim that Hayek was a utilitarian, his theory of liberty is bounded by the law, and his justification of liberty is instrumental: the central planner has less knowledge than exists, hence the market forces work as a better guide to individuals in the sense of an "entrepreneur of the self" than state-driven or social-driven forces. Individuals take into account the impersonal market signals in their decision process within a legal framework to decide about economic and non-economic aspects of life that will result in relative remunerations (see

Hayek, 1948, p. 21). Then, the institution of the state is left out of the decision-making process, which is now guided by the market.

Keynes's ethical-political view, however, was more complex in the sense that he incorporated ontological uncertainty, holism and ethics with some traditional aspects of liberal politics that conceived both society and individuals as two mutual-influencing entities. Even though Keynes did not put all efforts in the forces of markets, he combined state intervention in the economy and society with a public ethic that did not annul the individual. Grasping the inner power relations of this process is a complex task that demands an accurate look about the Keynesian art of government, thus demonstrating how micro and macro institutions articulate and create power relations. This will be further discussed in the next chapter.

2.4 PARTIAL CONCLUSIONS

The purpose of this chapter was to present the main origins and developments of Keynes's thought and vision, focusing mainly on his philosophy, methodology and politics. While accomplishing a review of Keynes's foundations and influences, this chapter emphasized the key elements for understanding the transition from Keynes's philosophical background to his political and economic thought that later influenced on Keynesian economic policies and guidelines for state action.

Applying Foucault's genealogy to define Keynes's thought represented a critical approach that involved his ontology, ethics, methodology and political view from the reverse, discontinuous, exterior and specific facts of the Keynesian discourse. We did not recreate a personal biography or a chronology of Keynes's ideas, but reinvestigated them from their potentialities of influencing in practical policies. For instance, confronting Keynes with his reverse influences – such as Marshall, Pigou and Hayek – provided us a clearer understanding of the Keynesian critique about classical economic method, *laissez-faire* and state intervention in the economy. Or, put differently, how Keynes's exterior influences in Cambridge contributed to his growth as a persuasive economist during his writings of *The General Theory*.

Indeed, as approached extensively throughout this chapter, Keynes defined a narrow connection between philosophy, ethics and politics in the sense of a mutual influence. His economic theory and proposals actually reflect his ethical-ontological

world view that involves an organic, real entity in which political and economic endeavors are a mean to achieve the “good life”. His technical, economic side of analysis was a practical way to apply his ontological and ethical views that aimed to achieve the good.

We can summarize this connection between philosophical ideals and practical actions in a representation of Keynes’s system of thought as a single interrelated theme. Diagram 4 demonstrates an overview of the Keynesian system of thought.

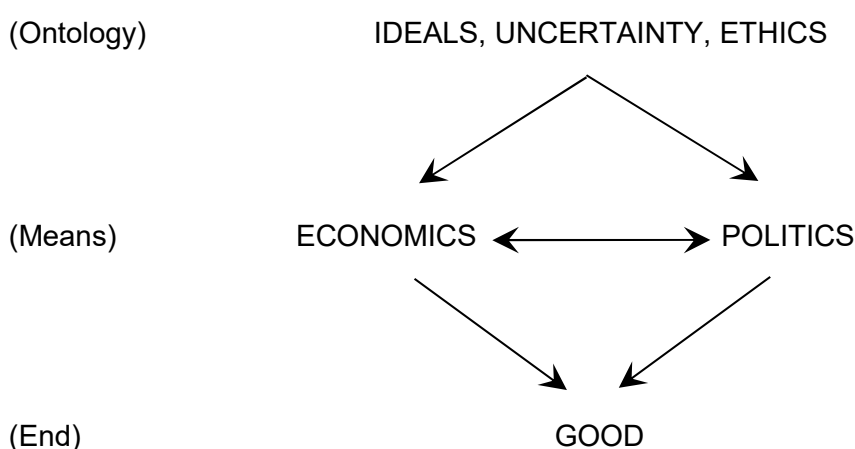


DIAGRAM 4 – An integrated perspective of Keynes’s system of thought through his philosophy, ethics, economics and politics.

Source: Fitzgibbons (1991, p. 128) and author’s own work.

(*) Although Fitzgibbons does not include the issue of good as an end of Keynes’s system of thought and substitutes “uncertainty” for “probability”, we⁴⁷ believe that “uncertainty” is more adequate to describe the Keynesian system, as well as including “good” as an end of Keynes’s analysis.

Diagram 4 summarizes the connections of what Chapter 2 has explored: Keynes’s philosophy, economic thought and political view from an integrated perspective that associates (i) his ontological elements of an organic, uncertain reality associated to an ethical view of the world. These two notions determined (ii) Keynes’s economics and politics, constituting an inter-related system in which the (iii) issue of good – or the good life – is the end of those practical actions.

⁴⁷ However, I am responsible for any remaining inaccuracies that may result from those changes.

For Brittan, (2006, p. 180) Keynes was a political philosopher in the broad sense of the term, similar with “having a political outlook” with a liberal orientation, what does not classify him as a liberal in the sense of *laissez-faire* or neoliberalism. Actually, it is possible to say that one of the reasons for the recent interest in Keynes’s political outlook was the 2008 financial crisis and the critique of market liberalism.

If Keynes’s “middle-way” provided an alternative economic analysis by conceiving reality, methodology, ethics and politics differently, one must also rethink the *modus operandi* and practical effects of his theory. Keynesian scholars and historians of economics as a whole seemed to ignore the potential contributions of a critical-philosophical analysis of Keynes’s thought and policies from a perspective that encompasses the issue of power.

Following Foucault’s connection of knowledge-power-truth, it is possible to attribute to Keynesianism the same status as liberalism: a form of economic knowledge and discourse that had practical effects in terms of designing and recommending policies, which created new forms of truth and power relations. In this sense we can rethink Keynesian economics as an art of government that affected economic and social reality, thus creating different forms of power relations that also influenced on population, but in a distinctive way from liberalism and neoliberalism.

Insofar as Keynes recognized the importance of conceiving an organic uncertain reality from an ethical standpoint in which economics represented an instrument, his policy recommendation had different goals when compared to liberal policies. This demands an accurate analysis of the Keynesian art of government, particularly the rise and spread of welfare systems and the consolidation of modern macroeconomics, which legitimized the role and status of economists as decision-makers within the state. The next chapter investigates the constitution and characteristics of the Keynesian art of government.

PART III

3. KEYNESIANISM AS A MODE OF GOVERNANCE

This chapter presents a critical assessment of the rise and consolidation of Keynesian economics as a mode of governance⁴⁸, or as an “art of government”. It focuses on the transition from Keynesian theory to political practice in determining economic and social policies. We define the main characteristics of this sort of governance by focusing on some of the recommendations and the operationalization of Keynesian policies into the practical field of economy and society, emphasizing specific cases that involve economic management, fiscal policies and population’s welfare.

The shift from Keynes’s theory to Keynesian practice is emphasized throughout this chapter. While Chapter 2 introduced the main elements and influences of Keynes’s theories, an analysis of economic policy-making and political practice indicates a different trajectory with a simplification and technicization of Keynes’s original writings.

Our study shall focus on Keynesian policy-making in Britain and in the United States, besides pointing out some peculiarities across Western Europe on what concerns knowledge transmission and acceptance of Keynesianism, such as in Sweden, France and Germany. Part III of our study (composed by Chapters 3 and 4) will investigate the framework and consequences of Keynesian economics once it became the governmentality of postwar world, i.e. between the end of the decade of 1930 and beginning of 1970s, having some biopolitical consequences to the government of the living especially on what concerns employment, demand control and social welfare issues.

Conceiving Keynesianism as a mode of governance, or “art of government” (*governmentality*) means grasping the practical economic and social effects of Keynesian theory, or the process from theory to practice⁴⁹. In Foucault’s terms (cf.

⁴⁸ Despite some concerns with the concept of “governance” as an adequate term to define forms of governmentality and the Foucauldian notion of government (cf. Lemke, 2007), we shall use “governance” as interchangeable to “governmentality” or “art of government” in this study due to its proximity to the terminology often used by economists and political scientists.

⁴⁹ Indeed, according to Foucault’s critique to the theory/practice split, one cannot investigate the rise of Keynesian-inspired policies without considering the theoretical and historical inputs that contributed to

2004, pp. 94-95), an art of government answers the question of how to introduce the economy and the way of proper managing individuals, goods and wealth into the management of the State. That is, the art of government, or governmentality, addresses the *modus operandi* of how the state should govern and manage its population through specific norms and procedures provided by the economy.

Foucault extensively approached the liberal art of government in his writings, focusing on the ideas that influenced policy-makers and how those policies were actually implemented. He later investigated the consequences of the liberal art of government – the emergence of a form of government that rules and administrates the population through security and control –, which rose as a consequence from classical liberalism in the end of the 18th century.

Our critique relies on two main issues. First, the fact that Foucault left aside other schools of economic thought that emerged as a critique to liberalism, particularly Keynesian economics and its strategic role in governance. Secondly, how Foucault overlooked some details concerning the transition from economic theory and discourse to practice – such as actors, institutions, emerging concepts and power relations derived from that process –.

As Howson and Winch (1977, p. 1) stress, since the Second World War the official employment of economists in the government has become commonplace, and it is no accident that many important milestones in the history of economic management and policy belong to the settlement of Keynesian economics. In that sense, one should focus on the integrated process of theory and practice for a better understanding of the discourses and power relations created by economists, particularly Keynesians.

Indeed, we cannot avoid questioning the definition of what is “Keynesian economics”. Although it emerged from the theory of John Maynard Keynes and his cutting-edge work, *The General Theory of Employment, Interest and Money* [1936] (CW VII, 2013c), the works of some of Keynes’s interpreters led to the rise of other theoretical sub-categories (Post Keynesian, Neo-Keynesian, New-Keynesian) thereby leading into structural differences between the historical Keynes and Keynesianism. As other economic schools that gained different followers and

such results. For Foucault, theory and practice cannot be conceived as separate entities insofar as the theory is already a practice in a particular time and place (cf. O’Farrell, 2005, p. 71).

interpreters throughout history, such as liberalism, Keynesian economics was no different, especially when one compares Keynes's original recommendations to those which were actually incorporated into public policies.

Nevertheless, as Clarke (1998, pp. 16-35) argues, the Keynesian economic theory may have been devised at the bottom of the slump, but it was symmetrical in its policy implications especially in the postwar era, considering the active role of the state in the economy to manage the economic crisis via direct interventions.

As our objective in this study is to investigate the possibilities of classifying Keynesianism as an art of government and how it led to a change in the dynamics of biopolitics from the 1930s to the 1970s, we must consider some of those historical and theoretical peculiarities between the original Keynes and his followers, defining some historical, social and discursive "conditions of possibility" (in Foucault's terms) for that change. Our study focuses both on Keynes's direct recommendations as a decision-maker, especially when dealing with economic variables, as well as indirect social and welfare policies inspired by the Keynesian mode of thought about public works and management.

Complementary to these conditions of possibility we follow some works and debates involving Keynesian ideas and policy-making, not only in economics, but also in political science and government studies. The works of institutionalists such as Weir and Skocpol (1985), and Hall (1989) demonstrated how the connections between formal structures of the state and the spread of Keynesian theory influenced practical policies in Western Europe (Britain, Sweden, France and Germany) and in the United States. However, the aim of our study is not to point out the macro political institutions only, but also some of the actors, economic policies, social proposals, discourses, knowledge dissemination and possible power effects of these measures, taking the genealogical view in consideration as well. Thus, we can define our approach as "genealogical-institutional".

In this sense, we briefly present the shift from Keynes's discourse to the Keynesian-inspired policies that were put into practice during the Golden Age of Capitalism, mainly influenced by the "neoclassical synthesis" (or "neo-Keynesian" economics). Regardless of the fact that our main objective is not to provide a technical study of the trajectory of macroeconomic ideas, we must consider that shift as part of the historical background that contributed to consolidate the Keynesian governmentality.

Hence this chapter also introduces the first epistemological changes in Keynesian economics after the Second World War, which will be more deeply discussed in the next chapter. We demonstrate how Keynesian economics suffered significant changes to a more appealing and persuasive discourse that legitimized macroeconomic policies and population interventions, mainly justified by socioeconomic improvement and stabilization. In this study we focus mainly on the role of key Keynesian contemporaries such as John Hicks, Alvin Hansen and Paul Samuelson, in disseminating and transforming Keynesianism into a more appealing discourse.

First, we present the historical background of the Great Depression of 1929 to search for the conditions that allowed Keynes's theory to emerge as a solution to the economic crisis by looking at his policy proposals for the British economy. Indeed, we do not assume a simple historical causality between the crisis and the rise of Keynesianism, but we investigate the institutional, political and economic aspects of that time to understand the conditions under which Keynes's ideas became accepted in Britain and other Western Europe countries. We centered on the active role of the State as a key economic entity, which led to the rationalization of economic plans and the construction of the Welfare State model. We delimit the first features of the Keynesian art of government, addressing the issues of employment policies, economic stabilization and welfare policies from 1929 to 1945.

Secondly, we investigate Keynesianism as an art of government through Keynes's interpreters, who were directly responsible for making the Keynesian rhetoric more appealing to policy-making and academic acceptance in the end of the 1940s in the United States. We focus on their main economic recommendations that actually consolidated Keynesianism as the mode of governance in the end of the Second World War until the middle of the 1970s, addressing issues such as economic stability, social security and employment policies.

3.1 SOLVING THE ECONOMIC CRISIS AND SHAPING THE WELFARE STATE IN BRITAIN (1929-1945)

This section defines some of the economic and political conditions of possibility for the rise of Keynesian discourse and its role in designing new policy recommendations in Britain from 1929 to 1945. This helps drawing the core

principles of the Keynesian art of government, of that being: 1) the creation of direct mechanisms that stabilized the economy and stimulated economic growth through policy proposals that advocated a direct state action; and 2) the establishment of internal control apparatuses whose function was to ensure acceptable levels of employment, consumption and welfare via investments and public works.

One can define the mechanisms and apparatuses according to Skidelsky (1989, p. 145) summary of Keynes's modern agenda of the State: a) the deliberate control of the economic variables (credit, currency, income) by a central institution to counteract risk, uncertainty and ignorance; b) a coordinated act of intelligent judgment as to the amount of national investments and the channels into which they should flow, focusing on consumption and investment to maintain full employment; and c) a State population policy, paying attention to both quantity and quality.

Although the rise of Keynesianism is usually associated with the Crash of 1929 – particularly because the crisis led an unstable and uncertain scenario that demanded countercyclical economic policies rather than those previously advocated – the conditions of possibility for consolidating Keynes's economic ideas actually point out to a delay in that acceptance process. Following a Foucauldian perspective that criticizes the role of macro historical facts for explaining a certain epistemological change⁵⁰, we should turn to specific historic facts to understand the rise of Keynesianism as a policy recommendation in the decade of 1930, particularly in Britain.

In this sense, sub-sections 3.1.1 and 3.1.2 also emphasize Keynes's public role as an adviser of the British Treasury, the Macmillan Committee, the Economic Advisory Council and the Beveridge Report, which contributed to the rise and first signs of his popularity. Furthermore, we also underpin the role of early Keynesians, such as Richard Kahn and James Meade as expert advisers who were responsible for presenting and defending Keynesian principles in policy-making.

In this present section we take Keynes's own writings about the causes and possible solutions for the crisis, together with the rise of the welfare state model. We

⁵⁰ Even though Foucault made this point clear (cf. 1971, 1998a) about the limitations of considering macro historical facts to account for changes in knowledge and power, he did not abandon macro history completely. For instance, while accomplishing an explanation about the rise of the neoliberal governmentality he contextualizes the Post-War period and the Beveridge Report (1942) as some of the influences for the rise of neoliberal countermovements in Germany and in the USA (cf. Foucault, 2008, pp. 68-69).

shall read Keynes, the first Keynesians and their interpreters from a critical perspective about the role of the state, thus outlining the basic characteristics of the Keynesian art of government. The role of the economist as an adviser on how to manage economic crises pointed out the transition from theory to policy-making, particularly on issues involving employment, economic stability and social welfare.

As Foucault demonstrated in his writings on genealogy (cf. Foucault, 1998a, pp. 372-380), to understand the emergence of a discourse, one should look at the conditions (historical, institutional, and social) that contributed to the development of such discourse and its consolidation as a truth. Considering the specific case of Keynesian theory, economists (see Chick, 1995; Dow 1996; Clarke, 1998; Backhouse, 2006a, to name a few) usually attribute part of the success of Keynes's writings to the economic crisis of 1929, and how Keynes provided a solution for the crisis from his revolutionary⁵¹ economic analysis.

Indeed, we do not deny or ignore the existence of the Keynesian revolution, especially from methodological-rhetorical and teleological aspects about the nature, means and ends of economic analysis. Insofar as it combined the Marshallian-classical method and assumptions – which was the “mainstream” economic approach at Keynes's time – with a language of rejection that demonstrated how strict classical economics was, Keynes successfully stressed how orthodox theory generated a persistent unemployment which would not be eradicated by market forces (Dow, 1996, p. 63). Nevertheless, considering the historical records of policy constructions immediately after to the crisis, the road to a Keynesian revolution was not automatic; on the contrary, it took nearly to a decade to consolidate itself as an art of government.

As Booth (1983, p. 106) argues, if we are to understand the nature and significance of the Keynesian revolution in policy we must look at the wartime discussions, but having in mind some differences of emphasis and interpretation between Keynes and his interpreters, the Keynesians. Actually, there are several divergences amongst historians of economics about the exact period when the Keynesian thought entered in the practical field of policy-making and became widely accepted by policy-makers. In order to measure that impact, historians (cf. Howson

⁵¹ The book that popularized the term “Keynesian revolution” was Lawrence Klein's *The Keynesian Revolution* (1944), originally a PhD thesis submitted to MIT, where he had been influenced by Paul Samuelson (cf. Backhouse, 2006, p. 21).

and Winch, 1977; Middleton, 1982; Booth, 1989; and Peden, 2003) relied on *proxies*, such as specific terminology of Keynesian economics, references to Keynesian works and actors' participation in the decision-making process (both Keynes and his followers).

For instance, Booth (1983, 1989) assumes that one should start looking at Keynes's activities in the decade of 1920s, such as his role in the Macmillan Committee and his pamphlet on Lloyd George's campaign. However, in terms of referring to Keynesian economics as a widely accepted theory, Howson and Winch (1977), Middleton (1982) and Peden (2003) see the actual consolidation of Keynesianism only after 1940, thus considering the period prior to that (from 1920s to 1939) as "transitory". The reasons for that include political reluctance in accepting the Keynesian view about employment and national debt as possible ways to maintain consumption and investment levels and solve the economic crisis, particularly from conservative sectors from the British Treasury (cf. Howson and Winch, 1977, p. 31).

In terms of influencing policy design and discussion, we can analyze the role of Keynes's ideas and the public presence of his direct followers in three specific cases for understanding the rise and shape of the Keynesian art of government: 1) the position of public works to sustain employment policies as a solution for the crisis; 2) the importance of seeking international and domestic stability via monetary and commercial policies; and 3) the context and rise of welfare social policies that began to shape the modern Welfare State model. Those three points can shed light on the transition of Keynesian economics from theory to practice by influencing decision-makers, especially in Western Europe and in the United States.

Grasping and delimiting an art of government means to turn to the actions of the real world. More specifically, which recommendations, strategies and policies were addressed by Keynes and his Keynesian interpreters to think about the economic crisis and to reconsider the economic and social role of the state? These issues will be presented in the following sub-sections. We shall focus on two main characteristics of the Keynesian art of government that emerged in the end of the 1920s and that are relevant for our study about biopolitics and collective control: 1) employment policies via direct state intervention in public works and political measures involving international and domestic stability; and 2) welfare and social policies for redesigning the role of the state towards population management.

3.1.1 Keynes's solution for managing the crisis: employment policies, public works and economic stability

From a macro historical standpoint, one could justify the emergence of a Keynesian governmentality based on the Crash of 1929, when economic recovery was driven by a strong fiscal policy that sought to stimulate aggregate demand. Indeed, the crisis contributed partially to the dissemination of Keynes's ideas, as Galbraith (2001, p. 236-239) demonstrates it, especially considering that Keynes's diagnosis for the slump about negative expectations, high uncertainty and a deficient aggregate demand helped him shape his policy recommendations to solve the crisis.

Taking the historical *a priori* grounds for the crisis into account – postwar optimism; return to gold standard at pre-war levels; speculation and credit boom, which caused a loss of confidence; and a decrease on investment and consumption levels – we can actually consider Keynes's economic and political recommendations in *The Economic Consequences of the Peace* (1920) and in his 1920s essays on currency, population and unemployment (see Keynes, CW XIX, 2013i) as the initial stages for designing the Keynesian art of government in theory. There, prior to the crash, Keynes (2013i, pp. 6-59 and pp. 79-80) already had expressed his concern with Britain's and other European countries (such as France and Germany) returning to the gold standard, and how this would affect employment and price levels, thus determining population's welfare directly.

Nonetheless, although one cannot say that in this moment Keynesianism was dominant, it was beginning to consolidate itself as an alternative theory to orthodox economic thinking. It was not until the beginning of the 1940s that the Keynesians could actually influence policy-making, but we should see this period from 1929 to 1939 as a transition phase (cf. Booth, 1983, p. 105). Interestingly, outside of Britain some Keynesian-inspired policies became accepted first, such as Sweden's countercyclical fiscal policies⁵² in the early 1930s (cf. Winch, 1966 and Steiger, 1976).

As Howson and Winch (1977, pp. 30-31) claim, Keynes's active participation as a member of the Macmillan Committee (or, officially known as *Committee on*

⁵² According to Winch (1966, p. 168), Patinkin (1982, pp. 36-37) and Blaug (1985, p. 694n), some Swedish economists such as Gunnar Myrdal and Bertil Ohlin shared (or even anticipated) similar notions of core Keynesianism, particularly about savings and investment.

Finance and Industry) and Britain's Economic Advisory Council between 1929 and 1931 helped to design some potential policy measures to fight orthodoxy and *laissez-faire*, which were still dominant in the British Treasury and in most of economic policies in developed countries.

In that sense, we could refute the common sense idea that Keynes's policies reigned immediately after the crash of 1929. On the contrary, it took more than a decade until it became widely accepted by policy-makers, especially due to the persistence of orthodox decision-makers across Britain, the United States and France, which saw Keynes's solution as a specific to a transitory case (cf. Howson and Winch, 1977, p. 31 and Bleaney, 1985, p. 40). For Middleton (1982, p. 48), this early resistance⁵³ to accept Keynesianism was due to policy-makers attachment to balanced budgets and a skepticism about using public works as a stabilization device.

About that emerging period of Keynesianism in which both Keynes and the first Keynesians made their first endeavors to influence policy-makers, we should look at Keynes's proposals between 1929 and 1932, focusing on the issue of employment and how the first Keynesians dealt with employment policies. During this period Keynes participated actively as a member of the Macmillan Committee (or, officially as *Committee on Finance and Industry*⁵⁴) and the Economic Advisory Council, which contributed to shape and guide the Keynesian discourse in terms of practical influence. Additionally to those political events, we can turn to 1944's Employment Policy White⁵⁵ Paper to see the influence of Keynesianism into policy-making.

⁵³ Quoting Middleton (1982, p. 51), the principles that dominated 19th century public finance can be summarized into the idea of balanced budget convention, that the objective of the government was to cover its expenditure with its receipts. Only two exceptions of this rule were permitted: (1) wartime spending; (2) capital projects that demonstrated to be remunerative.

⁵⁴ Active members of the Committee included Lord Hugh Pattinson Macmillan (Lawyer, chairman), Sir Ernest Harvey (Deputy Governor of the Bank of England), Lord John Bradbury (economist and public servant), R.H. Brand, Reginald McKenna (British banker and politician), Theodore E. Gregory (economist) and John Maynard Keynes (economist and public servant). Interestingly, Williamson (1992, p. 255) underpins the role of Keynes as the "leading spirit" of the Committee, but not in the sense of a committed party man. His commitments were rather to notions about the role of intellectual experts and to an essentially non-party body of "progressive" political and economic ideas.

⁵⁵ According to the United Kingdom's Parliament, "White papers are documents produced by the Government setting out details of future policy on a particular subject. A White Paper will often be the basis for a Bill to be put before Parliament. The White Paper allows the Government an opportunity to gather feedback before it formally presents the policies as a Bill." (UK Parliament, 2015).

Skidelsky (1994a, pp. 1-26) portrays the economic background of the slump as a consequence of several political decisions since 1922 that restored the gold standard, kept *laissez-faire* alive in international trade and caused massive domestic unemployment (in Britain's case). For Skidelsky, economic orthodoxy in the 1920s was not a mere creation of contemporary economists, but a product of traditionalist views held by powerful institutions and interests in the economic community, such as business men, bankers and Statesmen. In this sense, the Crash of 1929 was a historical mark that resulted from several inadequate policies that were put into practice since early 1920s.

We can summarize Keynes's diagnosis on the slump in three main points (cf. Keynes, CW IX, 2013e, pp. 129-131): 1) a general downfall of prices level compared to costs (both of consumption goods and capital goods); 2) entrepreneurs' negative expectations about future profits; and 3) increasing levels of unemployment (as a consequence of the previous two). For Keynes (CW IX, p. 134), a possible solution would be in central banking authorities to restore confidence via long-term loans, which could revive enterprise and employment.

Despite the fact that Keynes wrote his "general" theory in response to classical economic principles – which, for Keynes, actually corresponded to a specific case of the economy, the one with full employment – *The General Theory* also served the purpose of supplying a theory for a world in depression with an open economy perspective (Skidelsky, 2003, pp. 479-481).

Put differently, *The General Theory* also provided an understanding about the role of fiscal and monetary policies for a world in recession, particularly because this "unstable" reality was never fully understood or investigated by classical economics. Insofar as the state would act as a direct guide of expectations, thus reducing uncertainty towards the economic future, public policies could re-establish aggregate demand and unemployment levels to economically desired levels.

Keynes's key solution for demonstrating the practical results of his policies was in the idea of the multiplier, which he developed together with Richard Kahn (cf. Kahn, 1931, p. 173) during the Cambridge Circus⁵⁶ (Keynes, CW VII, 2013c, p. 113). The multiplier accounted for the potentially beneficial effects of the role of the

⁵⁶ Keynes's (CW VII, 2013c, p. 113) analysis of the multiplier emphasizes the role of consumption, whereas Kahn's (1931, p. 173) approach addresses for the role of an employment multiplier. Nevertheless, both theoretical accomplishments are complementary.

government as an active investor, which helped in justifying the role of the state as an economic entity. Public investments generated higher levels of direct (or “primary”) employment, whose spending would lead to an increasing demand for consumption-goods. As a consequence, this demand would create indirect (or “secondary”) employment, whose spending could also incentive other productive sectors.

In a recessive context where uncertainty restrains economic decisions to invest and consume, the Keynesian solution provided itself as a practical economic and political agenda for formal institutions on how to manage the crisis. Although Keynes himself recognized that his main purpose on *General Theory* was not to indicate direct practical measures (cf. Keynes, CW VII, 2013c, pp. 383-384), he influenced directly some policy-making proposals and decisions, particularly those involving employment policies.

We cannot ignore that the issue of unemployment already dominated most of Keynes’s concerns prior to 1929, such as some of his interviews, letters and pamphlets published between 1923 and 1925. There, he focused on the causality between monetary policy and unemployment and the role of public works as a cure for unemployment (cf. Keynes, CW XIII, 2013g, p. 119, p. 190 and p. 438). He also had a discussion with William Beveridge in 1923 (cf. Keynes, CW XIX, 2013i, pp. 119-157) about the causes of unemployment and if it could be related to an increase on population growth in the decade of 1910.

Years later, in 1929, Keynes makes his position clear about reducing unemployment by a public spending program in his famous pamphlet *Can Lloyd George Do it?* (CW XIX, 2013i, p. 761), which stressed the importance of direct state intervention through fiscal policy. The essay demonstrates clearly the emerging state of the Keynesian art of government: Keynes’s core theory about seeking full employment and increasing aggregate demand via direct policy recommendations on how the state should act.

More specifically, in this essay Keynes focused on public spending in direct employment measures, that is, how the state itself could act as employer, thus creating a new mechanism of control from the state towards the population. Actually, Keynes emphasized how a policy that aimed at increasing public spending on direct jobs (infrastructure and national housing system) would lead to an increase on indirect positions (services, retail, manufacturing). As Keynes argues (2013i, p. 718),

the action of the state should not be considered analogue to socialism, but in a way that the state would fill the gaps left by the market through public spending. Or, put differently, he proposed the creation of a mechanism in which the state and its associated institutions could intervene and control certain areas where markets were deficient.

Considering the British political-institutional environment, both the Macmillan Committee and the Economic Advisory Council had as their formal aim to determine the root causes of the 1930s economic depression in Europe, as well as discuss and trace some possible ways for recovery. The first two – the Macmillan Committee, appointed on November, 1929 to mid-1931, and the Economic Advisory Council, established in January, 1930 – were part of the British government.

The Macmillan Committee focused essentially on monetary policy, particularly aiming at improving British exports. Nevertheless, the Committee also discussed some of the impacts of those measures into the labor market and the standard of living, which affected domestic economics. For instance, the Report of the Committee (see Keynes, CW XX, 2013j, pp. 283-311) recommends:

[A] monetary policy designed to increase the volume of purchasing power, to increase the ease of borrowing if necessary, by guarantees, to diminish the rate of interest long-term as well as short-term, and to stimulate in every possible way the spirit of enterprise, and the volume of investment. (Report of the Committee *apud* Keynes, 2013j, p. 283)

Besides recommending a monetary policy to improve purchasing power, credit and investments, the Committee discussed capital development and incentives to investment – which pointed out the role of “official” investments as helpful to restore the levels of private investment – and the issue of wages.

It is noteworthy that the Committee sought to stimulate measures that would increase Britain’s favourable balance of payments. However, orthodox economic theory suggests reducing salaries and wages as a possible way to achieve higher levels of employment (in orthodox theory, it would increase entrepreneurs’ demand for more workers by paying them lower wages), which was automatically rejected by the Committee’s members. In their own words, “an attempt to secure any such reduction might be expected to produce social chaos and react most unfavorably on trade generally.” In this sense, the Macmillan Committee sought for a solution for the crisis that would not compromise welfare and employment.

Analogue to this, Britain's Prime Minister constituted the Economic Advisory Council, a committee⁵⁷ of economists under Keynes's chairmanship whose task was to review the economic condition of Great Britain, examine its causes and to indicate the conditions for recovery, particularly focusing on the issue of unemployment. Under these circumstances the diagnosis and the recommendations of the council were legitimized by the state, which used the council as an "advisory guide" for policy-making.

This period of the 20th century has not only assumed a state with social and economic obligations, but a political institution with explicit responsibilities in the field of economic management (cf. Howson and Winch (1977, pp. 1 and 21). In this sense, besides recommending policies, the council worked as a "scientific committee" that coordinated and advised on the collection of official statistics to supply expert secretarial assistance to governmental bodies.

Investigating the transition process from the 1930s to 1940s, Howson and Winch (1977, pp. 106-109) point out the change from Keynesian economic theory to practice, especially after 1937, when the orthodox policies of the British Treasury could not stimulate economic growth and employment properly, and when European countries were rearming for a future war. Additionally to that political and historical moment, Moggridge (1992, pp. 605-606) highlights the role of some political actors in the transition from Keynes's theory to Keynesian practice, especially in the British Treasury.

The British case reveals a transition from "orthodox" officials (such as R.G. Hawtrey) to other alternative approaches (such as Frederick Phillips⁵⁸) that inclined to a Keynesian view concerning short-term policies, the relevance of public works and temporary budget deficits as a way to recovery. As Moggridge (1992, p. 606) demonstrates, Keynesian policies became appealing to new officials in the Treasury

⁵⁷ Other members included Hubert Henderson, Professor A.C. Pigou, Professor Lionel Robbins and Sir Josiah Stamp. Richard Kahn (a member of the Circus) acted as a joint secretary together with A.F. Hemming.

⁵⁸ Howson and Winch (1977) provide a historiographical study of policy-making in the British Treasury between 1930 and 1939, and they (p. 130) point out the shift of the Treasury in terms of abandoning the quantitative theory of money and heading to a new economic approach. The officials' openness to Keynesian suggestions (such as public works) and an use of specific Keynesian terms (such as "multiplier", and "aggregate demand") became more accepted after 1936, when new officials entered in the Treasury and Keynes's *General Theory* was published.

on what concerned public expenditure and trade policy, especially after 1936 when *The General Theory* was published.

The first years of 1940 represented the road for consolidating Keynesianism as an accepted recommendation for policy-making, particularly involving budgetary and employment policies.

Booth (1983, p. 103) points out the role of “the Keynesians”, or the followers of Keynes who were employed as temporary civil servants in the British government between 1940 and 1944, playing a leading role in pressing for policies to bring high, stable levels of employment, such as James Meade (a Cambridge Circus member), Richard Stone, Marcus Fleming, R.C. Tress and Lionel Robbins⁵⁹.

Actually, one should look at the strategic role of Meade as one of the advisers who contributed to the consolidation of Keynesianism as an art of government, contributing to employment policies and macroeconomic planning. Meade wrote the first draft of the White Paper on Employment Policy in 1941 while taking part in the Economic Section of the Cabinet Office⁶⁰, an interwar bureaucratic unit that continued the discussions about welfare systems until the end of the Second World War. There, he stressed that “General unemployment can be avoided only by maintaining the demand for goods and services in general at a sufficiently high level” (Meade, 1941 *apud* Howson, 1988, essay 11), which goes according to the Keynesian principles of aggregate demand and undesired economic effects of unemployment.

Furthermore, Meade and Stone produced a paper on national income, expenditure, savings and investment (Meade and Stone, 1941) that addressed a

⁵⁹ Booth (1983, p. 103) quotes Lionel Robbins as one of Keynes’s followers who were responsible for spreading Keynesian ideas within the British government. Nevertheless, we cannot ignore Robbins’s prior criticism to Keynes’s theory and recommendations (cf. Robbins, 1950, p. 68) as well as Robbins association with the modern definition and object of Economics as “the science” that deals with scarcity. Indeed, there is some controversy to what extent Robbins agreed or not to Keynesian policies in theoretical terms (cf. Colander and Landreth, 1996, p. 207).

⁶⁰ “This unit, formed in December 1939, was a small organization of economists and statisticians, from the universities, recruited by and forming part of the War Cabinet Office, and later known as the Economic Section. [...] In November, 1953 the Economic Section of the Cabinet Office was transferred (without loss of identity or change of duties) to the Treasury and its Director was given the title of Economic Adviser to the Government. The Economic Advisory Section was staffed by a small group of professional economists charged with the duty of keeping watch on economic developments as a whole (such as the general pattern of supply and demand, changes in the disposition of resources of manpower, materials and capital). Their work involved contact with all departments concerned with economic policy and they were in constant and close touch with the Central Economic Planning Staff. (The National Archives, Administrative/Biographical Background, 2015).

different approach concerning budgetary policy and national economic stability. They abandoned the rule of thumb of balanced finance that is usually adopted by policy-makers during wartime.

Insofar as Keynesian policies aimed at achieving full employment, economic growth and prices and wages stability, discussions involving national income and balance of payments surplus also represented a way to achieve growth and reduce economic uncertainty given the political context of 1930s and 1940s. In this sense, we seek to understand the creation of mechanisms that aimed at controlling and stabilizing the economy in terms of budget, finance and money, thus delimitating other aspects of the Keynesian governmentality.

As Howlett stresses (1994, p. 13), the wartime economy made the discussions about financial constraints and mobilization of resources as necessary as understanding the government machinery itself. With the process of drafting academic economists into the government as advisers, we see a transference process of economic theories to actual recommendations, as the case of economists "expert" language of official economic reports in the decade of 1940, such as Britain's White Paper on Wartime Finance.

During the wartime economy the issue of budgetary policy arose, addressing two main problems: how to pay for the war costs and how to dampen the inflationary pressures in the economy. In 1939, Keynes wrote a series of articles that later became the pamphlet *How to Pay for the War?* (cf. Keynes, CW XXII, 2013I, pp. 40-155), in which Keynes criticized the decision-makers' view to secure the government's revenue by increasing taxes automatically.

Differently, for Keynes the government should first calculate national income and its components in order to judge the war potential of the economy, which could then express the level of taxation and forced savings that would be transferred to the government (Howlett, 1994, p. 14). In other words, to rationalize and create a specific taxation mechanism that required a precise knowledge of national economic reality through statistics in order to introduce regulating apparatuses of taxation and forced savings.

In this sense, Keynes accomplished a great development of national economic accounts by detailing aspects of the national income with the purpose of convincing the authorities and public opinion of the necessity of managing the war efforts properly (cf. Cuyvers, 1983). Interestingly, Keynes and Erwin Rothbarth (an assistant

in statistical research at Cambridge) developed the double-entry national accounts for that particular essay, whose methodology became widely used in the postwar period.

Keynes (CW XXII, 2013I, pp. 41-42) also expressed some concerns about the effects of low unemployment levels, high purchase power and increase in consumption, which could cause an “inflationary gap”⁶¹. Hence the necessity of a war budget. As Keynes stresses:

The importance of a war Budget is not because it will 'finance' the war. The goods ordered by the supply departments will be financed anyway. Its importance is *social*: to prevent the social evils of inflation now and later; to do this in a way which satisfies the popular sense of social justice; whilst maintaining adequate incentives to work and economy. [...] The *amount* of the new revenue required is what will meet a given domestic expenditure out of a given national income *without the aid of inflation*, on the assumption that wages and import prices do not rise for other reasons. The ways in which this revenue is raised have to satisfy the other two criteria. (Keynes, CW XXII, 2013I, p. 218, emphasis in original).

A possible solution for that inflation threat was to increase the total amount of compulsory and volunteer savings, as well as a more efficient form of facilitating heavier taxation of working-class incomes by a compulsory deduction of income tax at source (cf. Keynes, CW XXII, 2013I, p. 209). Another element discussed between Keynes and other Treasury officials throughout 1940 was a wages policy, whose aim was to create a regulatory process to wage agreements between employers, unions and workers, which should be submitted and approved by the Wages Tribunal (Keynes, CWXXII, 2013I, p. 229). It is noteworthy that Keynes and the Keynesians focused on the concerns of “securing the social” by managing efforts and new mechanisms to fight inflation, which has negative effects on population’s welfare and stability, even if that meant an increase on forced savings and a temporary decrease of collective purchase power.

In 1941, the British Parliament discussed the domestic budget based on the White Paper on National Income and War Finance – led mainly by the Chancellor of the Exchequer, Kinglsey Wood –. The arguments in the paper took into account specific information on national income data (as a result of Meade and Stone’s work)

⁶¹ In the Keynesian view, the “inflationary gap” represents an inevitable gap between aggregate demand and aggregate supply in the wartime, due to the fall of consumer goods available for free purchase. Without governmental action, the potential gap would rise, thereby taxation and forced savings could mop up the potential excess demand in Keynes’s view (cf. Howlett, 1994, p. 14 and Booth, 1989, p. 59).

to reinforce the necessity of a balance between “economic incentives and social justice”, thus trying to fight the inflationary gap.

Additionally, as Sayers (1983, p. 107) stresses, the Budget proposal included using other control mechanisms, such as cost of living subsidies and taxation (via forced savings) to absorb any excesses of purchasing power and avoiding a demand inflation. This confirms how decision-makers began treating the issue of inflation differently from 1940 onwards, particularly regarding demand forces and surplus budgets, thereby confirming the new influence of Keynesianism into the discussions that involved economics management. Indeed, “there was clarification of the theory of inflationary finance, and there was acceptance of a new statistical foundation for the gap that had to be closed by new taxation.” (Sayers, 1983, p. 108).

About employment policies, the “Employment Paper” by Britain’s Coalition Government (1944) set the transition of Keynesian economics from theory to an art of government. The conditions of possibility for that change were already set since Keynes’s and Meade’s writings and internal discussions on the issue of employment in 1941 and 1942, underpinning the role of consumption, investment, the multiplier and other mechanisms for supporting a good and lasting level of employment.

In the White Paper on Employment Policy (cf. Minister of Reconstruction to Parliament, 1944), the British government attempted to avoid a new postwar crisis, in which aggregate demand levels reached its bottom. Some points deserve attention about the discourse and Keynesian terminology adopted there. For instance, the document admitted that “(t)he Government accept as one of their primary aims and responsibilities the maintenance of a *high and stable level of employment* after the war.” (1944, p. 3, emphasis added); “(a) country will not suffer from mass unemployment so long as the total demand for its goods and services is maintained at a high level.” (1944, p. 3); and “the promotion of the full employment of human and material resources, based on sound social and economic policies, is the first condition of a general and progressive increase in production and purchasing power (...)” (1944, p. 4).

Indeed, the paper followed the Keynesian core principles of maintaining high aggregate demand levels via employment and public spending policies. Additionally, the White Paper demonstrates a change on the way that policy-makers conceive economic problems and reality. Keynes’s critique of classical economics may have

been an influence in the sense that addresses to the state the responsibility as a leader during turbulent times. The paper stresses:

The Government are [sic] prepared to accept in future the responsibility for taking action at the earliest possible stage to arrest a threatened slump. This involves a new approach and a new responsibility for the State. It was at one time believed that every trade depression would automatically bring its own corrective, since prices and wages would fall, the fall in prices would bring about an increase in demand, and employment would thus be restored. Experience has shown, however, that under modern conditions this process of self-recovery, if effective at all, is likely to be extremely prolonged and to be accompanied by widespread distress, particularly in a complex industrial society like our own (Minister of Reconstruction to Parliament: Employment Policy Paper, 1944, p. 16).

For the case of Britain's domestic economy, the indirect effects of the stabilizing policies and the war economy led to a significant increase on investment levels (private and public) and a decrease on uncertainty, which also contributed to low levels of unemployment and high economic growth. Nevertheless, we should also take into account the dissemination of the Keynesian discourse to other national institutional frameworks and how it influenced on the creation of a social management system known as "the Welfare State". Next section focuses on those two points.

3.1.2 Population management and the constitution of the British welfare state

As section 3.1.1 demonstrated, the efforts made both by Keynes and the early Keynesians to seek a stable, full-employed economy impacted the economic governance from the perspective of crisis management. Put differently, the change in policy-making starting in first years of the Second World War created a state whose role was a leader in stimulating public works and balancing the national economy without putting aside consumption, investment and employment policies. Creating a political-institutional environment in which those policies could actually be accepted and put into practice was the main characteristic of the consolidation of a Keynesian art of government in the decade of 1940, thereby representing a shift from knowledge and discourse into power relations.

In this sub-section we draw some aspects about the capacity of the Keynesian art of government to spread its principles and establish internal control apparatuses

by investigating the consolidation of welfare institutions, such as health national systems, social insurance and employment stimuli. Indeed, apart from public works and employment policies, from 1941 to 1945 we can also see the rise of several welfare policies – such as the institution of welfare systems that combined social insurance, health and income redistribution taxes in the UK, which conditioned the birth of the modern ‘welfare state’ model after the Second World War.

Here we shall not focus on Keynes only, but also on the role of other intellectuals and decision-makers who were inspired by Keynes’s economic thought and who contributed to the development of a broader notion of “Keynesianism” as economic and social management, such as James Meade, other officials of the British Treasury and William Beveridge⁶².

Both the Interwar context and the following years after the Second World War brought the issue of population in the center of economic analysis, and in Keynesian economics this was no different. We can trace the Keynesian concern with the issue of population back to Keynes’s own writings and speeches. After all, as Skidelsky (2003, p. 327) claims, Keynes was a Neo-Malthusian in essence.

For instance, in the lecture *Some Economic Consequences of a Declining Population* presented at the Eugenics Society in 1937, Keynes addressed some concerns about the growth and size of population on the levels of savings and investments, and stressed how a decline in family size (and a consequent increase on the age structure of the population) would raise “the proportion of national income which tends to be saved in conditions of full employment” (Keynes, 1937a, p. 15). Moreover, Keynes even acknowledged the importance of approaching issues related to the population, such as sexuality and reproduction (cf. Keynes, CW IX, 2013e, pp. 302-303) because “these questions also interlock with economic issues which cannot be evaded”.

Furthermore, the role of Keynesian representatives (Joan Robinson, John R. Hicks and W.B. Reddaway) on the Royal Commission on Population⁶³ between 1944

⁶² Marcuzzo (2010, pp. 189-206) discussed the connections between Keynes and Beveridge, emphasizing Beveridge’s early rejection of Keynesian assumptions and his later shift into agreeing with many of Keynes’s proposals, particularly the role of public works and targeting full employment.

⁶³ Although the role of economists was less central in the Royal Commission on Population than in other governmental departments, such as the Treasury (cf. Winter, 1990, p. 436), the Commission had an Economics Committee constituted by Sir Hubert Henderson, W.B. Reddaway (from the London School of Economics), Alexander Gray (professor at the University of Edinburgh), John R. Hicks (from

and 1949 suggested clear connections between the issues involving population growth and public policies, particularly those impacting the labor market. The British government established the Royal Commission on Population in order to discover the causes and remedies for population decline, and it was set up when the expectations of and anxieties about population decline dominated discussions on future economic and social policy. As Winter (1990, p. 437) demonstrates, one of the key objectives of the Commission was to examine the economic implications of population decline. Additionally, issues related to population – such as social and demographical implications of family allowances, tax relief, housing policy and maternity benefits – were also investigated. In its final report, the Economics Committee favored a mildly pronatalist policy, but reinforcing the needs of security systems for British families (cf. Winter, 1990, pp. 456-457).

In this sense, unlike atomistic economic approaches, such as liberalism or marginalism, Keynesian economics saw economic reality as an organic entity in which the *collective* plays an important role (population; *aggregate* demand; *national* accounting data; *macroeconomic* analysis). Accordingly, the issues of welfare and social policy represent a correlate of the organic, aggregative Keynesian economics: increasing employment levels and population's welfare leads to higher levels of consumption, investment and economic growth, which represents a way to reach better states of economic prosperity.

As Keynes puts it, issues of employment and general welfare are intrinsically connected:

I believe that there are many other matters, left hitherto to individuals or to chance, which must become in future the subject of deliberate state policy and centralised state control. Let me mention two—(1) the size and quality of the population and (2) the magnitude and direction of employment of the new national savings year by year. (Keynes, CW XIX, 2013i, p. 441).

Although we can find welfare state governance models since the beginning of the 20th century (cf. Shinoya, 2010, pp. 96-97), the Postwar Western welfare state model was unique in the sense that it combined three grand systems of capitalism, democracy and social security. Indeed, there is a vast literature that tends to portrait

Keynes as the founding father of the welfare state due to a simplistic justification for the need of a large public sector in the economy (cf. Marcuzzo, 2010, p. 189), but actually the consolidation of the Keynesian governmentality and its influence to welfare systems took more than a decade to constitute itself as such, particularly from 1944 to 1960.

The historical trajectory involving the rationalization of welfare policies and its development as a power institution involved other actors and political mobilizations, such as the Beveridge Report in Britain, Scandinavian welfare plans in the 1940s and 1950s, and similar welfare actions with the American New Deal (a non-Keynesian plan per se, but with some similarities with Beveridge's administration plan).

Opposite to the idea that Britain was the pioneer country to launch welfare policies, Howson and Winch (1977, p. 106) stress how the British government, unlike its counterparts in Sweden and in the United States (under Roosevelt's New Deal), did not resort to deficit budgeting or loan-financed public works until 1934, when Lloyd George launched a "British New Deal".

Actually, Sweden was the first country to implement countercyclical policies proposed by the Social Democratic Party in 1932, highly influenced by Finance Ministers Ernst Wigforss and Gustav Möller. It is noteworthy that, as Winch (1966, p. 171) and Kragh (2014, pp. 636 and 658) claim, not only Wigforss was influenced by Wicksellian ideas, but he also became aware of some of Keynes's writings on public works between 1924 and 1930 (cf. Kragh, 2014, pp. 636 and 658), which may have influenced part of his policy proposals.

Although Swedish policies were limited in the sense that they did not aim at a permanent state of full employment as a primary goal – which only became a clear target after the Second World War – they opened up room for an unbalanced budget as an acceptable condition, following the Finance Bill of 1933. Moreover, through the agency of Wigforss, the British Liberal expansion program served as a model for the new unemployment policy that Swedish Social Democrats put forward in 1930, using Keynes's arguments in *Can Lloyd George Do It?* to support public works⁶⁴ (cf. Winch, 1966, p. 171).

⁶⁴ The works of Winch (1966) and Kragh (2014) bring up a relevant point by emphasizing the role of Sweden as the first country to put Keynesian-inspired ideas into practice, quoting the work of Karl-Gustav Landgren about Keynesianism in Sweden. As Winch underpins (1966, p. 172): "It would seem that Keynes should have looked to Stockholm rather than to Roosevelt's Washington for the first practical applications of his ideas. [Karl-Gustav] Landgren's book [about Swedish economic policies in

In this sense, the first applications of Keynesian ideas to relief unemployment and budgetary issues emerged in Sweden, but in a limited way considering the scope and target of those policies when compared to their socioeconomic project in the late 1940s – which Weir and Skocpol classified as a “social Keynesianism” (cf. 1985, p. 108).

Considering the implementation of social policies and the constitution of the Welfare State in Britain, one must look at the role of Keynesian ideas (both Keynes’s and Keynesians) into the design of social security and health systems in 1944. Both systems emerged from previous projects addressed in the 1942 Report on Social Insurance and Allied Services (or “Beveridge Report”), whose preparation involved inter-departmental experts within the British government, together with the Economic Section of the Cabinet Office.

Besides the prominent role of Keynes and William Beveridge, James Meade and Robert Hall (both employed in the Economic Section of the Cabinet Office) were also responsible for increasing the acceptance of Keynesian-inspired ideas towards economic and social issues, demonstrating the economic plausibility of accepting them (cf. Peden, 1990, p. 216-218).

As Harris (1997, p. 357-367) demonstrates, the Beveridge Report emerged from a change on the way the British government dealt with unemployment issues in the middle of the Second World War, particularly the Keynesian concept of “involuntary unemployment”. Put differently, as Owen (1943, p. 1) suggests in a 1943 editorial for *Foreign Affairs*, there was a political and social evolution on the way the British government understood the issues of population’s welfare and care, thereby classifying the rise of the Report as a countermovement to fight inequality and instability. Quoting Owen:

It [the Report] shows with admirable clarity and directness how involuntary poverty can be abolished from British social life by a redistribution of about one-tenth of the national output of goods and services in favor of those citizens whose needs are greatest. It shows also how familiar methods and institutions can be improved and adapted in order to achieve this distribution without setting up dangerous frictions or imposing crippling burdens on any

the 1930s] also makes it relevant to re-open the question: ‘Why was it that in Keynes’s own country the Labour government paid so little attention to expansionary remedies for unemployment in the late thirties, and why did its successor not use the fiscal lever after 1931 when external pressures on the pound were lessened?’”.

section of the community. It is a prescription for a characteristically British-style revolution [...]. (Owen, 1943, p. 1)

Notably, the evolution from the British Poor Laws system to the Beveridge Report's proposals indicated a different and more complete structure for dealing with unemployment, health, social security and welfare issues. Unlike the Poor Laws, whose basis relied mainly on cash benefits during sickness, unemployment and widowhood (Owen, 1943, p. 2), the Beveridge plan internalized the social responsibility and security towards the population in the sense that it proposed its own internal institutions and mechanisms (National Health System, Social Security System, positive employment policies, progressive taxation and income distribution) to regulate the population directly (cf. Beveridge Report, 1942).

The course of action for implementing the Plan's proposals involved political discussions both from the perspective of a State-centered approach as well as a coalition-centered approach (cf. Hall, 1989, pp. 10-13). Considering the State-approach, we see the influential role of economists (Beveridge, Keynes, Meade, and Robert Hall) on policy design and implementation within the state bureaucracy.

Prior to the 1944 White Papers on Employment Policy, National Health System and Social Security, decision-makers faced internal discussions involving the financing and budget of that social security system. This led to a proposal of a collective contribution fund that aimed at making the plan financially practicable (cf. Keynes, CW XXVII, 2012m, pp. 226-228).

While Beveridge delimited the plan of social security and social policy – what he defined as “assurance of a certain income” to maintain the essential freedoms of mankind, particularly children's allowance, health services and employment maintenance (cf. Beveridge Report, 1942, n. 409) – Keynes and Meade discussed the operationalization of the plan to make it practicable and politically possible. For instance, in a 1942 Summary Report (War Cabinet W.P. n. 42/547, 25 November, 1942) the Economic Section of the Cabinet Office discussed the cost of unifying specific benefits into broader provisions, as well as questioned the possibility of including other social sectors.

Keynes defended the economic possibilities of implementing Beveridge's plan on a draft for the House of Lords (24 February, 1943). For Keynes, the Plan could achieve its results at a low budgetary cost if it followed the principle of intertemporal saving-consumption. The Plan would be successful if we collect “to-day's [sic]

pension contributions from a working population larger than corresponds to the number of today's pensioners and we use these contributions [...] to pay for a smaller number of current pensions" (Keynes, CW XXVII, 2012m, p. 259). Indeed, Keynes emphasized the financial sustainability of the social security system and demonstrated an organic (or "collective", non-atomic) position when facing the future of welfare mechanisms. He stresses:

The future will be what we choose to make it. If we approach it with cringing and timidity, we shall get what we deserve. If we march on with confidence and vigour the facts will respond. It would be a monstrous thing to reserve all our courage and powers of will for War and then, crowned with victory, to approach the Peace as a bankrupt bunch of defeatists. [...]The real problems of the future are first of all the maintenance of peace, of international co-operation and amity, and beyond that the profound moral and social problems of how to organise material abundance to yield up the fruits of a good life. These are the heroic tasks of the future. (Keynes, CW XXVII, 2012m, pp. 260-261)

Noteworthy is here how Keynes reinforced the perspective that future economic issues would not involve scarcity or poverty. On the contrary, he pointed out the role of social and international security, as well as redirecting the outcomes of economic activity to achieve better conditions of collective welfare. Put differently, to build economic and social perspectives not only based on deficit spending, but also in confidence towards the future, which could be provided by public institutions rather than the market.

The bases of the Beveridge Report assumed three pillars: children's allowances, comprehensive health and rehabilitation service and full-employment policy as a broad proposal that provided income security (cf. Beveridge Report, 1942, n. 410-443). This goes accordingly with the Keynesian support for semi-autonomous bodies within the State that use the criteria of public good as their guide of action. Or, as Keynes (CW IX, 2013e, pp. 288-289), puts it: "bodies which in the ordinary course of affairs are mainly autonomous within their prescribed limitations, but are subject in the last resort to the sovereignty of the democracy expressed through the Parliament".

Considering not only a State-centered approach, but also a coalition-centered approach (cf. Hall, 1989, p. 12) for understanding the spread of Keynesianism into policy-making, one should also look at other social and political groups in determining the success of public works and employment and welfare policies. For instance, Weir

(1989, p. 79) underpins how the rise of the Labour Party into power in 1945 contributed to mobilize full employment and social welfare policies by classifying them as a politically significant issue in postwar Britain.

Although the central Labour proposition involved strong nationalization proposals, the full-employment policy was not left behind. On the contrary, Weir (1989, p. 80) points out the rebuilt of the Labour Party during the 1950s around the Keynesian paradigm that not only emphasized full employment, but also the institution of the welfare state.

Parallel to establishing the pillars for full employment and welfare policies, the transition from Keynesian theory to practice as an art of government gave rise to a new terminology and scientific paradigm about the existence of the collective (that is, the population) and the means to intervene from an economic perspective. Inevitably, however, with some changes and interpretations from Keynes's original thought.

Even though Keynes himself was not an active passionate social reformer, as Skidelsky points out (2003, p. 708), it is possible to say the Keynesian Revolution not only impacted economics in its theory, but in the connections between economics and governmental action. Keynes's primary concerns about the social system involved both its affordability and its effects on economic reform by the methods of political liberalism that could lead to the good life (cf. Keynes, CW XXVIII, 2013n, p. 29). However, he did not leave the role of employment and family allowances aside, neither the importance of a security system to sustain the economy via aggregate demand.

Keynes actually used the term "socialization of investment" (cf. Keynes, CW VII, 2013c, p. 378) – which is different than "nationalization" – to suggest how the State could influence the propensity to consume via taxation and other mechanisms, also underpinning the benefits of a compromise between the State and the private initiative to bring stability and an acceptable level of investments. Indeed, this represents a key point of what the Keynesian approach turned into the next decades, an association between State and market forces, where the public sector would act as a guide to reduce uncertainty and delimit the scope of policies. The next section presents that second stage of the Keynesian art of government, having its spread to the United States as the historical overview.

3.2 FROM KEYNES TO KEYNESIANS: LEGITIMIZING THE MACROECONOMIC DISCOURSE IN THE UNITED STATES (1940-1970)

The spread of Keynes's theory after the Second World War and the increase of several Keynesian interpretations about *The General Theory* created a simpler, but rhetorically more appealing discourse that enabled its wider acceptance among economists and policy-makers. For instance, John Hicks's *Mr. Keynes and the Classics: A Suggested Interpretation* (1937) and Alvin Hansen's (cf. Hansen, 1949) interpretation about Keynes's work culminated in the IS-LM model as a "condensation" of Keynes's recommendations for monetary and fiscal policy, increasing the popularity and the rhetorical power of Keynesianism when facing other liberal and socialist approaches.

The transition from the original British Keynesian thought to the American Keynesianism demonstrates this shift quite clearly in the sense of creating an ontologically narrow theory and mathematic-based models to explain monetary and fiscal policies, such as the case of Alvin Hansen and Paul Samuelson's interpretations of Keynes's theory in the 1950s.

Apart from the pure methodological critique of that particular approach of Keynesian economics, which was called "bastard Keynesianism" by Joan Robinson and has been extensively investigated by Leijonhufvud (1968), Hutchison (1977), Clarke (1998) and other historians of economic thought, the relevance of the transition from Keynes to Keynesians helps understanding what "Keynesian" meant in the postwar world and which specific discourses, power mechanisms and truths it created. Additionally, the rise of the economist as a policy expert contributed to legitimize the modern macroeconomic discourse and the economic and social interventions that Keynesian policies advocated, thus creating new and sophisticated forms of power relations.

This section presents the transition and rise of Keynesianism in the United States, pointing out the additional mechanisms that led to consolidate the Keynesian art of government based on two main pillars: defense for fiscal policies associated to the consolidation of the role of the economist as a policy-expert and decision-maker. Besides from presenting the simplification of the Keynesian theory and its policy impacts in the United States, we address some late Keynesian responses in Western

Europe, such as France and Germany, emphasizing the role of knowledge transmission and the role of think tanks in this process.

3.2.1 Alvin Hansen and the American Keynesians: towards a fiscal, commercial and military Keynesianism after the Second World War

The reception of Keynes's ideas in the United States did not occur automatically. Actually, as mentioned earlier in this Chapter, despite the fact that the American New Deal was implemented in 1933 and it shared some proposals with the Keynesian defense about public works and employment policies, it was not Keynesian per se. At that time the United States demonstrated alternative theoretical frameworks about economic reality and policy-making, particularly influenced by a dispute between the American institutionalism and an emerging orthodoxy (cf. Lee, 2009; Cavalieri and Almeida, 2015).

As in the United Kingdom, the emergence and spread of Keynes's ideas in the United States began in academia. Colander and Landreth's (1996, pp.08-09) attribute the coming of the first Keynesian ideas to America as a process "from Cambridge, England to Cambridge, Massachusetts" through the actions of some North American Economics' students, such as Bob Bryce and Lorie Tarshis. Both studied Economics at Cambridge and were part of the recently created "Keynes's Club"⁶⁵ in the middle of 1930, later spreading some Keynesian ideas at Harvard when returning to the United States.

Even though the direct Cambridge descendants played a relevant role by bringing some Keynesian ideas into America by the end of the 1930s, Alvin Hansen – who did not study at the University of Cambridge – became the most influential propagator of Keynesianism in America due to his capacity to influence both

⁶⁵ According to Tarshis (in Colander and Landreth, 1996, pp. 56-58), the Keynes's club was a group of students that along with some faculty (Joan Robinson, Richard Kahn and Piero Sraffa, previously members of the Cambridge Circus) assembled weekly with Keynes. Other members included Walter Salant, Paul Sweezy and Abba Lerner, who together with Bryce and Tarshis were responsible for bringing the first Keynesian ideas into America. In Tarshis (in Colander and Landreth, 1996, p. 55) own words: "[T]he interesting thing is: Keynes was himself not aware of the fact; certainly not fully aware of the fact, that he was leading an intellectual revolution. He backed into it. Richard Kahn and Joan Robinson took a lot of time and effort to persuade him that what he was doing had a significance – I said 'revolutionary'; please don't take this to mean Communist or Bolshevik or anything like that – I mean an intellectual revolution of the kind that Darwin initiated when he wrote *The Origin of Species* and Max Plank when he developed the quantum theory – a change in the way of thinking about something that people had taken as true, which had influences *all* their thinking. It's this that I call the revolution.

academia and governmental policy-making. More specifically, he joined the Economics faculty of Harvard University in 1937, and his first teaching activity was to conduct a seminar on fiscal policy, which he undertook until his retirement in 1956. However, prior to Harvard Hansen already had undertaken some services for the American government as an Economics adviser in the 1930s, a task he would repeat again in 1946 in the draft for a Full Employment Act.

Interestingly, although Hansen had started out as a skeptic of Keynes's ideas (cf. Barber, 1987, p. 191), by 1938 he had changed his view about interventionism and the role of government in provoking countercyclical policies against low demand and high unemployment. Some scholars (cf. Samuelson, 1976; Weir and Skocpol, 1985; Colander and Landreth, 1996) define that change around 1938, when Hansen published his *Full Recovery or Stagnation* (1938) and delivered his presidential address to the American Economic Association in December, 1938.

In that address he advocated a more intrusive government role in the economy as possible means of escaping the vicious cycle of low demand and high unemployment, especially when consumption stimulus has no satisfactory effects (cf. Hansen, 2004, p. 334). More specifically, Hansen's address discussed the effect of the decline in the rate of population growth in the United States on investment, technology and consumption – a concern compatible with Keynes's analysis addressed in his Eugenics Society lecture in 1937.

Usually Hansen's major contribution for the development of what became known as "Keynesianism" is attributed to his complement to John Hicks' interpretation of Keynes, culminating in the IS-LM model. Indeed, according to Phelps Brown's report about the Sixth European Meeting of the Econometric Society (1937, p. 361), James Meade, Roy Harrod, Hansen and Hicks attended to the meeting and presented papers that interpreted and summarized Keynes's system and conclusions from *The General Theory*. After Hicks published his results in 1937, Hansen added some considerations in his manual-style book *A Guide to Keynes*, but that was only published in 1953, when Keynesianism already became an accepted theory across the United States.

In this sense, we can accept Colander and Landreth's (1996, p. 2) argument that the Keynesian revolution in America had two key aspects – a theory and a policy revolution –, but without admitting that it was a two-step evolutionary process. Actually, given Hansen's concomitant role as an academic and policy adviser, both

revolutions seemed to have occurred simultaneously. A theoretical revolution marked by the development of a new set of theoretical tools and the rise of a new field, “macroeconomics”; and a policy revolution constituted by a new view about the proper role of the government for stabilizing the aggregate economy via fiscal and monetary policies.

Barber (1990, pp. 112-116) also points out to a third issue that contributed to the rise of a Keynesian revolution in America: the recession of 1937-1938 and its intellectual fallout. The recession caused a change on the way American policy-makers understood economic issues, such as national income, spending and inflation, especially from those experts and politicians who were involved in Franklin Roosevelt’s New Deal after the Crash of 1929.

In that previous context, government spending and budget deficits were not seen from the multiplier perspective, including the complex connections between savings and investments, as well as the role of the state to stimulate new investments. Following Alan Sweezy’s (1972, p. 116) observation, the concept of business cycle still dominated the thinking of economists and business men, as well as an inadequate understanding of inflation. More precisely, in 1938 the policy-makers had enormous difficulties in explaining why the New Deal had frightened off investments and how they could recommend new economic measures (cf. Stein, 1969, p. 167).

Noteworthy how the 1937-38 recession undermined the theory that increased government spending by itself would be enough to solve an economic recession without a proper comprehension of the complexity and dynamics of the economic reality. At that moment, the Keynesian proposal came as an appropriate answer especially in the works of Hansen and other Harvard economists, who emphasized the role of government spending to supplement private investment and income redistribution to induce longer consumption patterns.

By 1939 onwards the influx of the Keynesian school to Washington positions began to be visible, mostly due to the influence of Harry Hopkins, the Secretary of the Department of Commerce (cf. Stein, 1969, p. 168). Interestingly, Barber (1990, pp. 116-118) suggests that Hopkins aspired to make the Department of Commerce a focal point for the analysis and dissemination of a “new” economic knowledge, thus recruiting several economists sympathetic to Keynesianism as policy advisers – such as Richard V. Gilbert and Walter Salant from Harvard, and Gerhard Colm from the

New School for Social Research. Unlike the British interpretation of Keynes's theory and its application in practice, American Keynesians gave special attention to the role of tax reductions as a complement to expansionary governmental expenditures, an issue that shall be discussed later on as a characteristic of the Keynesian art of government.

During the war years, what helped to strength the Keynesian doctrine in the United States as an emerging view – partly disseminated by Keynesians in the government, such as Richard V. Gilbert and Robert Nathan – was the conception of “military Keynesianism” (cf. Mintz and Hicks, 1984 and Turgeon, 1996), which encouraged public spending on national defense. As Salant (1989, p. 45) demonstrates, the economic expansion associated with increasing government spending, tax cuts and the reduction of unemployment contributed to the acceptance and popularization of a particular interpretation of Keynesian ideas, mainly associated with fiscal policy.

After the Second World War, questions involving the maintenance of aggregate demand and employment levels began to dominate economic debates in the US. As Harold D. Smith (director of the Bureau of the Budget) argued about fiscal policy in 1945:

Fiscal policy will be the one of our major weapons both in avoiding depressions and in combatting inflation. I believe that fiscal policy, both on the revenue and the expenditure sides, is the most potent weapon we have for influencing markets and employment, especially when we need quick results. It is also a means of action most consistent with free enterprise. Public finance must be our servant and not our master. (Smith *apud* Barber, 1990, p. 133).

We should also underpin how that Keynesian discourse – the American interpretation of Keynes – suited that particular political and economic moment of the United States after the war, which contributed to its increasing popularity in the sense of a theory-practice transition. By providing a short-term economic theory that proposes a shift on the power dynamics between the state and the markets, the conditions of possibility for the rise and consolidation of that theory were set in the sense that it provided an appropriate response for economic and social policies (particularly employment) of that historical moment.

The role of Hansen became more prominent as the leading American Keynesian from 1940 onwards. Besides his influences within academia, Hansen also participated in calls for changes in welfare policies as a consultant for the National Resources Planning Board (NRPB) and when contributing for the draft on a formal, broader employment policy – the Employment Act, which also created the Council for Economic Advisers.

First, Hansen's consultant role for the NRPB involved an analysis of the economy after the war and the necessary conditions to maintain full employment and high levels of private consumption. His critical report, *After the War – Full Employment* (1943, pp. 1-22) called for elimination of compulsory savings; increase on war bond sells; consumers' credit expansion and tax reduction; and an enlarged program of Federal expenditures on social welfare, including family allowances, food–stamp plan and other subsidies, including old age pensions and health system improvements (cf. Hansen, 1943, p. 22).

According to Weir (1989, p. 77), the political link between Keynesianism and the extension of the welfare state in the United States was further emphasized by the connections of Keynesians with the National Resources Planning Board, whose final 1943 Report entitled *Security, Work and Relief Policies* called for major revisions in the administration, reach and generosity of social welfare policies in the United States. Indeed, the Report acknowledges the issue of economic insecurity and establishes conditions under which public aid is available (cf. National Resources Planning Board Report, 1943, pp. 135-137).

Secondly, the role of Hansen as a policy consultant for a draft of the 1946 Employment Act warrants some attention. Hansen was a co-founding member of the Council for Economic Advisers in 1946 (an agency within the Executive Office of the President), which redefined the way American economists and policy advisers understood economics. The Council was established by the Employment Act of 1946 as a locus of policy-guided experts to provide presidents with “objective” economic analyses, including fiscal and monetary policy recommendations based on theories and data sets.

The Employment Act – an “American version” of Britain's 1944 White Paper – resulted from the efforts of Hansen (a Federal Reserve Board consultant at the time), other Harvard economists (Richard Gilbert, Walter Salant, Gerhard Colm) and US decision-makers from the Federal Reserve Board and Budget Bureau to call for a

formal governmental commitment to full employment. As Barber (1990, p. 134) points out, it emphasized economic stabilization, which included attacking both deflation (one of Hansen's concerns) and inflation, as well as stimulating aggregate demand not only as a spender, but also through changes in tax structure to spur private investments.

However, the Act warrants some further considerations. The opening declaration of policy states that:

The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means, consistent with its needs and obligations and other essential national policies, and with the assistance and cooperation of both small and larger businesses, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions which promote useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and promote full employment and production, increased real income, balanced growth, a balanced Federal budget, adequate productivity growth, proper attention to national priorities, achievement of an improved trade balance through increased exports and improvement in the international competitiveness of agriculture, business, and industry, and reasonable price stability [...].The Congress further declares that inflation is a major national problem requiring improved government policies relating to food, energy, improved and coordinated fiscal and monetary management, the reform of outmoded rules and regulations of the Federal Government, the correction of structural defects in the economy that prevent or seriously impede competition in private markets, and other measures to reduce the rate of inflation. (Joint Economic Committee: Employment Act of 1946, as amended, 1985, p. 1)

One should realize the different weight the American Employment Act gives to the notion of employment and the mechanic of economic variables when compared to the 1944 British White Paper on Employment. Although the American Act presents a notion of "full employment" and its social outcomes to the population, it put greater weight into the idea of income, growth and price stability, emphasizing the public commitment to reduce and control inflation.

Indeed, Section 6 of the Act establishes the "National priority policies and programs required for full employment and balanced growth", which recognizes proper attention to problems involved in small businesses; youth employment issues; unemployment costs and a proper attention to the quality and quantity of health care, education and other human services, described as "essential to a full employment economy and to moving toward their availability for all individuals at costs within their

means” (Joint Economic Committee: Employment Act 1946, p. 9, 1985). Nevertheless, this section received less attention from policy-makers than those pure, economic concerns on growth and stabilization.

In this sense one can perceive the consolidation of Keynesianism into American policy-making by looking at the relevance given to fiscal policy as a strategy of national macroeconomic management that stimulated consumption, investment and employment, but with some distinct aspects compared to British Keynesianism. Two main definitions emerged to define this new American Keynesianism in the postwar world: a “military Keynesianism” (cf. Mintz and Hicks, 1984 and Turgeon, 1996) together with a “commercial Keynesianism” (cf. Lekachman, 1969 and Skocpol and Weir, 1985). Both deserve a proper investigation to understand and define the principles of the Keynesian art of government.

First, the principle of “military Keynesianism” expressed the principle of large public expenditure on military budgets as a way to stimulate aggregate demand via employment creation and investments both on the military and civil industry. In 1969, Lekachman (1969, pp. 177-178) already pointed out to the economic benefits the Korean War had brought to the United States, particularly on a significant decrease on unemployment, reaching 2.7% in July, 1953.

Despite its economic benefits in terms of growth and employment, the question whether Keynes or the first Keynesians were engaged on a pro-war discourse still remains under debate. When Keynes wrote *The Economic Consequences of Peace*, he explained how paying for war reparations could lead to a severe shrinkage of its internal demand, thus leading to a deep depression or a new war. However, this differs from a normative pro-war discourse in which a war could be used as an economic solution. In this sense, American Keynesians engaged on the notion of military Keynesianism as a new economic concept when compared to the traditional Keynes.

The emergence of military Keynesianism funded by public and private investments pointed out to an increase on security concerns after the end of the Second World War, adding another item in the standard fiscal agenda of employment, economic stability and growth.

As Turgeon (1966, pp. 17-19) stresses, military Keynesianism became stronger during the Kennedy-Johnson government, particularly between 1961 and 1966. The 1962 Report of the Council of Economic Advisers (CEA) acknowledged

the large share of military spending in the United States, but at the same time it proposed a pro-war discourse when demonstrated concerns with possible threats to the world security. It says: “[t]he future needs of defense are uncertain but imperative; the larger and more efficient our economy, the more readily will we be able to shoulder larger military burdens (...)” (Annual Report of the Council of Economic Advisers, 1962, p. 110). Indeed, the 1962 CEA Report was responsible for strengthening the “New Economics” approach, or the new popular American Keynesianism of the 1960s, both as a military and commercial discourse.

Secondly, the idea of a “commercial Keynesianism” sought to define a policy model that combined both fiscal policy and private investments in order to maintain high levels of employment and aggregate demand. Lekachman (1969, p. 243) defines as “commercial Keynesianism” those economic policies advocated between 1953 and 1964 in the United States that involved massive incentives in tax cuts and automatic adjustments of government spending.

The 1962 CEA Report developed the concept of “fiscal drag”, blaming the excess of taxation for stagnation in the previous years (cf. Turgeon, 1996, p. 18). The beginning of the Report – written by Walter Heller, but with contributions of James Tobin and Kermit Gordon – stresses:

To combat future recessions—to keep them short and shallow if they occur—I urge adoption of a three-part program for sustained prosperity, which will (1) provide stand-by power, subject to congressional veto, for temporary income tax reductions, (2) set up a stand-by program of public capital improvements, and (3) strengthen the unemployment insurance system. (Annual Report of the Council of Economic Advisers, 1962, p. 4).

The Council suggests that unemployment could be reduced from the current level of seven percent to four percent without increasing inflation (cf. Annual Report of the Council of Economic Advisers, 1962, p. 8) once the economic policies (fiscal, monetary, income) would be correctly used. As Herren (2004, p. 1) claims, Heller’s rapport with President Kennedy allowed the CEA to successfully promote an investment tax credit and a reduction of marginal tax rates for personal income, both primarily designed to increase consumer demand and avoid stagnation.

Weir (1989, p. 78) attributes the coordination of the Keynesian mode of governance to certain patterns of administration, that is, to the role of social groups or coalitions. Indeed, those two elements were relevant in implementing a rhetorically

simple Keynesianism in the United States, as one can see from their role on the Council of Economic Advisers. Nevertheless, the principle of knowledge and discourse constitution was left aside in several analysis of the rise of Keynesianism in America, particularly on the way it shaped the scientification and politicization of the economist, particularly on providing policy analyses and recommendations that created power relations.

The next section focuses on this specific principle of the Keynesian art of government: the emerging character of the “economist”, and the legitimation of macroeconomic discourse.

3.2.2 Formalization, technical knowledge dissemination, and the legitimation of the Keynesian macroeconomist

Understanding the Keynesian revolution and its transition from theory to practice – which culminated in a form of governmentality – also requires an appropriate investigation of the complexities and conditions involving knowledge dissemination, mathematization of the Keynesian theory and the consolidation of professional economists as policy experts.

This sub-section explores how Keynesian economics consolidated itself as a form of knowledge that contributed to the formalization of macroeconomics and the legitimation of the “economist” as a policy expert. We use the cases of policy acceptance in France and in Germany as examples of late absorption of Keynesianism, and how decision-makers and technicians played an important role in disseminating the Keynesian theory within political arena, rather than academia (as the cases of Britain and United States).

Undoubtedly, the first revolutionary aspect of the Keynesian theory was the change that Keynes and his theory caused in economic epistemology and in the role of Economics professionals. That is, an epistemological change that led to a rethinking of the foundations and presupposes of economic reality, such as employment and the role of money; as well as a political change in the sense that Keynes and the Keynesians consolidated and legitimized the profession of the economist as policy adviser.

Indeed, we cannot leave aside the subsequent formalizations that other Keynesians accomplished in an attempt to reinterpret or reconstruct Keynes’s

economic theory. Coddington (1976, p. 1263) calls some of these authors who readapted and redeveloped Keynes's ideas as "hydraulic Keynesians". Those economists that emerged in the end of the 1940s attempted to make Keynesian ideas more accessible to students and to laymen by presenting a picture of the macroeconomy as a mechanical system where various flows (income, expenditure or output) would move according to stable relationships; if the flow was insufficient to reach full employment, then government expenditure could contribute for such result.

As Dow (1996, p. 65) underpins, although this approach merges some concepts of the neoclassical tradition (hence the "neoclassical synthesis"), this form of Keynesianism shifted away from *a priori* axiomatic theory and moved towards an empirical analysis of the economy.

For Dow, this occurred for two reasons: first, because the driving force was the policy application of macroeconomic analysis, empirical estimates were necessary of effective demand deficiency. Second, macroeconomics had been cut adrift from microeconomics, especially on what concerned axioms, utility and rationality. With this new macroeconomic approach, the basic axioms were "consumption is a stable function of income", which is more easily testable than "individuals maximize utility".

Other concrete examples of such shift in economic analysis to mathematization rely on the consolidation of macroeconomics as a field of study. A common-sense definition for macroeconomics is "(...) an applied economic science concerned with the analysis of economy-wide phenomena, such as unemployment, inflation and economic growth." (cf. Snowden and Vane, 1999, p. 1), which has profound implications for human welfare and living standards. Indeed, even though we cannot deny Keynes's revolutionary writings on this emerging field of knowledge, the epistemological changes led to a formalization and mathematization of macroeconomic phenomena.

In the process of formalization and scope delimitation of macroeconomics, John Hicks, Alvin Hansen and Paul Samuelson (all self-declared Keynesians) offered formalized versions of the Keynesian theory. We can point out the IS-LM diagram for flows and stocks of goods and money (cf. Hicks, 1937), as well as the formalization of system of consumption, investments and interest rate, reaching the basic equation of $Y = C+I$, or $Y = C + E$ (where E stands for the sum of private plus public expenditures) (cf. Samuelson, 1941 and 1942). Interestingly, the notion of equilibrium

becomes more recurrent in these writings of the “hydraulic Keynesians”, leading to an increasing process of mathematization.

As Klamer reveals in an interview with John Hicks (cf. Klamer, 1989, p. 179), Hicks acknowledged thinking about economics from an accounting point of view, as an “accountant of capital” that orders income statements and balance sheets from a macroeconomic perspective. As seen on section 3.1, the role of statistical data and the proposal of national accounting systems also contributed to the contemporary notion of the macroeconomy, which also has important consequences in terms of empowering, economic control and decision-making.

Together with the formalization process and mathematization of economic thought we can also point out the role of knowledge transmission in consolidating Keynesianism as a mode of governance in the 1950s and 1960s, as well the own role of the macroeconomist as a policy expert. Two main characteristics define the knowledge transmission: first, the pedagogical role of academics and textbooks in spreading economic ideas and successful theoretical and policy revolutions to students; and secondly the role of technocrats and their policy design in influencing the discourse of state intervention and economic management outside Britain and USA, such as the cases of France and Germany.

First, complementary to the simplification and mathematization of Keynesian theory was the pedagogical revolution that became part of the “Keynesian revolution”. Besides the two established revolutions – theory/method and policy-making – Colander and Landreth (1996, p. 20) point out a third element that determined the success and empowerment of Keynesian discourse as an accepted theory and policy influence: the pedagogical revolution in the shape of textbooks. Almost needless to say, the reinterpretations and simplifications of Keynes’s theory in a simpler and more accessible framework were decisive factors.

Three main publications launched at the end of the 1940s and beginning of the 1950s, “(...) particularly Samuelson’s at the introductory textbook level *Economics: An Introductory Analysis* (1948), Hansen at the intermediate textbook level *A Guide to Keynes* (1953), and Lerner’s *The Economics of Control* (1944) and *The Economics of Employment* (1951) at the non-specialist economist level” (cf. Colander and Landreth, 1996, p. 20) encompassed all levels of audience, from laymen to students and statesmen, which contributed to the rhetorical strength and appeal of the Keynesian theory. The “neoclassical synthesis”, which brought neoclassical

microeconomics and Keynesian macroeconomics side by side in Economics textbooks in the sense of a “micro-macro” approach became the common practice until present days.

Secondly, besides the scientific knowledge transmission of Keynesianism, we can identify the spread of Keynesianism as a policy agenda from Britain and the United States to other nations, particularly concerning employment policies and fiscal policy. For that analysis we apply Peter Hall’s historical institutionalism approach (economist-centered, state-centered and coalition-centered) to understand this process of policy dissemination in the cases of France and Germany.

Noteworthy is here how both France and Germany had a slow and late acceptance of Keynesianism when compared to countries such as Sweden or Britain, as well as a more technical and policy-oriented than an academic trajectory. Although the process of knowledge dissemination after the Second World War occurred with similar actors and/or institutions, one should pay attention to the increasing role of political coalitions, technical institutions (statistics and other research institutes), rather than universities and academic scholars.

The French case demonstrated first a shy emergence of academics sympathetic to Keynes’s theory, later followed by the role of economists in governmental institutions. Albeit a relatively slower process – Keynesianism only became accepted and widely used in the decade of 1950 –, France became one of the countries where Keynesianism established itself most thoroughly (cf. Rosanvallon, 1989, p. 183). Interestingly, as Rosanvallon (1989, pp. 172 and p. 177) suggests, a cause for that delay was because Keynes’s ideas were too close to French traditions to arouse enthusiasm among policymakers, especially after the Great Depression. Indeed, French economic thought demonstrated a different trajectory when compared to Anglo-Saxon traditions, particularly on issues involving freedom of markets and state intervention.

It was only in the end of the 1930s that a few practical men (civil servants, journalists and economists) engaged in the Keynesian theory and its policy recommendations. The *General Theory* was translated into French in 1939, but it became popular after the Second World War when the journal *Revue d’économie politique* published many favourable articles on Keynes, including John Hicks’s 1937 paper. However, unlike the processes in Britain and in the United States, there were almost no academics in the primary steps of Keynesianism in France. Actually, it was

a reverse process. On the university level, the roles of François Perroux and Alain Barrère in publishing the first articles on Keynes's purchasing power theory contributed to the diffusion of Keynesian discourse.

Nevertheless, Keynesian ideas took root most rapidly among technocrats. Boyer (1985, p. 81) points out that engineering schools and public management institutions, such as the National School for Administration, were the first to offer a course on Keynesian theory. Needless to say, the knowledge transmission was almost exclusively amongst technocrats and decision-makers, emphasizing the practical tone of Keynes's discourse and method regarding fiscal policy and national accounting systems.

As for the specific characteristics of the knowledge transmission, Keynesianism gained a local tone in France when compared to other nations. Boyer (1985, p. 83) claims how a quantitative and selective control of credit by the state constituted an instrument at least as powerful as the public budget for French policy-makers. French economists also began to work on macro-modelling and a "French approach" to monetary policy, which involved Keynes's multiplier effects and a creation and destruction of credit. Additionally to that was the creation of a new language involved in policy-making: "price policy", "salary policy" and "fiscal policy" that put the economic context in connection to the social sphere.

Keynesian technocrats held key positions at the *Commissariat general au plan* (CGP), the *Service d'études économiques et financières du ministère des Finances* (SEEF), and the INSEE (cf. Boyer, 1985, pp. 81-83), where they played a prominent role in reorganizing the French Treasury, introducing new national accounting statistics and developing forecasting tools. External intellectual influences, such as the Marshall Plan (and its French coordinator Politian Robert Marjolin), also contributed to a wider acceptance of Keynesian ideas in France. Interestingly, the role of French academic economists was quite marginal when compared to Britain or the United States.

Despite the existence of state-led investments and employment policies in the 1930s, there was a significant change on the way the role of the state was perceived by the French population. The distrust in the old, disqualifying ruling classes made room to the 1945 and 1946 social reforms and an entire generation of young, high-ranked civil servants who spread a Keynesian vision of the economy (cf. Rosanvallon, 1989, p. 187). The economic policies from 1945 to 1954 emphasized

economic stability and demand management in face of an increasing consumption, leading to investment policies in infrastructure and credit allocation.

Although France became known for implementing “planned” economic policies in that period, Rosanvallon (1989, p. 189) stresses how we should not consider these nationalization and interventionist policies as Keynesian themselves. Indeed, nationalization and planning are not Keynesian measures, but rather political effects that aim at direct economic control. Alternatively, Keynesianism established itself as a technology of regulation, a set of recommended tools for the market system regarding fiscal, budgetary, monetary management. In that sense, we could talk about a “technical” Keynesianism in France, rather than a proper welfare or social Keynesianism.

The second case we consider important for understanding the knowledge dissemination of Keynesian economics in the 1950s and 1960s is the German case. It is considered by some scholars (Backhaus, 1985; Dillard; 1985; Allen, 1989) as an interesting case about the dissemination of economic ideas and political practices by demonstrating a different trajectory and timing when compared to other countries.

Despite being a “constrained” form of Keynesianism, the German case requires proper attention for its unique character of the necessary conditions of possibility for the knowledge transmission and rise of Keynesian policies. In Germany, this acceptance process was indeed delayed and less present than in Britain or in the US, having a shorter passage during the decade of 1960.

Germany’s temporary turn to Keynesianism mainly incorporated the concerns with economic stability and unemployment, where think tanks and technical institutions played a more influential and decisive role than academia in the spread of Keynesian policies. The own structure of German economic thought may point out to the first condition that explain this delay.

Backhaus (1985, p. 167) demonstrates that Economics in the German universities of the 1920s and early 1930s were much more heterogeneous than in Britain, with scholars such as Hayek, Von Mises, Schumpeter, Röpke, Sombart and Lautenbach all publishing at the same time on topical issues. Indeed, this links to the existence and acceptance of a German historical school, leading to an epistemological cluster that recognized the limitations of the market and the analytical approach of classical and neoclassical economics (cf. Backhaus, 1985, pp. 170-173).

Backhaus (1985, p. 169) underpins the role of Wilhelm Lautenbach (an official at the Economics Ministry) as a German pre-Keynesian⁶⁶ for proposing similar notions to Keynes's theory between 1931 and 1932, that is, unemployment equilibrium, aggregate demand and the multiplier. However, he and other "pre-Keynesian" economists became less known for their acknowledgments than Keynes for reasons that include geography, history, culture and politics. Indeed, Keynes was a native English speaker in *the* center of learning in economics. Besides, he had a world visibility as a consultant economist and was in a privileged position to communicate his message to the profession as a whole (cf. Patinkin, 1982, p. 87).

The second condition for the brief and delayed rise of Keynesianism in Germany relies on historical events. After the Second World War there was distrust on particular forms of state intervention in the economy or in society, enabling the acceptance of other pro-market schools of thought (such as the Freiburg School, or "ordoliberals") and their proposals involving a social market economy.

It was only in the decade of 1960 that Keynesianism entered the field of policy-making in the German economy. The political coalition involving the Social Democratic Party and the Christian Democratic Party incorporated new demand-stimulus policies into their economic programs, besides creating an independent Council of Economic Experts (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*) in 1963, composed by professional economists and academics.

The Council's aim was to provide institutional means for supporting and legitimating the opinions of the leading economists, as well as to respond to the pressures of the Left and trade unions for employment policies (cf. Wallich, 1968, pp. 352-356). Noteworthy here is the role of Karl Schiller (economist expert, politician and later Ministry of Finance) as an important technical and political actor in this political coalition that contributed to the Keynesian moment in Germany and a critique of the social market economy.

Two exogenous factors also contributed to the German openness to Keynesian ideas: the opening of the West German economy to the rest of Europe, and a sharp

⁶⁶ Besides Lautenbach, Patinkin (1982, p. 87) mentions other scholars as "pre-Keynesians" to identify economists who were working on similar aspects of Keynes's theory at the same time, such as Michal Kalecki, Bertil Ohlin and Gunnar Myrdal.

drop on the labor supply after the building of the Berlin Wall in 1961. Interestingly, the political coalition of Social and Christian Democrats interpreted this shortage of labor supply and the achievement of full employment as something that could lead to a new rationality and future policies to fight unemployment and low demand levels in case those events happened in the future (cf. Allen, 1989, p. 286).

Two *proxis* suggest a brief acceptance of the Keynesian theory in Germany. First, the Stability and Growth Law (1967), where German policy-makers – led by Schiller – made a temporary Keynesian turn in seeking high employment levels associated with economic growth and price stability (cf. The West German Law to Promote Economic Stability and Growth, 1967, p. 1), besides promoting public expenditure and investments as a way to counterbalance low demand levels (cf. The West German Law to Promote Economic Stability and Growth, 1967, p. 2).

Secondly, the employment policies of 1969 implemented by the Labor Promotion Act (*Arbeitsförderungsgesetz*), where political coalitions (Social and Christian Democrats) recruited public advisory bodies, such as the Council of Economic Experts and the German Institute for Economic Research, to introduce an active and direct labor market policy. Besides its clear compromise to ensure a high level of employment, fighting the categories of “inferior” and unskilled jobs, the Labor Act prioritized preventive interventions, social provisions and vocational guidance (cf. Bothfeld, 2007, p. 30).

Interestingly, as Puehringer and Griesser (2015) point out, at that time German policy-makers saw unemployment and the social market economy model as big threats to social cohesion by emphasizing egoism, individualism and unskilled jobs with low wages. Indeed, as Bothfeld (2007, p. 19) suggests, the idea of an “active” labor policy is constantly present in the 1969 Labor Act, thus reinforcing the necessity of not simply social benefits, but also an active program for skill improvement that leads workers towards “better” jobs. We shall discuss these normalizing consequences of Keynesian economic and social policies throughout Chapter 4.

The cases of France and Germany as late technical transmissions of the new “Keynesian Economics paradigm” help us illustrate the transitional path from Keynes’s original theory to the political application of Keynesianism as an economic prescription and, more importantly, the shift on economic knowledge and the role of the economist in the postwar world.

Indeed, this transformation of the economics scholar into a professional economist is not intriguing to economists only (cf. Colander and Coats, 1989), but also to political science scholars, as seen in Hall (1989, p. 8) and Weir and Skocpol (1985). Understanding the political economy of power that embodies Postwar Keynesianism inevitably demands an analysis of the discourses involved in the process of politicization and scientification of economics.

From the early 1930s to present times, the role of economists in the government has changed and has become more present. The British Economic Advisory Council (1929-1931) was the first formal attempt in Britain to recruit economists into government service on a full-time basis, and to create a mechanism whereby the government could call upon a wide range of outside experts for advice on a regular and formal basis (cf. Howson and Winch, 1977, p. 1).

Under these circumstances of economic decision-making and the role of the economist, one may ask: what impacts and consequences in terms of power did these Keynesian economic decisions actually cause? It would be a simplistic assumption to believe that these transformations in economic thought and in policy-making had no other effect beyond their acceptance and influence itself. As Foucault suggests, “[w]e should not think that good economic management has had no other effect and no other foreseen and calculated end than that of securing the prosperity of all and each” (Foucault, 2008, p. 84). Indeed, philosophers of economics and historians of economic ideas could benefit greatly from a critical analysis that accounts for the power effects of Keynesian economic knowledge and management of life. Chapter 4 will deal with such critique.

3.3 PARTIAL CONCLUSIONS

This chapter provided a critical analysis about the historical processes that involved the emergence and consolidation of Keynesian economics as a form of governmentality. We focused on the transition and changes from Keynes’s theory to the dissemination of his ideas as a policy agenda from the decade of 1930 to the 1960s mainly in Britain and in the United States, presenting the special cases of Sweden, France and Germany briefly as examples of early and late acceptance of Keynesianism.

Despite the historical tone of this chapter, we assessed the evolution of Keynesianism from theory into practice from a historical institutionalist perspective together with some contributions from Foucault's genealogy. Drawing from Hall's (1989) and Weir and Skocpol's (1985) approach on the history and relevance of social and political institutions, we investigated the acceptance of Keynesian ideas in Britain and in the United States by identifying the institutions and actors involved in the process of political change. We also addressed a genealogical analysis of the processes of knowledge transmission by academia and other technical institutions, as well as emphasizing the mechanisms, techniques and political-economic apparatuses created and applied in those processes. Additionally, we pointed out the specific cases of Sweden, France and Germany as complementary to our understanding of the complexities of a Keynesian governmentality, including the spillovers of knowledge transmission, policy diffusion and the changes in the role of the economist.

As stated throughout the chapter, the roles of academia, technical institutions, think tanks and social and political institutions themselves were crucial to a proper understanding of the rise of economic mechanisms and techniques that aimed at stabilizing the economy, promoting demand stimulus, pursuing full employment and creating systems of social security. Regardless of the peculiarities of each case study, such as time in history, academic context and political institutions, we can summarize our findings in Table 1 (below).

As the Table demonstrates, in spite of the different results when comparing the State, economist, political and academic approaches, one can find similar results in terms of mechanisms of action, or "formal policies". This indicates the construction of a consensus of what Keynesianism and Keynesian economics means politically despite the oversimplifications and changes suffered by Keynes's original theory and proposals.

In this sense, Keynesianism has consolidated itself as a policy oriented form of knowledge and discourse. Indeed, apart from the methodological struggles, we cannot avoid to say that both Keynes and the Keynesians of the Post-war world had an important characteristic in common: to intervene in the economy and to propose new policies that had significant impacts to the way populations are governed.

One should reflect about "why" and "how" economics, both its theory and its policy, affects the way individuals act, behave and think about their existence. As

Foucault suggests, “[w]e should not think that good economic management has had no other effect and no other foreseen and calculated end than that of securing the prosperity of all and each.”. But what sorts of effects are we dealing with, particularly collective effects that involve a reappraisal of the concepts of power, political economy and biopolitics? How do these powers stem from Keynesian political economy, and what consequences do they provide? The next chapter proposes a critical study about such consequences.

TABLE 1 – A Historical-Institutional Approach of Keynesianism and its Specific Modes of Governance

| COUNTRY | STATE APPROACH | ECONOMIST APPROACH (ACTORS) | COALITION APPROACH (Political / Technical) | ACADEMIC APPROACH | FORMAL POLICIES (“MECHANISMS OF ACTION”) |
|----------------------|-----------------------------------|---|--|--|--|
| Britain | Welfare Keynesianism | J.M. Keynes; J. Meade; R. Kahn; J. Hicks | Macmillan Committee; Economic Advisory Council; Labour Party; Treasury | Cambridge; LSE | Social security systems; full employment |
| Sweden | Social Keynesianism | E. Wigforss; G. Möller | Social Democratic Party | Lund; Stockholm* | Social security systems |
| United States | Commercial/Military Keynesianism | A. Hansen; W. Salant; P.Samuelson; J. Tobin | National Resources Planning Board; Council for Economic Advisers | Harvard | Fiscal policy; employment bill; tax cuts as active fiscal policy |
| France | Technical/Regulatory Keynesianism | F. Perroux; A. Barrère; R. Marjolin | General Plan Commission; Service of Economic and Finance Studies; National Institute of Statistics | ENA (National School for Administration) | Full employment, income, fiscal and regulatory policies |
| Germany | “Constrained” Keynesianism | W. Lautenbach; K. Schiller | Christian Democrats and Social Democrats; Council of Economic Experts | WSI (German Institute for Economic Research) | Economic stability; employment policies |

Source: Author’s own work based on Winch (1966); Backhaus (1985); Allen (1989); Booth (1989); Hall (1989); Rosanvallon (1989); and Barber (1990).

(*) There are some divergences about the role of Stockholm University in the diffusion of Keynesianism. More on this, see Patinkin (1982) and Winch (1966).

4. THE POLITICAL ECONOMY OF POWER OF THE POSTWAR WORLD: KEYNESIAN GOVERNMENTALITY, KNOWLEDGE TECHNICALIZATION AND BIOPOLITICAL LIFE

This chapter has a twofold objective. First, it introduces an analytical framework for the study of power relations in economics by proposing a “political economy of power” approach (hereafter PEP). Secondly, it explores the mechanisms and techniques used by Keynesian economics in creating collective forms of power relations in the postwar world by applying the PEP approach, underpinning its transformations on economic knowledge and its application into social control and the government of life. Our PEP framework intends to grasp the main elements in Keynesian discourse and policy-making that had specific consequences in terms of power to the regulation of the economy and population.

The issue of power in economics, despite its obvious role on the way policies, discourses and ideologies are proposed and disseminated, lacks a formal analysis in the historical and philosophical approaches of economics. More specifically, economists could benefit from a historical analysis that investigates how Economics enters the political arena, helps in determining policy actions and how these actions create power relations.

The PEP framework deploys a dual-historical approach, combining institutional and genealogical aspects to analyze the transformation of Keynesianism from knowledge into a policy agenda between the end of the 1930s and 1960s. We trace back some of the elements of Keynesian governmentality presented in Chapter 3, such as those that involved economic discourse, policy discussion and political acceptance of Keynesianism, to outline how Keynesian governmentality promoted a redesign of biopolitics and social regulation of the population based on the idea of security.

We stress that technical macroeconomic analysis and policies involving full employment, demand management, economic stability and social security point out towards new forms of control and regulation of biological, economic and social life. Inasmuch as Keynesianism established itself as a mode of governance, it promoted a shift on what concerns economic knowledge, the notions of policy-making, the role of the economist and the limits to state intervention in the economy. Consequently,

Keynesianism also changed the ways populations are regulated by creating new apparatuses that protect individuals against a number of risks, uncertainty and instability.

Once Keynesianism established itself as a technical economic knowledge that was appropriated by political and social institutions, it influenced policy goals based on employment policies, economic stability and demand stimulus. Consequently, the search for a social democracy legitimized undesirable economic issues – such as unemployment and economic instability – as big threats to social cohesion, enabling the rise of a new discourse involving economic justifications to intervene on the social arena, and culminating in a form of a biopolitical control through the government of economic life.

Foucault's assertions on the issue of biopolitics, however, did not point out to a study of power relations caused by other schools of economic thought except strict liberalism. He provided some bullet-points about totalitarian powers and their biopolitical reinforcement, such as Nazism and socialism (see Foucault, 2003, pp. 239-263), but he left aside the role of Keynesianism in promoting new apparatuses of security and forms of control.

Similarly, contemporary Foucauldians have not yet explored the role of alternative forms of governmentality based on a non-liberal economic discourse, or on a “middle-way” view. As Karl Polanyi's theory of commodification and market disembeddedness stressed, the rise of liberalism also created conditions to the emergence of some social and economic counter movements that occurred side-by-side with the self-regulating market economy (cf. Polanyi, 2001, pp. 138-139).

In this sense our study focuses on other forms and possibilities of economic discourses that present a middle-way theory; that is, the transformation of John Maynard Keynes's original theory into “Keynesianism” and the economic dominance of Keynesian policies in the postwar world. Throughout this chapter we will explore the technicization process of Keynesian Economics, and how its macroeconomic discourse was appropriated by social and political institutions to create new power relations. By pointing out the cases of research institutions, think tanks and other associations involving academia, government and civil society in postwar Europe and United States, we explore the use of technical macroeconomics and Keynesian policies as instruments of social control. Put differently, we seek to capture the power relations caused by economic ideas once they influenced political decisions.

As seen in Chapter 3, if in some aspects Keynesianism in fact represented a form of countermovement within liberalism in the sense of an interventionist approach without rejecting core liberal institutions such as the state or private property, one cannot avoid but reflect about Keynesian biopolitical consequences to the government and regulation of the social context. Under these circumstances one may also consider the role of forms of resistance against such powers. Interestingly, both Foucault and Keynes addressed their own theories about the ethics and the subject, particularly on what concerned forms of behavior of the self with some common aspects. In the end of this chapter we will draw our attention to Foucault's and Keynes's original views on ethics as a conduct, and more importantly the role of economic action: how one can transform himself/herself within the realm of the economy when facing biopolitics and control.

4.1 POWER IN ECONOMICS AND THE "POLITICAL "ECONOMY OF POWER" (PEP) APPROACH: SOME RULES OF THE GAME

This section explores the main theoretical aspects of the field of power in economics, besides presenting a formal methodological framework for the study of power. We introduce a "political economy of power" framework (PEP) to investigate the trajectory of Keynesianism as a theory and as a policy technique, since the emergence of Keynes's early economic theory to its transformation into a policy agenda that had specific consequences in terms of power, governance and regulation of the economy and the population.

Based on Chapter 3's findings on the rise of a Keynesian governmentality in the Western world following the interwar and postwar periods, we outline the *modus operandi* and practical effects of Keynesianism from a perspective that takes powers, discourses, actors and social institutions into account. More important than presenting the genealogy of Keynes's thought and the acceptance of Keynesian governmentality, the effects of Keynesianism into social institutions, policy-making and governmental strategies towards the economy deserve a proper attention.

For that, we first present a multidisciplinary methodological framework (section 4.1) that explores the rise of economic theory, its transformations into a policy agenda and its consequences to the governance of the economy and the population. By deploying a dual-historical approach that combines genealogical and institutional

aspects, we use the PEP framework to assess the core economic ideas. Section 4.2 re-evaluates Keynesianism in face of its methodology and technicality, emphasizing its impacts on think tanks and policy agenda. Lastly, section 4.3 discusses the transformations of Keynesian economics and its impacts to the government of the living, constituting a form of biopolitical power.

Despite the lack of formal analyses on the issue of power in economics, especially in historical and philosophical approaches of economics, power cannot be ignored as an intrinsic element of the economy.

Ontologically, economic action presupposes private and public relations in which power exercises its influence. From the ancient Greek concept of *oikonomia*, or the private household management, to the public domain of political economy, power exercises its influences through dominance and control relations among individuals and institutions. Elements such as production relations, money, labor contracts, market power and trade relations are subject to influences and power relations. Regardless of the theoretical and methodological approach one may choose when making economic research, power remains as an active force.

Taking current approaches of economic power into account, we can delineate two main theoretical axes that explore power in economics. First, a mechanistic approach founded in an ontologically closed system, such as neoclassical economics, and its theories of market structures (monopoly, oligopoly) and labor market. This view presupposes economic atoms in the society, such as firms and individuals, besides demonstrating how firms seek profit maximization, rent-seeking and market share when facing, for instance, marginal costs, barriers to entry, market failures and specific goods. Similarly, this approach understands that workers get the power to decide or not their labor supply and desired wage based on the levels of labor demand of firms and their managerial power.

Secondly, a political, ontologically open system approach that accounts for the role of ideology, political interests, institutions, discourses and actors, mainly influenced by power studies in political science and sociology. The examples of the German Historical School (which reckons the Weberian notions of power and institutions) as well as Marxian political economy (focusing on a downward causation of power where the capitalist class control the means of production and is thus able to exploit the proletarian class) indicate the classical approaches to power in economics associated to ethical and institutional elements.

These classical approaches partially influenced the construction of recent theories of power in economics, such as the ones advocated by Galbraith (1952), Dugger (1980) and Bowles *et al* (1999). All three authors address a critique to mainstream theory and other forms of neutral analysis, especially concerning individual decision-making and social interaction.

As Dugger (1980, p. 897) broadly defines, “power shall refer to the ability to tell other people what to do with some degree of certainty that they will do it”, associating Weber’s⁶⁷ notion of power to a modern Institutional approach. Indeed, despite Foucault’s (1995) criticisms on the narrow idea of power as being a coercive force, one must recognize that heterodox approaches to power in economics begin with a holistic approach that does not only account for the issue of power itself, but the question of why individuals are willing to obey orders and instructions (coercively or not). In this sense, institutionalists rely on the understanding of formal (political and social) and informal (habits) institutions to justify the obedience of individuals to certain conducts and behaviors.

Bearing in mind the institutional approach to power and Foucault’s genealogical inquiry on power relations, some common points deserve proper attention. While Foucault stressed the role of micro-institutions and other discontinuous, external and specific facts of a discourse or a practice of power, institutionalists focused on the role of macro institutions (both formal and informal) to understand how individuals change their behaviors, preferences and decisions towards a certain point.

Taking the case of education as an example, Foucault (1995, p. 156) emphasizes the techniques and practices involved within the educational context that seek to discipline and create a specific conduct (such as individual control and normalization), while institutionalists such as Dugger (1980, p. 899) point out the role of institutional structure and hegemony. For instance, institutions such as high schools or universities are constituted by elites that produce “suitable” graded employees with “suitable” transmitted knowledge, thus producing the means for pursuit of corporate ends. The similarities between both views also rely on the

⁶⁷ Weber’s conception of power relies on a dual-perspective that combines a coercive and authoritative approach. Coercive power manifests itself through force, whereas authoritative power emanates through consent and legitimation (cf. Walliman *et al*, 1977, pp. 231-235).

questioning of individuality and subjectivation when facing power: both Foucault and the institutionalists assume that individuals are partially shaped by institutions.

As for the specific case of economic power, Galbraith (1952, p. 109-110) demonstrates how modern capitalism gave room to large business and financial corporations that control the economic processes of supply, demand and market allocation. Among many elements, their power is determined especially by financial power to influence prices, political and social interests; informational power and managerial power to control wages and other labor demands. Galbraith (1952, p. 111) stresses that a self-generating form of “countervailing power” would emerge within capitalism as a countercyclical process insofar as customers, workers and suppliers created opposite forms of organization, such as unions, cooperatives and other forms of resistance, such as boycotts.

The state also has a significant role to support countervailing power in that process, which “has become in modern times perhaps the major domestic peacetime function of the federal government” (Galbraith, 1952, p. 136). In the form of a Polanyian countermovement, Galbraith accounts for a state that provides labor market regulation, legitimation of unions and other forms of regulatory measures to intervene against the power of the markets and large corporations, such as antitrust laws. For Galbraith, the powers of firms and corporations could be neutralized by the countervailing power of unions and regulatory measures, what he called “minimization of social tension” (cf. Galbraith, 1952, p. 146) by creating new institutions.

Nevertheless, Galbraith’s approach of countervailing power lacks a deeper discussion of political economy; in other words, the discourses, political processes, and actors involved in political decisions that lead to such countervailing powers. Although he points out to how some social, political and legal institutions emerge from countervailing powers, he does not account for other deeper elements of political debate. Additionally, the origins of political decisions and which mechanisms they used to promote countervailing policies could also be addressed when investigating the issue of power in economics; not to mention the consequences.

In this sense we deploy a “political economy of power” (PEP⁶⁸) framework to understand power in economics from a dual-historical approach. Specifically, we seek to understand how economic policies emerged from economic theory at a certain time and place, identifying the relevant institutions (formal and informal), agents, discourses and policies involved in that process, as well as exploring the consequences they promoted in terms of power.

Taking the case of Keynesian policies into account as presented in Chapter 3, we address a PEP approach that has a dual-historical character. It derives from historical institutionalism (see Weir and Skocpol, 1985 and Hall, 1989) and genealogy (see Foucault, 1998), thus incorporating the definitions of “institutions”, “policies” and “government” as the following:

I) “Institutions” both as macro-political organizations, such as the State, political coalitions, unions, corporations, technical institutes and universities (cf. Hall, 1989); and micro-social elements, that is, actors, forms of knowledge (theoretical or technical), discourses and policy apparatuses (cf. Foucault, 1998).

II) “Policies” as mechanisms and apparatuses addressed by the intervention of the state and other macro institutions to improve and stabilize economic outputs, minimize conflicts and provide collective welfare.

III) “Government” as a mode of action that exercises multiple techniques, mechanisms, procedures and strategies of a particular form of government (cf. Foucault, 2004). In the case of Keynesianism we address a form of government that promotes new forms to control and regulate population via protection from a number of risks, uncertainty and instability.

Accordingly, we underpin the role of critical elements found in political science, political philosophy and, most importantly, political economy into our framework. Besides absorbing the main issues of historical institutionalism and Foucauldian

⁶⁸ Acosta and Pettit (2013, p. 15) present a similar concept involving political economy and power, designated as “PEPA”, but with some lack of theoretical rigor and clear political and historical examples of how a PEPA approach would be applied.

genealogy, the PEP framework allows one to understand the political setting within which economic theory and policy are created and implemented, going beyond formal economic analysis itself. The effects of such policies is then assessed by a power critique.

As pointed out in Chapter 3 – and summarized in Table 1 –, a historical-institutional approach of economic policy-making underpins the role of some political elements, such as: (1) the technical actors (economists) involved in the policy-making process, as well as their epistemological background and direct policy recommendations; (2) the institutional configuration of the state and its administrative structure; and (3) other politically-relevant groups, institutes and coalitions that help in the promotion and implementation of public policies.

Notwithstanding their relevance for our integrated critical analysis, the mechanisms of action that result from technical economic knowledge and its influence on political decisions are a crucial part of a PEP framework, which helps grasping the intersections between economics, politics and power. In this sense, all four elements (actors and epistemological background, state configuration, relevant groups and mechanisms of action) must be understood together when addressing a political economy of power critique.

For instance, taking the case of Keynesianism and Keynes's original "middle way" theory (cf. Skidelsky (2010, p. 152) into account, it gave special weight to the limitations of the *laissez-faire* ideology and proposed an alternative ontological view of the economy based on organicism and realism. Further, the State is placed as an active economic entity together with formal semi-autonomous institutions that function as "guides" to a good governance, such as central banks, universities and other formal governmental institutions (cf. Keynes, CW IX, 2013e, pp. 288-289). Along with the central state these institutions propose direct and indirect public policies that act as mechanisms to solve or improve issues in public life, such as fiscal and monetary policies.

In that context, practical forms of knowledge and technical instruments also serve as micro-institutions to accomplish the purposes of institutional power. In the case of Keynesian economics, the development of new economic concepts and the birth of macroeconomics allowed a transformation in the role of the economist and in the legitimization of statistics, national accounting systems and mathematical models as instruments of political and social control.

More importantly, deploying a PEP approach allows one to comprehend the connections between economic ideas and institutions without pointing out to a single downward causation. As Coats (1989, p. 111) stresses, as historians of economics we should not pay attention only to doctrinal systems of ideas, but also to the practical utilization and historical details of the use of economic ideas and techniques.

Additionally, to assume there is a unidirectional downward causality from economic ideas to institutions is a simplistic view. Ideas are important and influenced on economic policy-making throughout history, but after going through a process of acceptance and discursive spread amongst technicians, politicians and academics. Indeed, the postwar scenario represented an important moment in the history of policy-making by actually employing several academic findings and ideas into the government (cf. Barber, 1990, pp. 121-122).

Insofar as economics consolidated itself as technical and applied form of knowledge, its influence among political institutions and statesmen increased significantly. Almost needless to say, however, that these ideas and techniques were absorbed through a selective process once they fit institutional goals. For Keynesian ideas to be accepted consensually, they had to change and adapt themselves as a technical form of knowledge that could sustain clear policy goals.

By deploying the technical economic argument, Keynesianism became a successful governmentality inasmuch as it reinforced the power-knowledge structure of economics. Once knowledge transposes the theoretical barrier of academia and starts influencing practical policies through a macroeconomic diagnosis of economic problems, the Keynesian argument advocated demand management, economic stability and social reliefs as truths to justify and reinforce the necessity of economic intervention at the same time it allowed a capitalist market system.

Diagram 5 demonstrates how a Keynesian governmentality can be understood through a PEP approach:

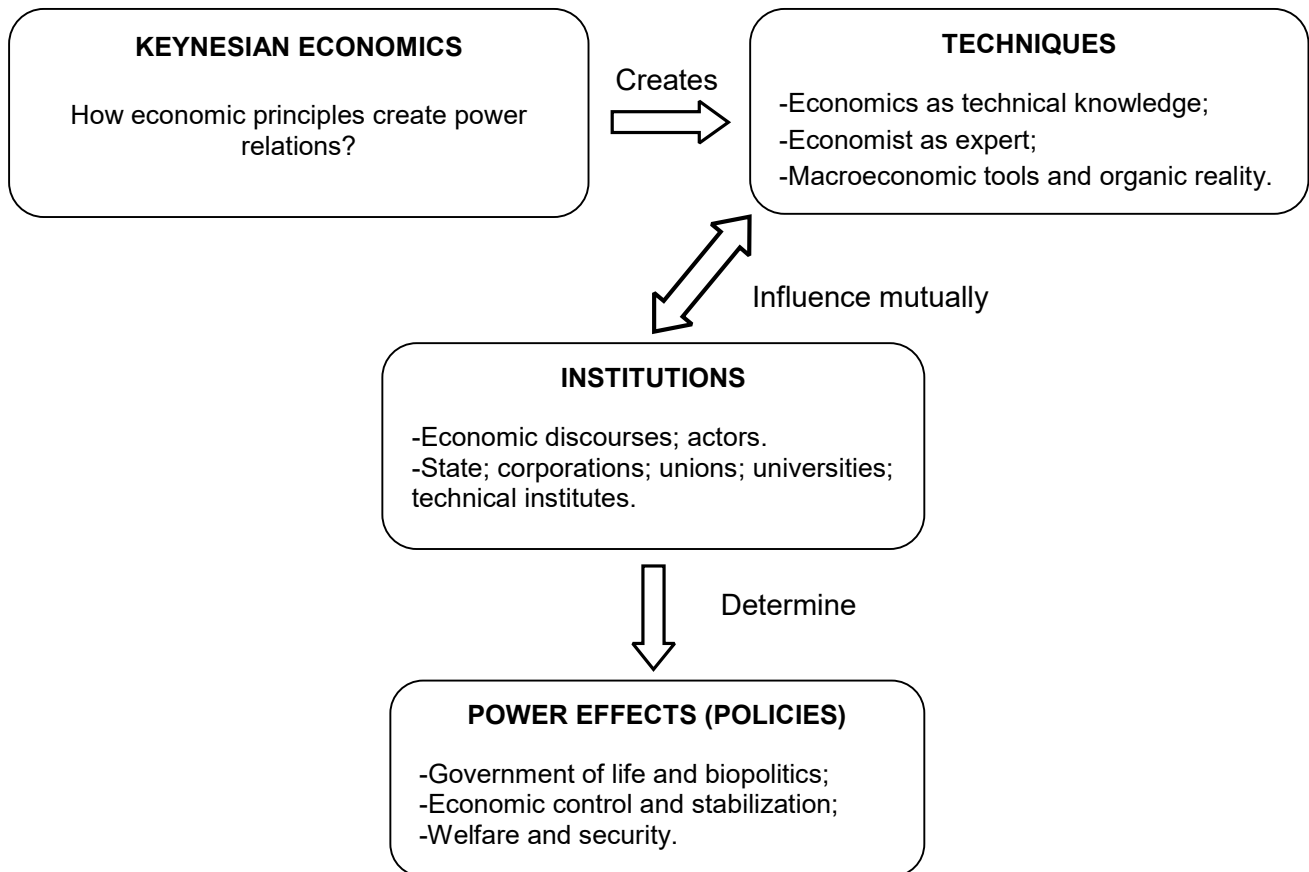


DIAGRAM 5 – A Political Economy of Power Approach to the Keynesian Governmentality.

Source: Author's own work.

Once Keynesian economics proposed a certain form of discourse and knowledge that changed the way economic reality was understood, it created new techniques that influenced institutional behavior and action. Institutions, here broadly understood as micro and macro elements, shaped and determined new economic and social policies that affected the ways populations are governed and regulated, thus creating biopolitical power relations. Accordingly, sections 4.2 and 4.3 will present and discuss the rise and influences of Keynesian economics while a technical knowledge that influenced institutional action, thus creating new power relations among the public arena.

Based on historical resources, we seek to investigate how Economics created power relations once it determined the political context by creating public policies, or by influencing the ways populations were governed by the economic discourse. In

this sense, how can we explain the creation of power relations by the economy taking the specific case of Keynesian policies?

The next sections deal with the political economy of power of Keynesian governmentality in the light of its technical and strategical conditions that changed the ways how economic knowledge, institutions and actors influence the construction of policy agendas that have economic, social and biological life as its target.

Our hypothesis is: once Keynesianism transcended from theory to practice, its knowledge and discourse became commodified in the sense that it became useful as an economic value. It suited the interests of public management and regulation once it provided technical and discursive tools for economic growth and stabilization, as well as population regulation in the shape of welfare and security measures. In other words, the Foucauldian dynamics of knowledge-truth-power previously explored in Chapter 1 is now applied to the specific case of Keynesianism.

The cases of Economics think tanks and other institutional associations between academia, government and business/labor sectors illustrates that dynamics quite well. The two complementary processes of (1) technicization of Keynesian economic theory and its associations to econometrics and research institutes; and (2) the appropriation of technical knowledge by decision-makers as instruments for social control present the consequences of Keynesianism from a Political Economy of Power approach.

Noteworthy is here that if Keynesian governmentality indeed emerged as a countermovement within liberalism and consolidated itself as a middle-way theory that uses intervention for economic ends, its political economy of power demanded new technical elements to achieve specific biopolitical powers. This gave special weight to technical knowledge (such as statistics and mathematics) and the role of the economist as expert for legitimizing intervention. The next sections discuss these issues more specifically by illustrating the cases of United States and Britain as examples where such facts developed more clearly.

4.2 TECHNICALIZATION OF ECONOMIC KNOWLEDGE AND KEYNESIAN GOVERNANCE

This section discusses two of the main elements that characterize the political economy of power of Keynesian governmentality. First, the construction and

commodification of economic knowledge as a technical instrument that determines political outcomes. Secondly, the appropriation of technical Keynesian knowledge by the state and other institutions related to it as an instrument to reinforce economic and social control. By comprehending the role of technical knowledge and discourse between academia and governments, we investigate how Keynesian economics consolidated itself as a form of highly-technical knowledge that influenced policy decision-making, thus shaping the role of the economist as a policy adviser that emanates power from knowledge to political practice.

4.2.1 Technicization and commodification of economic knowledge

One must bear in mind two main effects from the rising influence of Keynesianism. First, the epistemological shift of economics that allowed the increasing attention to macroeconomics as a prestigious economic field with its own technical language; and secondly, how the academic-governmental associations during the war and in the postwar contributed to the consolidation of the “economist” as policy analyst and as an apolitical, scientific and technical expert.

As stated throughout this study, the official employment of economists in the government has become commonplace since the Second World War (cf. Howson and Winch, 1977, p. 1), and the particular case of the British Interwar period revealed how political institutions such as Whitehall and the Treasury had adopted the Keynesian methodology of national accounting and a Keynesian point of view to solve the issues of inflation, unemployment and stabilization.

With the spread of Keynesian theory from Britain to other countries, such as Sweden, France and the United States, one can attest that the absorption of knowledge by universities and technical institutions also determined its later acceptance by politicians and decision-makers. Once Keynesianism provided a specific theory and methodology for understanding fiscal and monetary policies, as well as a discourse that emphasized the role of the collective “macro” economy, it became a suitable technical instrument for designing economic and social policies, and the economist was a central actor in this context.

As Mirowski and Sent (2001, p. 38) demonstrate, the contexts of knowledge and science-making suffered a process of commodification in the postwar,

particularly in the American Cold War. Economics had transformed itself in a technical science that, oddly enough, associated national economic growth and quantification of national productive inputs (classical Keynesian macroeconomic principles) with an increasing, excessive use of mathematics, statistical tools and Walrasian equilibrium.

Almost needless to say how two core aspects of Keynes's original writings – its theory and method – suffered a process of “persuasion, simplification, translation, redescription and distortion” (cf. Colander and Coats, 1989, p. 2) when entering the political arena of decision-making. Notwithstanding this oversimplification, the postwar discourse of the “Keynesian-economist” suffered a scientific transformation, thus becoming highly persuasive in the sense of a diagnostic science – to use Hoover's terminology. As Coats (2001, p. 20) summarizes, there was a real Keynesian hegemony that demonstrated a doctrinal, methodological and policy consensus between the 1940s and 1973.

In that particular context, one should pay attention to the twofold movement that reinforced the technicization of economic knowledge and practice. First, the mathematical-scientific metaphor that linked the Keynesian theory to Walrasian equilibrium, culminating in the hydraulic “neoclassical synthesis” that influenced the ways of teaching and research in academia, such as Alvin Hansen's reinterpretation of Keynes and Paul Samuelson's economics textbooks. This Keynesian-Walrasian integration became very influent on the ways economics – and specially macroeconomics – was taught and conceived among students and researchers, reinforcing the Keynesian scientific character as a consolidated research program.

Secondly, the establishment of a statistical-technical approach that acknowledged the use of statistical data and sophisticated econometric models to understand the economic reality and propose economic policies, including macro models. This movement influenced the ways economic research and economic policy was thought and applied, especially during the Cold War.

Although in recent years the denomination of “Keynesian economist” became less common (cf. Pearce and Hoover, 1995, p. 212) due to its evolution and theory-incorporation, which resulted in the contemporary schools such as Neo-Keynesianism, the associations of Keynesianism with recent policy-orientated research and teaching textbooks are still dominant.

For instance, “new neoclassical-synthesis” approaches (cf. De Vroey and Duarte, 2012, p. 11) such as DSGE macroeconomics still are used by institutions such as the International Monetary Fund (see Benes *et al*, 2014), in which these models underpin the relevance of microfoundations to Keynesian economics in an attempt to assess stabilization and Central Bank decisions dynamically.

In regards to Keynesianism and its influence during the postwar, one should note how the political content of several models and theories in the postwar, however, has deliberately been left aside almost in its totality when compared to Keynes’s first writings on policy-recommendations.

The sort of Keynesianism that was disseminated among academics and policy-makers, as well as the ways through which that particular theory was transformed into a scientific and technical knowledge, can be considered as a “cyborg science” (cf. Mirowski, 2002, p. 9). Keynesianism became a political and economic paradigm that invoked Economics as a technical science in order to legitimize its actions. In this sense, while the postwar epistemic conditions consolidated economics as a technical knowledge, the political and economic conditions successfully transformed economic knowledge into a commodity.

The machine anecdote of applying mechanistic, technical principles into the management of the economy, albeit appropriate to illustrate the consolidation of the Keynesian governmentality, was not exclusive to postwar Keynesianism⁶⁹. Its extent to the Keynesian mode of governance, however, gives a mechanical look into the ways economic information and data were used in academia and interpreted by economists to intervene on the public arena.

For instance, the development of national statistics systems and macroeconomic models after the War, as well as their appropriation by the state and other correlated institutions, reinforce the mechanic argument. During wartime statistics became a central interest of the government insofar as economic macro elements were measured in terms of contribution to the war (cf. Cairncross, 1990, pp. 323-324), which received increasing attention and funding.

This historical-political context partially contributed to the fast rise of associating statistics and economics, later culminating in the spread of econometrics.

⁶⁹ Mirowski (2002, pp. 7-10) describes how other schools of thought also applied the machine metaphor into their theories, most notably 18th century physiocracy and late 19th century/early 20th century neoclassicism.

As Desrosières (2013, p. 15) stresses, statistics itself suffered a structural transformation after the Second World War, an issue that also contributed to economic technicization.

Statistical agencies became “institutes” or “offices”, which suggested a gain in autonomy *vis-a-vis* the public administration (in the bureaucratic sense), and a move towards scientificism. The role of economics and the economic purpose of statistics was partially relevant in that process, particularly if one considers the works of Colin Clark in the United Kingdom (which was later improved by Meade and Stone) and Simon Kuznets in the United States as early developments of statistical economic methods and the construction of national income.

Taking the case of US official statistics between 1926 and 1976 as an example, Duncan and Shelton (1978, *apud* Desrosières, 2013) describe the four most important components of this statistical revolution after the Second World War: (I) the sampling method; (II) national accounting; (III) statistical coordination; and (IV) information technology. Noteworthy how this list contains two technical factors (such as sampling and computers); one institutional factor (coordination), and a synthetic construct informed by Keynesian macroeconomics and its policy-inspirations (that is, national accounting).

This change is reflected in the first U.S. national income accounting system report, which was influenced by Kuznets instrumental works and Keynesian concepts of income, product and expenditure. The report was published in 1947 by the Department of Commerce (with supplements in 1951 and 1954) and designed to supply information about the costs and impacts of national defense into output, especially resource availability and inflationary impact (cf. Ruggles, 1983, p. 17), and presenting a sectorial division of different sources of national income and production, such as private and public sources.

Measuring public and private capital formation; estimating the stock of government and consumer durables; providing better estimates of replacement cost depreciation; estimating the size of distribution of income for families and obtaining information on capital gains and losses are some of the information that can be drawn from national accounting systems (cf. Ruggle, 1983, p. 34). The interpretation and policy-direction of such facts towards economic growth and well-being, however, do not depend exclusively on statistical data, but other political and economic

variables that are used by policy-makers, which in the postwar and Cold War scenario also included mathematical models and their association to statistics.

The combination of statistical data with political circumstance and economic modelling arose as the modern tripod of macroeconomic analysis and economic growth. Indeed, the fact that the development of Keynesian economics coincided with the refinement of national accounting techniques and the emergence of modern econometrics is no historical accident.

As Patinkin demonstrates in his 1976 article “Keynes and Econometrics: On the Interaction between the Macroeconomic Revolutions on the Interwar Period” (*Econometrica*, vol. 44, 1976), many economists demonstrated an exponentially-growing desire to quantify the *General Theory* after its publication, which resulted on the rise of the first econometric models of the Keynesian system as a whole. Despite the personal connections between Keynes and the Econometric Society⁷⁰, the causalities between the development of the Keynesian theory and the evolution of econometrics are rather impressive for historians of economic ideas⁷¹.

The popularization and simplification of Keynes’s theory occurred at the same time econometrics was gaining attention of the scientific community, which puts both schools into the same epistemic context. Interwar and immediate post-Second World War attempts to quantify and estimate future national income levels brought both approaches closer, especially in the United States where the institutional support from the government and technological institutes was more representative. Think tanks such as RAND (Research and Development) and the Cowles Foundation were gaining more prestige as advising institutions for the government.

For instance, Patinkin (1976, pp. 1106-1112) signalizes that despite theoretical and ontological divergences, (i) Interwar business cycles approaches, (ii) the development of macroeconomic estimators and (iii) the rise of Keynes’s revolutionary analysis of the determination of equilibrium output and aggregate demand had similar

⁷⁰ Patinkin (1976, p. 1092) claims: “Keynes also had some very important formal connections with the Econometric Society. Thus he was one of the thirty economists from all over the world selected by the Council in 1933 to constitute the first group of Fellows of the Society (...). And a year later, at the initiative of Ragnar Frisch, Keynes was elected to the Council itself, and remained a member of it until his death. (...) in 1944, Keynes was elected President of the Econometric Society, though not without first politely protesting.”

⁷¹ Keynes’s criticisms to Tinbergen’s econometric developments were presented in Chapter 2, but important to underpin Morgan’s (1990, pp. 123-124) considerations on how Keynes was unwilling to concede to econometricians any role in developing theory, and regarded the measurement of already known theories as their only task.

technical uses in terms of output/income quantification and prediction. The US case illustrates how the National Bureau of Economic Research made use of all three elements as technical instruments before other countries such as Britain, and that became more prominent with the rise of think tanks such as RAND and the Cowles Foundation.

Noteworthy how Mirowski's idea of "vortex" (cf. Mirowski, 1987, p. 1004) suits this particular case of merging Keynesianism and econometrics in the postwar. Even though Keynes and the econometricians had divergent sources of inspiration and validation for their own concepts, they resembled one another on the ways each school understood the connections between social and natural knowledge once they were immersed in the same historical-epistemic context.

Or, given the necessities of that specific time and place, how economic schools can propose a legitimate form of knowledge that best interprets the macroeconomy and provide practical solutions for economic management and growth. Even though Keynesian theory and econometrics had different ontological backgrounds, both dealt with the same historical-epistemic reality, which partially determined how one understands and thinks about social and natural knowledge.

About the historical-political context of that era, some authors in the lines of Morgan and Rutherford (1999, p. 1) coincidentally alert to the loss of pluralism in economic thought when Keynesianism established itself as the "mainstream" in the postwar period, particularly during the McCarthy years (1947-1957). Despite the fact that the contexts of the World War II and Cold War allowed these mathematical approaches to dominate economics, which is emphasized by Morgan and Rutherford as strategies to fight communism and other radical approaches in economics, there was also an urge to promote "appropriate" economic theories that could support this statistical sophistication and technical neutrality.

Nevertheless, assuming a more complex approach from the principles of Foucauldian genealogy, one can also explain the technological shift in Keynesian Economics not by the historical fact of the Cold War itself, but how it indicated a threatening environment that changed old forms of knowledge. Insofar as one of the challenges of Western policy-makers was to resist to communism, some economic theories such as Marxism or even Keynesianism had to empty their ideological content and switch their approached to more technical and appealing forms of

knowledge, such as was the case of Samuelson's introductory textbook and its accusations of presenting a value-free economics (cf. Giraud, 2011, pp. 2-3).

Another direct consequence that one should be aware of is not simply the technicization and commodification of economic knowledge, but also the emerging role of the economist as expert, a core element to understand the creation and reinforcement of power relations through economics.

Indeed, economists (broadly conceived) tend to view their professional role in the governing process as that of experts separate from politics, value judgments and other subjective or normative factors (cf. Nelson, 1987, pp. 49-50). Indeed, this view of the "economist as expert" became more prominent in the postwar period with the spread of Keynesianism, which disseminated the idea of economists as social reformists whose expertise relied on a "scientific" and technical knowledge⁷².

For instance, Hoover's (2006, p. 78) classifies Keynes as "Doctor Keynes" to define how Keynes, a practical man, opened a tradition of economic theory as a "diagnostic science". "We can think of the 'Keynesians' after the Second World War as seeing the economist as a chess master, who can stand above the board and move the pieces – at least within some limits" (Hoover, 2006, pp. 94-95). In this chess analogy, the test of the theories depends largely on the success of their policy advice, which is different than other economic theories and ideologies that rely on discursive instruments than practical ones, such as decision-making power.

We can even bring up the rise of "epistemic communities" (cf. Haas, 1992, pp. 1-4) when approaching such transformation of the economist in the policy-making arena. As Cairncross (1992, p. 10) demonstrates, it was not just about bringing a form of scientific knowledge, but rather a know-how, or the capacity to produce and present certain results in a technical way. The American case of the Cowles Foundation and the rise of Economics think tanks illustrate that fact.

In that perspective we can see the rise of a "superiority" of economics and economists (cf. Fourcade, 2015, p. 89) *vis-a-vis* with the issue of power and governmentality. The Foucauldian terminology of "apparatus" or *dispositifs* seems

⁷² Interesting here to point out James Tobin's answer to the question of the role of the economist as a technocrat and policy adviser: "If I am giving advice to them [politicians] about war finance (...) I am not going to decide myself that they are so evil and irresponsible that I don't give them advice about what actions will do that. I don't think that (...) if they knew what we know, they would misuse it. I don't think that is for us to decide." (Tobin, 1999, p. 97).

appropriate to understand the technical transformation of the economist in the first half of the 20th century and how the expert uses its tools.

We could say the Keynesian mode of governance managed to refine and apply different non-discursive and discursive apparatuses. Non-discursive apparatuses involved macroeconomic management, use of statistic data, economic stability measures and full employment stimuli, whereas discursive apparatuses provided a “revolution” in economic language, as well as to reinforce the necessity and the success of policy-making advice and social security. Needless to say, these apparatuses became mechanisms, or technologies of social and economic control.

Inasmuch as Keynesian governmentality instituted the character of economics both as a diagnostic science and a political guideline, it is noteworthy to discuss the issue of political views, guidelines and interests. More specifically, the mechanisms through which the institution of the state and firms, unions, research institutes, and other corporations made use of this form of Keynesian established knowledge. Additionally, in the light of such transformation and the consolidation of the Keynesian governmentality, we cannot avoid to ask: how can we understand the political position of Keynesianism and its controlling aspects when facing liberalism? The next section discusses these issues.

4.2.2 Appropriations of economic knowledge, think tanks and instruments of social control

Understanding the event of Keynesianism governmentality from a PEP approach opens up a broader perspective about Keynes and Keynesian Economics as a technical knowledge and a political guideline. Conceiving Keynesianism as the governmentality of the postwar decades indeed demonstrates the specific means and techniques by which economic and political power act over the regulation of populations through welfare and economic improvement.

As presented in the previous section, the transformation of Keynesian economics into a mechanic-instrumental knowledge that absorbed the use of statistics and econometrics may have – at least at first sight – pointed out to the loss of (formal) political character. Our attempt in this section, however, is to demonstrate that Keynesianism was not associated to apolitical or neutral forms of economic management. On the contrary, it had clear policy goals based on economic stability,

fiscal and monetary policies, demand management and social security measures, including employment policies.

We seek to present some of the ways through which social and political institutions embraced Keynesian economic principles and were influenced by its diagnostic approach, pointing out practical examples of postwar institutions and actors responsible for policy-design and intervening on economic and social reality. One should also bear in mind how the diagnostic discourse of economic stabilization and control was widely used during the postwar context, which represents an additional element to our power reading of Keynesian political economy.

Foucault's considerations about the legitimacy and objectives of the modern state rely on their power to guarantee life, rather than to inflict death by means of execution or war (cf. Foucault, 1978, p. 131). Guarding the life of the population, Foucault claims, is what became the purpose of state action from the end of the 17th century onwards.

By similar principles, a contemporary reading of public policies – such as welfare policies, employment policies and other economic regulation measures that lean towards a social democracy – became the means of action for the state and its correlated institutions to legitimize their intervention. Once unemployment, low output/income levels and economic instability were seen as threats to social cohesion, new justifications to intervene on the social arena emerged.

In this sense, one should focus on how the government makes use of technical economic knowledge in association with other institutions such as firms, unions, and corporations to intervene on the public arena. The policies that derive from this process affect the population directly, thus creating power relations. As we can see looking at economic history, governments made direct use of economic information through its bureaucratic bodies, but other social institutions contributed and reinforced that process.

The ways institutions absorbed economic knowledge, however, were rather varied among countries. For instance, whereas the United States presented a technical-scientific approach to the use of Keynesian macroeconomic principles, which included the support of several public and private research institutes specialized in national statistics, data series and sophisticated econometric models (such as the Cowles Foundation and the expansion of the National Bureau of Economic Research), the United Kingdom kept its policy-orientated approach. There,

practical Keynesian principles, such as demand analysis and state budget, were absorbed by the Treasury and the Economic Sections of the government with the purpose of policy redirection (especially fiscal and social policies).

Taking the case of American policy-making in the 1940s and 1950s as an example, besides the Keynesian influence in the Council for Economic Advisers discussed in Chapter 3, Mirowski (2002, p. 216) also emphasizes the role of Alfred Cowles and the Cowles Foundation in the United States as the crystallization of associations between academia and the government by using the tripod-model of econometrics, Keynesian macroeconomics and policy insights.

The Cowles Foundation served as an advising think tank for economic research in econometrics, macroeconomics and international economics, helping in shape a technical and mainstream version of “Keynesian economics”. An example that illustrates that is the relevance of Lawrence Klein’s creation of econometric models that embodied Keynesian macroeconomic principles (see Visco, 2014, p. 606).

As Mirowski stresses, “[i]t is the postwar invention of such doctrines as the “probability approach” to econometric theory, the identification problem, the correction of structural equations estimations bias through simultaneous equations techniques, and the genesis of the large-scale Keynesian macromodel for which Cowles is fondly remembered by its historians”. For instance, the role of Patinkin and his theory of unemployment and aggregate supply is acknowledged by Boianovsky (2002, p. 251) as one of the Keynesian-inspired contributions absorbed by the Cowles Commission⁷³.

Despite the fact that the new emerging versions of Keynesianism presented a clear technical bias, some postwar think tanks were relevant in the sense of constituting a political tripod. Indeed, associations of economic information and knowledge with governmental bodies (such as Bureau of Statistics, Council of Economic Advisers) and coalitions (relevant economic and social groups, such as corporations) with the purpose of decision-making and policy design became more frequent.

⁷³ Noteworthy is that the epistemological bias of the Cowles Commission remained neoclassical-econometric, despite absorbing some Keynesian principles. As Van Horn and Klaes put it (2011, p. 303) “the Cowles Commission not only gave rise to mathematical economics and spread statistical techniques in economics, it also served as the base in the United States for post–World War II market planning thought.”

During the era of Keynesian governmentality in the United States, businessmen gradually came to accept a modified form of Keynesian economics (“commercial Keynesianism”) that saw fiscal policy as an effective means of rationalizing the economic order (cf. Collins, 1990, p. 138). For instance, the American case reveals the role of the Committee for Economic Development – which brought together members of the business community, economists and social scientists –, whose policy and impact research included macroeconomic analysis, sustained economic growth and fiscal policy analysis. As Weir (1992, p. 56) stresses, the Committee sought to rework Keynesianism so that its most objectionable features (out-of-control spending and discretionary governmental intervention) were transformed into automatic stabilizers, tax cuts and clear fiscal goals.

Comparing the American case to the British development of think tanks and the institutional absorption of Keynesian economic ideas, British research-led institutions associated to the government were quite smaller and with less impact when compared to the US reality. Most professional economists were involved as civil servants within the Treasury or the Government Economic Service (including the Bank of England), which was the case of renowned Keynesian-inspired economists such as Alec Cairncross, or in the case of academic economists, they served as consultants for *ad hoc* projects for the government.

Interestingly, as Tribe (1997, p. 4) points out, after serving as civil servants during the war, some British economists turned to academia when facing its rapid expansion of students wishing to study economics, thus altering the prospects of university employment. It is then possible to say that Economics in Britain had a more academic and professional twist when compared to the American approach to technical Economics.

Some cases, however, shed some light on the development of British economic think tanks. The National Institute of Economic and Social Research (NIESR), founded in 1938 by Sir Josiah Stamp (a former Director of the Bank of England) was connected and funded by the Rockefeller Foundation scheme to address the problem of financing the social sciences in Britain. Stamp’s objective was to establish a major research institute that would analyze the current and future impacts of economic policies, by relying on private and public funding (cf. Jones, 1988, p. 36).

One of the main interests and strategies of the NIESR was to “be in a position to analyse and interpret statistical information, so that it would be presented in a form conveniently accessible to all who take part in framing policy or expounding it to the public.” (Jones, 1988, p. 36), which explicitly addressed the economic-political connection of knowledge, discourse and policy action. Some members included prominent academics such as Beveridge, civil servants from the Bank of England and Economic Advisory Council. The Institute began to identify areas for research which were being held back for lack of financial support. Special committees were appointed on national income, unemployment, the location of industry and the distribution of population, economic change in the United Kingdom since 1928 and commercial policy and trade regulations (cf. Denham and Garnett, 1998, p. 48).

After the war, the Institute shifted its policy towards a more technical approach of the government’s proposals, including setting up a research team on macroeconomic studies and short-term national income forecasting. Additional funding from the Ford Foundation and the Rockefeller Foundation, including covenants and donations from banks, industry and insurance companies, helped the think tank to develop its activities and broaden its scope towards industrial and trade policy. Noteworthy how the Institute began to broaden its scope towards economic forecasting methods and macroeconomic impact analysis of full employment and industrial policies. The Institute was characterized for being Keynesian, and the use and interpretation of data supplied government’s sectors for policy-making.

One should also acknowledge the role of The Political and Economic Planning (1931-1978) think tank, which is the best example that illustrates the rise of a British non-governmental planning organization financed by corporations. It included economists, finance experts and even the Marks & Spencer’s retail director between 1931 and 1939, and its impact on policy agenda helped to define and set some specific issues and concerns, especially in regards to national industrial policy and foreign trade.

Although the group had set itself the goal of drafting an explicitly “capitalist” plan of national reconstruction based on *A National Plan for Great Britain* – a supplement text published by *The Week-End Review* in 1931 –, it became an institution focused on producing sectorial reports on regional development for the civil

service. After the war, thanks to its links with the Ford Foundation⁷⁴ in the United States, the institution became an important think tank that provided reports and studies on trade associations and business firms, as well as macroeconomic reports and recommendations on growth and inflation control in the 1970s (cf. Denham and Garnett, 1998, pp. 21-23 and 32-36).

The absorption of economic knowledge by political and social institutions after the war represented a way to create and develop new economic policies, where economists carried out a crucial role in knowledge transmission. Indeed, the War and the demands of reconstruction had transformed Britain's economic situation, producing different problems for policymakers and demanding increasing action from The Political and Economic Planning group.

The attempts to answer economic issues and provide ministerial decision-making in Britain is better understood when considering the political environment in Britain – the “postwar consensus” settled between the Labour and Conservative parties –; and the technical use of economic knowledge during the Keynesian governmentality. Once the “Keynesian consensus” (Keynes's original insights re-interpreted and mathematized) provided a useful set of tools to describe and prescribe economic action, the postwar scenario also transformed the notions of intervention and policy advice.

Effecting Keynesian policies also demanded a great deal of coordination and control from the state. Allsopp (1989, p. 184) talks about a “Keynesian coordination” when referring to the macroeconomic role of the state in the postwar era. Insofar as the Keynesian mode of thought recognized an active role of the state in the economy and pursued clear goals such as full employment, price stability and balance of payments equilibrium, it demanded an economic diagnosis and a macroeconomic policy action. The coordination between limited state intervention to improve the economy and the capitalist system of market resource allocation is what justified intervention because of market failures and economic challenges.

Some even argue for a “Keynesian compromise” (cf. Przeworski and Wallerstein, 1982, p. 54) between classes during the postwar, which settled a

⁷⁴ The Ford Foundation had a recognized role in widening and modernizing economic teaching and research in the postwar decades, especially in Latin America. As Fernandez and Suprinyak (2014, p. 6) claim: “The Ford Foundation's efforts to develop graduate training and research in economics in Brazil began in the early 1960s, as part of a general developmental strategy for Latin America and the Caribbean that stressed improvements in the quality of human resources and the production of reliable inputs for public policy.”

compromise, or a partial coordination, between workers and businessmen within democratic capitalism. Indeed, with the rise of the Keynesian governmentality and the endorsement of life security policies via fiscal intervention, trade unions and labor interests were in more favorable bargain situations for wages and work conditions. Moreover, if one of the goals of Keynesian governmentality was to ensure that employment levels remained at its highest levels possible, and workers should have better overall life conditions (including higher purchase power), it is no surprise that shared interests between governments and unions would result in a collective acceptance of Keynesian policies during the postwar.

As Davis (1994b, p. 188) stresses, Keynes himself presented that particular teleological view of the State in which the public duty ought to be channeling communal savings and determining aggregate amount of resources for improving collective economic situation, and not controlling the means of production in a Marxian way. Keynes claims (cf. CW VII, 2013c, p. 378), “[i]t is not the ownership of the instruments of production which it is important for the State to assume. If the State is able to determine the aggregate amount of resources devoted to augmenting the instruments and the basic rate of reward to those who own them, it will have accomplished all that is necessary”.

If Keynesianism indeed provided the foundations for a class compromise by supplying unions and labor interests at the same time it held the bourgeois structure of capitalism, it used the technical arguments of insufficient demand, instability and uncertainty for justifying the necessity of economic control among society. The pillar arguments of Keynes’s mode of thought returns with an organic reality associated to formal economic language and an active role of the state to solve pragmatic issues of macroeconomic management, unemployment, insufficient demand and stability.

Once economic technicality became a useful instrument for policy advice and social institutions appropriated its methods and recommendations, the issues of economic growth and stability, as well as policies of employment and social security were legitimized by economic bodies and economic experts. Even other social institutions such as labor unions incorporated forms of Keynesian-inspired techniques and policy recommendations to support employment policies and reinforce the role of fiscal measures.

Indeed, at the same time Keynesianism crystallized itself as a technical macroeconomic knowledge, its policies and rationale helped in determining

population security measures, especially labor and employment policies. As argued throughout Chapter 3, despite the simplification of Keynes's initial conceptions and presupposes when entering the practical arena, Keynesian economics consolidated itself as a political-economic paradigm in the sense of a form of governmentality in the postwar world, thus legitimizing the economic discourse of security as its basis of action. The role of academia also in the form of think tanks and their associations to the state contributed to the acceptance and spread of macroeconomic ideas, national statistics and welfare policies.

In that perspective, one may ask: what impacts and consequences in terms of power did these Keynesian economic measures actually cause? It would be a simplistic assumption to believe that these transformations in economic thought and in policy-making had no other effect beyond their acceptance and influence itself. As Foucault suggests, “[w]e should not think that good economic management has had no other effect and no other foreseen and calculated end than that of securing the prosperity of all and each” (Foucault, 2008, p. 84). Indeed, philosophers of economics and historians of economic ideas could benefit greatly from such critical analysis.

The organicist approach that Keynes and the original Keynesians advocated points out to the existence of a collectivity and a social community, instead of individualizing and self-interested approaches that derive from liberalism, neoliberalism and classical economics. Nevertheless, as Rose (2001, pp. 100-101) well criticizes from a power-critical perspective, “the social” does not refer to a fact about populations and human beings, but to a way in which intellectual, economic, political and moral authorities thought about acting upon the collectivity. Accordingly, the rise of economic technicality and the role of the economist as expert transcended the disciplinary limits of Economics and began determining the government of many aspects in life through economic measures.

Further, the development of security systems associated with Keynesian economic measures that aimed at stabilizing or controlling the economy actually point out to other forms of power relations that creates dependency via a discourse and justification of welfare. The Keynesian revolution represented a shift on the way populations perceived the action of the State and its commitment to stability, employment and social security, therefore creating new forms of behavior and a desire to be controlled. Complementary apparatuses such as macroeconomic

management and national accounting information to sustain economic growth also reinforce that power dynamics.

The next section explores some of the power consequences of Keynesianism in the light of Foucauldian biopolitics and opens up new perspectives for a rethinking of the role of economics in life from an ethical perspective.

4.3 KEYNESIANISM AND BIOPOLITICAL POWER

This section explores the power consequences of Keynesianism as the governmentality of the postwar world. It investigates the role of Keynesian techniques and policies in creating and disseminating forms of economic and social control. While acknowledging Foucault's contributions on the issue of biopolitics as a technology of power that controls and improves the economic and biological features of populations, we address the problem of security as the central consequence of Keynesian governmentality, thereby redesigning the power dynamics of biopolitics.

Insofar as Keynesianism established itself as a mode of governance, it promoted a shift on what concerns economic knowledge, the notions of policy-making, the role of the economist and the limits to state intervention in the economy. Consequently, the Keynesian governmentality changed the ways populations were governed by creating new apparatuses that protected individuals against a number of risks, uncertainty and instability.

Once the rise of economic technicality and the role of the economist as expert transcended the disciplinary limits of Economics, it began determining the government of many aspects of life through economic measures. The thresholds between economic and social realms became narrower in the sense that social interventions were justified with the economic-technical argument, especially on what concerned to protect individuals against a number of risks, uncertainty and instability. Then, interventions on employment, consumption, production and growth represented other forms of biopolitical control.

In the light of such analysis of power, one may ask what forms of conduct represent a countervailing power in the sense of an individual transformation against biopolitical domination. Interestingly, Foucault and Keynes had conflating views regarding the ethics of the subject – and how economics actually represents a mean

to achieve ethical ends, such as good –. Section 4.3.2 draws the attention to Foucault's and Keynes's original views on ethics as a conduct, and how one can transform himself/herself within the realm of the economy when facing biopolitical power, security and control.

4.3.1 Economic power and the redesign of biopolitics by Keynesian economics

As discussed in Chapter 1, Foucault's assertions on the role of classical liberalism and neoliberalism in creating new forms of collective power led to a reappraisal of economic theorizing and policy-making. Indeed, Foucault stressed the pervasive role of liberal modes of government when defending a limitation of the role of the state and praising the importance of markets and individualism. As Foucault claims, neoliberal criticisms made in the name of economic liberalism is justified by the danger represented by economic interventionism, excessive growth of governmental apparatuses and rigidification of power mechanisms, which demanded new interventions (cf. Foucault, 2008, p. 323).

Neoliberalism managed to limit and deconstruct the idea of governmental economic intervention at the same time it extended the principle of the market to other non-economic aspects of reality (such as penal systems, demographic analyses and social policies). Some critical theorists even talk about the power of neoliberalism as a contemporary economization of life in the form of the "self as an enterprise" (cf. McNay, 2009), changing the notions of government, sovereignty and empowerment of the self (cf. Burchell, 1993, p. 272) once the principles of competition, individualization and market effectiveness left the strict context of economics.

Noteworthy is here how Foucault and contemporary Foucauldians have ignored the existence and relevance of pre-neoliberal forms of economic governmentality; that is, Keynesianism *vis-à-vis* the economization and politization of life. As discussed in Chapter 2, the origins of Keynesian ideology indeed represented a countermovement within liberalism despite its acceptance of entities such as the state, the market and private property.

Unlike pure economic liberalism, Keynesianism sought to tame the dominance of market *laissez-faire* and economic individuality in various senses: first, by

assuming an organic view of the economy that accounts for uncertainty, rigidities and other complex economic issues; and secondly, by addressing a set of practical economic and political recommendations based on a middle-way view that brought the care of life to the center of economic and political decisions.

In this sense, the development of economic theorizing and its power consequences (social, biological and political) cannot be conceived without an appraisal of Keynesian theory and policy-making. Indeed, the postwar era represented a particular moment in history where economic intervention understood civil society as a political subject whose characteristics of production (employment, growth, stability) and living conditions became internalized by the state and its correlated institutions.

Jessop's (1993, pp. 7-8) classification of accumulation regimes understands the "Keynesian Welfare State" (KWS) as a distinctive form of state economic intervention characteristic of a given mode of social regulation; that is, a state structure that secured the conditions for economic and social reproduction in a historical context where social conflicts needed to be attenuated without compromising economic results and the capitalist system as a whole. As Backhouse and Bateman (2011, pp. 31-32) underpin, demand management was an important technical apparatus throughout the Cold War as a way to demonstrate the superiority of capitalism and to make sure it always provided full employment.

Noteworthy how Jessop (1990, p. 132) does not dissociate the Keynesian Welfare State from the notion of social democracy as a response to various economic and political imperatives in state monopoly capitalism, especially in relation to the control of the business cycle, the maintenance of full employment and the containment of working-class dissent.

Keynes and the Keynesians theorized about the ways in which Western societies combined the social and the economic, indicating the means by which both realms could be functionally adjusted (cf. Donzelot, 1980, pp. 231-232). Once the social body is ruled by the economic rationale, certain outcomes such as stability, growth and productivity become susceptible to economic technicization and technical decision-making.

About the Keynesian adjustment between society and politics, Donzelot stresses:

[Keynes] indicated the means by which they [the social and the economic] could be functionally adjusted, showing how the distribution of social subsidies could be organized in such a way that renewed consumption would ensue, production would be stimulated, and economic crises as well as the social ills they engendered would be averted. He managed to broaden the economic sphere precisely where its laws seemed to be swept aside by chance, giving way to insouciance, suffering, and revolt. In short, he made it possible to integrate the social sphere into the general regulation of the market, providing Western societies with the means of avoiding the alternative of anarchic liberalism or authoritarian centralism. Where before there had only been the search for an always shaky and difficult compromise between free enterprise and the problems of social welfare, repression, and management, Keynes contributed a positive solution through the formation of a circular functionality between the two registers of the production of goods and the production of the producers (and consumers). (Donzelot, 1980, pp. 231-232).

When Donzelot talks about the Keynesian success of associating the social and the economic from a functional perspective, this indeed resembles Foucault's considerations about the issue of security and how it becomes a desirable feature of 20th century biopolitics. Insofar as Keynesianism suffered several epistemological and political changes during the postwar, its primary policy outcomes that first sought to stimulate and manage the economy effectively also spread to the creation of other supporting apparatuses that could minimize social conflicts. Cases such as developing employment support, stabilizing measures or fiscal incentives illustrate well the narrow thresholds established between economic decisions and social interventions.

A critical approach to such political-economic model relies on the coordination of the social body and its increasing forms of security. The institutionalization of Keynesian techniques and mechanisms played a coordinating role in forming "the social" in the sense of promoting and organizing knowledge, norms and economic practices to regulate the quality of life of the population — its health, security and stability (cf. Hewitt, 1991, p. 225).

Despite the peculiarities and differences when analyzing the various forms of Keynesian governance across the postwar world (cf. Chapter 3), we see certain cohesive aspects in terms of internal rationale, technical instruments, discursive approaches and policy goals.

For instance, when Keynes advocated public spending in direct employment measures, emphasizing how the state itself could act as employer, it promoted a new mechanism of state control towards the population (cf. Keynes, CW XIX, 2013j, p.

718). In addition to that, Keynes's defense for "good" forms of employment (cf. Keynes, CW XXVII, 2013m, p. 266) interestingly states his increasing interest for enduring employment rates as a public, social goal.

Additionally to policy-making, the development of national account systems and the improvement of macroeconomic data also constituted an apparatus of power that helped in redesigning biopolitics and other forms of collective control. Economic statistics and national accounts provided knowledge and helped in shaping public policies, besides informing governments about other regularities and aspects of the population.

Discursive techniques also played an important role in this process of implementing and legitimizing Keynesian security measures. Indeed, the reinforcement of an economistic language that established a scientific and technical reputation, as well as the role of other institutions, such as the press in influencing the public opinion, also become a relevant power issue. The increasing technicization of economic discourse associated to economic data can also be considered a key element in this biopolitics of security established by the Keynesian governmentality.

As Parsons (1989, p. 88) demonstrate, the distortion and simplification of Keynes's original discourse contributed to the rise of a bigger myth about this form of managerial capitalism, especially in the press. The rise of neoclassical synthesis and econometrics, associated to the popularization of professional economists, reinforced the economic rhetoric within society and the mystification of macroeconomics. Interestingly, with the increase of macroeconomic news such as fiscal policy, growth, unemployment and inflation, a type of security-led governmental action also spread throughout the media, which underlined the notion that economic problems were rooted in the failure of governmental policy to intervene or correct the deficiencies of the market (cf. Parsons, 1989, p. 97).

Indeed, understanding the idea of governmental intervention in postwar economies cannot be dissociated to the discourse of security, stability and socioeconomic improvement. "If the state actually intervened more in the economy and society, that was not simply because its action was considered more desirable or more legitimate than in the past" (Rosanvallon, 1989, p. 187). On the contrary, the idea of intervention gained a political compromise perspective associated to economic diagnosis.

Once growth, high employment levels and purchasing power became clear policy objectives, rather than results or balances, governing measures that advocated security and stability actually pointed out towards new forms of control and regulation of biological, economic and social life. As Foucault (2001c, p.366) stresses, “social security, whatever its positive effects, has also had some ‘perverse effects’: the growing rigidity of certain mechanisms and the creation of situations of dependency”. This double-sided effect is an inherent characteristic of security systems as it creates dependent subjectivities in which individuals give up some liberty and independency in exchange of more security.

The increase of new control techniques in the society to achieve economic ends represented a complex relationship of power, rather than a simple form of repressive power or discipline. The political circumstances of the postwar led to a positive demand for security that opened the way to richer, more numerous, more diverse and more complex security techniques. The political and economic paradigm of a Keynesian governmentality opened up a diagnostic and technical approach to economics and to the population, emphasizing the positive elements of policy-making, especially what concerned employment policies, social investments and demand stimulus.

For instance, Bertil Ohlin describes the rising Swedish economic progress in 1938, when employment and demand-led policies were associated to social and economic efforts to sustain a growing welfare state. According to Ohlin (1938, p. 5), public spending represented “an investment in the most valuable productive instrument of all, the people itself.” (cf. Ohlin, 1938, p. 5). Unlike the nationalization of means of production as Marxian socialism defended, the emerging Keynesian governmentality represented a public, national concern with various forms of consumption (food, clothing, housing, recreation) at the same it provided an economic argument for such policies, thus seeking economic growth, collective prosperity and stability.

If technical macroeconomic analysis and direct policies involving full employment, demand management, economic stability and social security indicated a new form of social “programming”, Foucault also pointed out to the phenomenon of dependency associated to a subjugation (*assujettit*) of individuals (cf. Foucault, 2001c, p. 369). Keynesian governmentality created economic and social systems that impose determined ways of life which, under normative prescriptions of

economic improvement and social welfare, established an “insured” population that must act according certain rules and norms.

As a result, Foucault says, all persons or groups who, for one reason or another, cannot or do not want to accede to this way of life will find themselves marginalized by the very game of social and economic institutions. With the dissemination of a Keynesian form of biopolitics, we see the rise of an economic and social protectionism that, in an attempt to protect individuals against a number of risks, uncertainty and instability, actually creates new forms of power relations and changes the ways individuals understand the role and the participation of public institutions in life.

Foucault claims:

The report from the state to the population is mainly in the form of what might be called a "security pact". Previously, the state could say, "I'll give you a territory" or "I will guarantee that you will be able to live in peace within your borders". It was the territorial pact and ensuring borders that was the great function of State. Today, the border issue hardly arises. What the state offers as a pact with the population is: "You will be guaranteed." Guaranteed against all that can be uncertain, accidental, damaging, risky. [...] The State that guarantees security is a state that is obliged to intervene in all cases where the fabric of daily life is pierced by a singular exceptional event. So, the law is no longer adequate; suddenly, it must be the species of interventions, including the exceptional character, extra-legal, should not appear at all as a sign of arbitrariness or excess of power, but rather a concern. [...] This omnipresent concern is the aspect in which the State is present. It is how power develops today. (Foucault, 1994 [1977], pp. 3-4. Our translation).

Consequently, we see the consolidation of a security pact between the state and the “social”, once the social body consolidated itself as a political subject. Noteworthy how this process derived from the Keynesian governmentality: it represented a shift in the way economic rationale entered government practice, thereby transforming the issues of security, stability and prosperity as public goals.

Interestingly, following Foucault’s arguments on power apparatuses and subjectivation processes, one must take the issue of economic morality and its creation of power apparatuses into account. When demand-led policies and other stimuli measures began to be widely spread across economic policy-makers as a countercyclical strategy, it also created new habits, behavioral attitudes and an ethical attitude towards what consumption and economic activity meant. A discipline of consumerism, associated to economic tactics to stimulate investments, profits and

employment, became a rhetorical and ethical element defended by commercial Keynesians as an economic benefit.

If one takes into account the power relations created by Keynesian economics and the biopolitical shift in population measures in the postwar world – interestingly called the “Golden Age of Capitalism” –, how can individuals resist, or transform themselves when facing such powers?

Indeed, Keynesian macroeconomics was the outcome of a particular ethical worldview in its origins. As Skidelsky (1995, pp. 90-95) has shown, morality played a big role in Keynesian arguments for securing full employment, but such arguments were different than Keynes’s conception that full employment makes people happier by freeing them from material constraint and allowing them to better enjoy the true pleasures of life, such as the arts and nature. In this sense, Keynes’s had an ethical view of economic activity that lost its track when transformed into an economic science.

Both Foucault and Keynes addressed their own theories about the ethics and the subject, particularly on what concerned forms of behavior of the self. The next subsection suggests an intertwining between Foucault’s and Keynes’s original views on ethics as a conduct, and more importantly the role of economic action: how one can transform himself/herself within the realm of the economy when facing biopolitics and control.

4.3.2 Modes of resistance within economic power: the role of ethics and the government of the self

While acknowledging the role of economic power and the creation of biopolitical power relations, the previous section demonstrated that the highly technical and commercialized form of postwar Keynesianism created a discursive form of economic discipline based on a biopolitical ethic. It reinforced the role of economicism, consumerism and normative employment, besides creating a social and economic pact between the state and the population in the form of collective investments and care.

Almost needless to say that the Keynesian governmentality and its governing principles of security, stability and growth successfully constituted social “protected” bodies that demand increasing measures of regulation, which in a Foucauldian

terminology means a process of individual subjectivation. Indeed, we can speak of a “security society” to define the socioeconomic outcomes that emerged from Keynesian governmentality, whose principles do not only affect the economic context, but other aspects of human life, such as labor, consumption and welfare.

In the light of such argument, this subsection briefly discusses the intertwinement between Keynes’s original thoughts on economic ethics and Foucault’s ontology of the self and the concept of self-government. If the increasing postwar economicism and technicization led to practical effects in terms of collective power, as our “political economy of power” approach demonstrated, a return to Keynes’s original philosophical reflections might be an internal self-critique to what became Keynesianism and its inherent economicism.

Hence we explore the possible connections between ethics and government of the self in Keynes’s original economic thoughts about achieving and experiencing the “good life”. Based on Chapter 2 arguments of Keynes’s view of economic activity, we present Foucault’s developments about the ethics and ontology of the self, we argue how prosperity must be conceived not as an end in itself, but rather as a means to enjoy the “arts of life”. An internal self-critique of Keynesianism necessarily involves a return to Keynes’s original reflections, thus demonstrating how in fact economics should be seen and understood as a means – rather as an end – of human activity.

Keynes’s conception of good life and the means to achieve it can be reinterpreted from a philosophical critique. More specifically, how one’s conduct to reach the good life may actually indicate a form of ethical self-government (or government of the self), that is, a personal ethical agency that requires a constant self-reflection through the exercise of specific practices. This goes beyond a normative moral agency and other forms of repressive or restrictive morality, leading to a more complex exercise during his/her whole life. In other words, to conceive economic activity as something different than its strict economic ends provides a richer perspective of how an individual can transform himself/herself when facing power.

For Keynes, reaching the good life was part of a constant ethical cultivation that encompassed the whole conduct of human life. Keynes believed that he/she first needed the life of actions, or to accomplish the necessary means to achieve the good life. This included business, political, artistic and philosophical endeavors. In Skidelsky’s (2010, pp. 133-134) words, “Keynes made the common-sense judgment

that it is easier for people to be good [...] if they have a certain level of material comfort”.

Foucault's twofold approach to the issue of government may shed light on Keynes's ethical conception about the economy. Foucault defined more than one possible form of government that affects the ways individuals constitute themselves: (i) the government of the others, such as political, religious or educational forms of government; and (ii) self-government, which means the way individuals govern themselves through ethics, aesthetics of existence or other techniques that creates specific behaviors and conducts (cf. Burchell, 1993).

For Foucault, life is an entity that demanded a constant work of the individual with himself/herself. More specifically, he saw one's life as a work of art that involved ethical work and aesthetic values. As he puts it, “From the idea that the self is not given to us, I think there is only one practical consequence: we have to create ourselves as a work of art.” (Foucault, 1997b, p. 262). In this sense, self-government would be guided by the aesthetics of existence: an instrument to practice ethical thought in which we take norms, truths and powers to constitute ourselves and our identity.

In order to create certain modes of living, Foucault acknowledged the role of the “techniques of the self”, or the procedures that an individual acts upon himself/herself to engage in ethical conducts. These techniques are “the procedures, which no doubt exist in every civilization, suggested or prescribed to individuals in order to determine their identity, maintain it, or transform it in terms of a certain number of ends, through relations of self-mastery or self-knowledge.” (Foucault, 1997a, p. 87).

These “technologies of the self” reflect the modes of living, choices of existence, experiences and operations on the bodies, souls, thoughts and practical acts in order to achieve and experience happiness, purity, wisdom or perfection. Noteworthy is here how the self-constitution of the subject from an ethical conduct resembles the Keynesian thoughts on speculative and practical ethics, as well the exercise of the individual through life to achieve and experience the arts and enjoyments of life.

Taking Foucault's explorations about ethical conducts and techniques of the self, one can underpin the twofold role of Keynesian governmentality as a form of government of the others, as well as Keynes's ethical system as a form of self-

government, which includes speculative and practical⁷⁵ actions (as discussed in Chapter 2, section 2.1.3). Inasmuch as Keynes understood ethics as something beyond a moral agency, his ethical system was open to certain forms of behavior and conduct that would not necessarily represent a “moral behavior” of distinguishing right from wrong, but a broader conception that involved a constant self-government of oneself, such as the search for the good and a good life.

Aristotle - one of Keynes’s influences - focused on the role of virtues and the search for the good as intrinsically connected to achieving a good life. In Aristotle’s conception, virtues are all parts of a whole in one’s soul, and he emphasizes the virtues that contribute to good relations in our associations with others (such as political virtues, justice) (2011, p. 264, interpreted by Bartlett and Collins).

Similarly, Keynes understood that those virtues also included political, artistic and material endeavors (not hedonism) as the means to the good life, which was not incompatible with an ethical conduct that appreciated the role of good actions, happiness and pleasures. Keynes’s ethical system also pointed out to a neo-Platonist view (cf. Fitzgibbons, 1991, p. 130) in which the search for the goodness and happiness demands practical actions and a logic of motives.

The search for the good life does not represent a “moral code” (to use Foucault’s terminology) of one’s behavior, but it emphasizes the actions one ought to seek in order to achieve a good, beautiful life. This is essentially different from a moral agency or a religious morality, but actually represents a more complex exercise of the individual with itself and with others during his/her whole life.

Keynes approached the issue of good life in his 1930 essay *Economic Possibilities for Our Grandchildren* (CW IX, 2013e, pp. 321-332). There, Keynes emphasized the idea that society as a whole could only enjoy and experience leisure, culture and other universally-desired values after reaching an economic optimum, which he designated as “arts of life” or “good life”. Seeking the economic optimum is the end of the economic activity and policy; hence economics (as a moral science) would supply the material conditions to reach the good life.

Keynes stressed that if the economic problem is not a permanent one, this means that individuals would need to work less in the future to achieve the level of necessary income which would allow them to actually enjoy the “real values of life”,

⁷⁵ For Keynes, whereas speculative ethics concerns ultimate ends and values which are intrinsically good, practical ethics are analogue to morals and judgment of value. (cf. Chapter 2, p. 84).

such as leisure, philosophy, arts and freedom. Although he recognizes that the “love of money” is what drives capitalist activities, the abundance would make capitalism unnecessary in the long run.

Under Keynes’s ethical system, goodness and happiness cannot be reduced to pleasure, nor can they be treated as homogeneous, one-dimensional concepts (cf. Carabelli and Cedrini, 2011, p. 355). Indeed, Keynes stressed that plural values and ends can be part of the same ethical system. For him, happiness is a composition of heterogeneous and incommensurable values, desires and virtues, and his ethics involved the whole conduct of human life, rather than a simple aspect of well-being.

Following Foucault’s developments on ethics beyond morality, the government of the self by oneself is exercised through practices and techniques at the same time it articulates on the relationships of the self with others. For instance, pedagogy, counseling, spiritual direction, arts, philosophy and other forms of knowledge that prescript certain modes of living are also part of the technologies of the self (cf. Foucault, 1997a, p. 88). These technologies represent means to achieve ethics as a “way of life”, similarly to Keynes’s thoughts about the role of politics or economics. They constitute a practical system, but actually representing the means, and not the ends.

Keynes’s search for the good life and happiness represents a specific form of subjectivity, or way of life. It requires certain acts, conducts and mechanisms from the self with oneself, particularly on what concerns economic activity. As Robert and Edward Skidelsky (2012, pp. 135 and 141) underpin, Keynes rejected the possibility that capitalism in its current form might be evolving forms of the good life as it matured. Actually, insofar as Keynes reminded what money can potentially provide us in terms of a good life, he criticized the strict love of money.

In this sense, individuals could use practical ethics, such as politics, education, philosophy and arts to transform the ways we deal with economic activity and the capitalism system. As Joan Robinson (1972, p. 8) stresses, “what employment should be for[?]”, or how should individuals rethink their way of life and their conducts with themselves ethically, searching for the goodness and the good life. Ontological reflections about the purpose of economic activity in fact represents a form of ethical self-transformation when facing a biopolitics and a normalizing economic governmentality.

Keynes's considerations about the economic problem as transitory and the future possibilities of experiencing and enjoying creative leisure and philosophy after the economic problem is solved also demonstrates the search for the good life as a practice of freedom. Put differently, the way of how an individual deals with economic activity in an ethical system and the possibilities of experiencing good and a good life indicates a freeing mode of living.

The economic system and the economic problem represent a transitory means to achieve the state of goodness. Indeed, as Skidelsky (2010, p. 131) points out, "his [Keynes's] conclusion was that the pursuit of money – what he called "love of money" – was justified only to the extent that it led to a 'good life'". This is not a matter of business men without ideas or a creed, but an ethical stage where individuals become "Apostles of science and art" (cf. Chernomas, 1984, p. 1009).

Noteworthy is here how Keynes's conclusions point out to an ethical and teleological critique of economics and the economic purpose. Chick (2013, p. 36) underpins that "the reason that Keynes was unperturbed by the prospect of a zero-growth economy lay in his understanding of what economics was for (...). What is economy activity for? First, to provide, food, clothing and shelter, but after that, what?". To orthodox economists, economic growth is the end in itself, free from any ethical or teleological perspectives that involve broader conceptions of what good, well-being and happiness mean.

4.4 PARTIAL CONCLUSIONS

This chapter sought to present the elements and characteristics of the political economy of power of the postwar world, emphasizing the ways Keynesian economic discourse and technicization managed to create new power relations between the economy and the collectivity. We underpinned the technical dominance of Keynesian economic theory, which represented a shift of power in terms of how economic policies are developed under the influence of economists and think tanks, besides pointing out the practical consequences of such form of government, that is, a redesign of biopolitics.

Once Keynes's economic theory suffered a process of technical transformation that associated demand management, national accounting systems

and economic stability with an increasing, excessive use of mathematics, statistical tools and Walrasian equilibrium, we see the rise of a new conceptualization of what economic policy-making means, especially on what concerns theorizing the economic reality through technical tools and think tanks.

Keynesian-inspired techniques and policies, such as stimulating “good” forms of employment; increasing consumption and purchase power; regulatory economic policies; government spending; and the development of a welfare system that accounts for the whole society consolidated the idea of a Keynesian Welfare State (KWS) (Jessop, 1993, pp. 7-8). We propose a rethinking of such concept, based on a “Keynesian governmentality” and a security society that understood unemployment, economic instability and low economic growth as threats to social cohesion, thus promoting a deliberate use of power to justify economic interventions on society.

Whereas some argue that the development of postwar welfare state systems was the inevitable result of economic growth and industrialization and the social changes (cf. Skocpol, 1992), our political economy of power approach brings Foucault’s notion of power to complement such institutional view. Our approach demonstrated that the welfare state system was actually a justification of intervention via a discourse of power that defends stability, economic growth and welfare. With Keynesianism we see the rise of new actors and institutions, such as the economist as a policy expert, think tanks and a regulatory language based on macroeconomics (“price policy”, “wage policy”, “stimulus policy”) that impacts the way individuals and populations are governed.

If this Keynesian security society established in the interwar and postwar years had some “perverse effects”, that is, the creation of situations of dependency, instead of freeing us from the dangers that tend to debase or subjugate us, we then ask: what does this economic power mean, and how can we reinterpret it from an ethical perspective? Interestingly, Keynes’s original reflections on economic ethics provide a self-critique to what became the idea of economic activity, and Foucault’s philosophical developments on the idea of self-government and techniques of the self can actually shed light on reinterpreting economic activity (e.g. labor, consumption, economic care) as a means to achieve a good life, rather than ends in themselves.

CONCLUDING REMARKS

[T]he ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. (Keynes, 2013c, CW VII, p. 383)

This study sought to investigate the rise and consolidation of Keynesianism as a mode of governance responsible for creating power relations in the postwar world. By proposing a “Political Economy of Power” (PEP) approach, we traced the emergence of Keynes’s original economic theory and its transformation into a policy agenda that had specific consequences in terms of power, governance and regulation of the economy. We argue that the Keynesian mode of governance as a “governmentality” was successful in bringing economic principles and economic technicality into life, thus affecting the ways populations are governed.

While providing an alternative concept of government based on Michel Foucault’s idea of governmentality, this study focused on the rise and development of a security society, that is, the mode of action that defined Keynesian governmentality. Insofar as economic practice and the institution of the state cannot be conceived without the issue of power, various forms of knowledge created by economic thought reached state practice and influenced policy-making through the use of economic rules and ideas as a set of normative prescriptions. The specific case of Keynesianism indicated a dominance of principles and rules that transcended Economics and influenced the ways social bodies are governed, especially on what concerns labor and production relations, consumption and welfare.

Our hypothesis that Keynesian Economics – while conceived in its simplified and rhetorically persuasive version – successfully influenced several aspects of economic and social policy-making in the postwar world, is buttressed by Foucault’s concept of biopolitics. Foucauldian theory states that when the state internalized the issues and regularities involving the social collectivity, it led to a re-arrangement of how economic, medical, educational and demographical policies were rationalized and actualized.

In such context the economic problems posed by the population were now a public matter, and hence demanded active policies to surpass issues such as low economic growth and demand levels; high unemployment rates; poor life quality and expectancy. Indeed, we argue in favor of a redesign of the concept of biopolitics with

the rise of Keynesianism as a form of governance: despite the differences between liberal and Keynesian policies, both approaches created power relations and affected the ways populations are governed.

An accurate analysis of Keynes's philosophical and political genealogy indicated the origins of his economic analysis, which provided a fruitful critique to classical economic theory at the same it re-conceptualized the notions of economic reality, collectivity, and the role of the state in promoting economic prosperity.

Keynes's organic conception of reality associated to uncertainty and the active role of the state to supplement economic dynamism indeed pointed out to some internal criticisms of the classic-liberal economic system based on *laissez-faire*, equilibrium and individualism. Some Keynesian genealogical principles emphasized throughout Chapter 2 pointed out to key aspects of what would later become the main pillars "Keynesian Economics", such as the formal, mathematized language of economics, a reference to Marshallian Economics, and a demand-led analysis instead of a supply-side economics, as Malthus and other "heretics" stressed throughout their economic writings.

Keynes's notions about the macroeconomy and the multiplier indicated a technical approach to economic reality from a different perspective than classical approaches. Despite the debates involving the extent of Keynes's acceptance of liberalism, his view is better understood from a countermovement perspective, in which the core principles of political liberalism were accepted at the same time the issues of economic production and interventionism were criticized.

Further, one cannot ignore that the transition from Keynes's theory to economic practice as a policy *agenda* indeed demonstrated some reductive and simplifying aspects. A genealogical study of Keynes carried out throughout Chapter 2 pointed out the role of other Keynesian heirs, such as Meade, Stone, Hicks, Hansen and Samuelson, in absorbing many of Keynes's ideas, but constituting a more technical and policy-guided theory.

The consolidation of Keynesianism as a political and economic paradigm was reinterpreted as the settlement of an art of government. By illustrating historical cases where Keynesian ideas were absorbed and disseminated as a new economic theory that associated an economic intervention of the state while redesigning the sociopolitical structure of postwar society, we underpin the changes in economic knowledge itself and in policy-making. Interestingly, Keynesianism was not only

successful in promoting a policy change, but as an epistemic shift in economic knowledge and economic technicality as well.

By illustrating some Keynesian policy-making cases in Britain and in the United States, besides pointing out some peculiarities across Western Europe (Sweden, France and Germany) on what concerns knowledge transmission and institutional acceptance of Keynesianism during the interwar and postwar period, we emphasized some common policy features that involved three core aspects. First, the position of public works to sustain employment policies and the acceptance of national debt as solutions for the crisis; secondly, the importance of seeking international and domestic stability via monetary and commercial policies, which determined a process of economic technicality; and lastly the context and rise of welfare social policies that began to shape the modern Welfare State model.

As presented in Chapter 3, an analysis of Table 1 indicated how the Keynesian mode of government spread across different nations, each with its own political and economic experience. Despite the different timings in accepting interventionist economic policies, we saw key cohesive elements on what involved fiscal policies and an acceptance of the role of macroeconomics. While our proposal of a genealogical-institutional approach to the spread of Keynesianism across different institutions and actors pointed out to structural differences between nations, we grasped the core cohesive elements in terms of Keynesian policy-making and spread of economic knowledge.

The role of key economists, notably Meade, Stone, Hicks and Beveridge in Britain, and Hansen, Salant and Samuelson in the United States indicated the beginning of the theory-practice shift: insofar as several academic economists were recruited in the interwar and postwar period, we see the rise of an economic technicality associated to applied economic policies. Employment legislations, welfare systems and fiscal measures (public spending and tax cuts) became part of the economic rhetoric and the rule of thumb for designing interventions.

Additional to that was the establishment of economic intervention as a regulatory technology; that is, a set of recommended tools for the market system regarding fiscal, budgetary, monetary, commercial and military management. This regulatory facade of Keynesianism reinforced the idea of social regulation in Jessop's terminology of the Keynesian Welfare State (KWS), in which the rise of economic policies was associated to a participative interference in the social context.

Insofar as the Keynesian proposal of a state structure guaranteed the core conditions for economic and social reproduction without compromising the capitalist system as a whole, social theorists pointed out to a “Keynesian compromise”, or a democratic form of capitalism in the sense of a temporary class coordination achieved with full employment and increased purchase power. Indeed, we cannot ignore that the postwar decades represented a “Golden Age of Capitalism”, as economists and political scientists call it.

Nevertheless, it would be a simplistic assumption to consider economic activity as an end in itself. As pointed out throughout Chapter 4, one should reflect about “why” and “how” Economics (both its theory and its policy) affects the way individuals act, behave and think about their existence. As Foucault suggests, “[w]e should not think that good economic management has had no other effect and no other foreseen and calculated end than that of securing the prosperity of all and each.”.

If state action was legitimized by its power to guarantee and guard life, this opened up a new set of governing techniques and mechanisms to ensure the welfare, liveness and productivity of the population. Furthermore, if Keynesianism transcended from epistemology to political and economic practice, it created several consequences and changes in terms of governability and economic knowledge. By addressing a Political Economy of Power (PEP) framework that analyzed the dissemination of power relations within the political economy of the postwar, we investigated the role of institutions, policies and actors in shaping Economics as a technical knowledge at the same time it created new mechanisms of social control.

Once Keynesian economics proposed a certain form of discourse and knowledge that changed the way economic reality was understood, it created new techniques that influenced institutional behavior and action. The process of technicization and commodification of economic knowledge associated to an increasing mathematization and technicality – interestingly connected to the spread of econometrics – contributed to the consolidation of the “economist” as policy analyst and as an “apolitical”, scientific and technical expert.

Two main outcomes were pointed out throughout Chapter 4 as consequences of the political economy of power of Keynesianism. First, the rise of the mathematical-scientific metaphor, culminating in the hydraulic “neoclassical synthesis” that influenced the ways of teaching and research in academia. Secondly,

the establishment of a statistical-technical approach that acknowledged the use of statistical data and sophisticated econometric models to understand the economic reality and propose economic policies, including macro models. This movement influenced the ways economic research and economic policy was thought and applied, especially during the Cold War with the rise of think tanks.

If Keynesian Economics consolidated itself as a political paradigm, what power consequences did it create? Indeed, the development of economic theorizing and its power consequences (social, biological and political) cannot be conceived without an appraisal of Keynesian theory and policy-making. The postwar era represented a particular moment in history where economic intervention understood civil society as a political subject whose characteristics of production (employment, growth, stability) and living conditions became internalized by the state and its correlated institutions.

A close association of economics and society is what characterized the Keynesian governmentality, culminating in a redesign of the notion of biopolitics. The idea of governmental intervention in postwar economies cannot be dissociated from the spread of several discourses and policies involving security, stability and socioeconomic improvement. The political and economic paradigm of a Keynesian governmentality opened up a diagnostic and technical approach to economics and to the population, emphasizing the positive elements of policy-making, especially what concerned employment policies, social investments and demand stimulus.

In that context, we briefly proposed a reflection on the effects and forms of resistance to such economic powers. For Keynes, economics actually represented a means towards bigger ethical objectives in the sense of a construction of the self, which is quite similar to Foucault's assertions on the government of the self. If economics consolidated itself as the theory of production and allocation to seek the improvement of life, what is prosperity and economic outcomes for? Economic technicality, stability and security policies should represent the means instead of the ends of economics. In times of economic crises and social insecurity, perhaps economists should rethink their own attitudes and return to the ontological foundations and objectives of economic action itself.

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