



Neoliberalism's prologue: Keynesianism, myths of class compromises and the restoration of class power

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Abstract

Many anthropologists interpret neoliberalism as a radical break from and dangerous rupture in post-war societies that featured Keynesian economic policies and welfare provision. The allure of a mythic welfare state has boosted John Maynard Keynes's popularity to many who embrace certain facets of socialism. Many critical social scientists have embraced Keynesianism in ways that overlook how the US used Keynesian policies to reengineer and redeploy state power. Keynes's liberal synthesis inspired managers in the US Treasury Department to understand depression-era problems of unemployment and poverty in ways that were consonant with the expansion of corporate power. For understanding Keynesianism, as it actually existed during the Cold War, we must analyse how the US Treasury and State Departments used Keynesian principles to rebuild the social reproductive capacities necessary for capitalist accumulation both domestically and in Western Europe. I focus on how the architects of post-war capitalism used full employment policies, labour laws and welfare provision to renovate the nexus of political practices and institutional structures in ways that formed a benevolent and caring image of 'the state' and the myth of a class compromise. Through these reforms, governmental planners and administrators used the 'state idea' to reorganize capital accumulation as if the post-war economy would represent ordinary people's best interests. In the process, these sophisticated practices of power became reified as the 'welfare state' and the 'Keynesian compromise' in ways that endow these institutions and policies with a character divorced from practices of

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power. The post-war state embodied a dialectic of repression and reform that combined criminalizing dissent with full employment policies and welfare provision. Taking these aspects of power into account, we can see post-war Keynesianism in ways that inspire a robust and far-reaching criticism of the contemporary predicament of economic uncertainty, political instability and environmental degradation.

Keywords

Neoliberalism, Keynesianism, state power, welfare state, social reproduction

Introduction

Many anthropologists and social scientists explain neoliberalism, and the increasing dominance of multinational corporations and rising inequality, as a dangerous, if not ominous rupture in western democracies. A few scholars have studied the continuities between post-war structures of capitalist accumulation and contemporary forms of economic power, trying to theorize the relationship between these historical phases of capitalism (e.g. Baca, 2004, 2010, 2017; Neveling, 2017). For the most part, social critics have embraced narratives that presents neoliberalism as either a ‘crisis’ or ‘rupture’ in post-war capitalism’s ‘class compromise’ (e.g. Duménil and Lévy, 2004; Harvey, 2007; Ong, 2006).¹ Loïc Wacquant (2012), for instance, criticizes Marxists for accepting the belief that neoliberalism represents a declining and weakening of the state. Wacquant points out that the state’s expansion of repressive powers represents a defining characteristic of neoliberalism in the US. Unfortunately, Wacquant undermines his criticism by deepening the myth of what he calls the ‘Fordist–Keynesian pact’. Ringing alarm bells, Wacquant warns that neoliberalism represents a rupture that has reengineered and redeployed ‘the state as the core agency that sets the rules and fabricates the subjectivities, social relations and collective representations suited to realising markets’ (Wacquant, 2012: 66). By taking post-war capitalism’s ideal of a class accord for granted, Wacquant, along with many of the Marxists he criticizes, buries the structures of domination essential to the so-called golden age of Keynesian capitalism.

Over the past few years, the post-war welfare state’s allure has boosted John Maynard Keynes’ popularity among a growing number of self-described socialist politicians like Bernie Sanders and Alexandria Ocasio Cortez. Geoff Mann recently pointed out the irony that the biggest hero for this new variety of socialism is a ‘bourgeois British capitalist’ who ‘felt little solidarity for workers and inspired a century of establishment economics’ (Mann, 2019; e.g. Crotty, 2019). Moreover, this enthusiasm for Keynesianism overlooks how the US, as it led Western Europe during the Cold War, used Keynesianism to reengineer and redeploy state power. Much the way Wacquant describes neoliberal authorities, officials in the Roosevelt and Truman administrations used Keynesian policies to set new economic rules.

They used the principles of this ‘new’ liberalism to reshape political subjectivities, form new social relations and fashion collective representations to rebuild capitalism and institute global markets. As Stephen Collier points out, neoliberalism is part of a history of liberalism, which he defines as a practice representing new modes of understanding and intervening in politics (Collier, 2011: 18). Similarly, Keynesianism exemplified a critical method of intervention that state managers used decisively to transform politics in ways that would ultimately shape the rise of neoliberalism.

Rather than developing concepts that could protect workers from capitalism’s predations, Keynes critically reflected on government practice to rescue ‘Civilization’ from the faulty logic of what he called ‘classical economics’. Instead of inspiring workers, he motivated American financial planners. Keynes’s ideas were appealing to the American officials because they diagnosed the problems of unemployment, poverty and contracting markets in ways that were consonant with the industrial expansion and its vital structure, the corporation. Keynes developed policies and mechanisms that addressed problems stemming from accumulation cycles of contraction and expansion in terms of social reproduction. As many scholars have criticized narrow readings of the Marxist concept of mode of production, capitalist production depends upon a complex structure of institutions, social relationships and infrastructure (Bhattacharya, 2017; Fraser, 2014; Mezzadri, 2019). Keynes highlighted many critical imperatives for socially reproducing capitalist society in ways that often befuddled corporate leaders. Capitalists, investors and entrepreneurs rarely understand the necessary institutions, arrangements and infrastructure for stable economic development and growth. Different analysts situate these conflicts in varying sets of contradictions between the activities and interests of specific investors in production and the broader political question of reproduction (Esping-Andersen, 1990; Friedman, 1994; Miliband, 1969). Simultaneously, national policies for managing accumulation cycles occur in a global structure of capitalism. Social reproduction requires political mechanisms and structures that connect various localities, countries and regions into a system of interdependence through imperial projects (Bhambra and Holmwood, 2018; Stoler, 2006; Stoler and McGranahan, 2007).

In terms of social reproduction, which joins the household with institutional structures, political power and multilateral power, we can better understand post-war Keynesianism. Keynesian economic principles addressed crucial questions about managing social reproduction, connecting the domestic reorganization of capitalism to global structures to manage capital accumulation, expand markets and procure raw materials. In this way, Keynesianism formed a practical method for extending state power into the realm of economics (Mitchell, 2011). Keynes criticized classical economics for its belief in self-regulating markets. He was especially critical of how mainstream economists neglected the careful management of capitalism in ways that would ultimately fail to sustain ‘Western Civilization’. Post-war Keynesianism represented expertise crucial for reorganizing social reproductive mechanisms that would stabilize capitalism at a time of ‘crisis’. Rather

than grandiose plans for social revolution, Keynes sought to uncover the relatively small, technical problems that produced the distressing economic problems of the Great Depression. Crucially, he focused on behaviours and policies that militated against long-term investment and encouraged investors to take money from the industrial circuit of capital accumulation for either the safe-haven of savings or avenues for financial speculation. Accordingly, Keynes designed policies that would subordinate finance capital to the needs of long-term investment in production that he believed would circumvent the contractions that produced the Depression and recurring crises of underconsumption and unemployment.

For understanding Keynesianism, as it actually existed during the Cold War, we must analyse how the US used Keynesian policies to build post-war capitalism. In this sense, Keynes's most spectacular accomplishment was also a personal defeat. Planners in the Treasury Department used many of his ideas to rout him in negotiations over Lend-Lease and Bretton Woods, which guaranteed Britain's subordination to the US (Steil, 2013). With the resurgence of the Depression in 1937, Keynes's masterpiece *The General Theory of Employment, Interest and Money* (1936) inspired officials in the Roosevelt administration. With a new understanding of 'effective demand', economic planners refocused New Deal programs from reactive 'relief' programs to an aggressive policy approach that would attack the sources of the economic slump (Collins, 1981). In this way, the American Keynesians advanced policies to contain unemployment through methods that augmented corporations' disproportionate influence in social and political life. These enterprises increasingly dominated vital sectors of industrial, financial and commercial life.

As the Keynesians in the Treasury Department became master custodians of corporate power, liberal ideologues developed euphemisms of 'class compromise' and 'mixed economy' to legitimize the massive expansion of corporate power as if it were a kinder, more tempered capitalism. Unfortunately, many critics of neoliberalism have accepted these Cold War neologisms. Philip Abrams, however, reminds us that 'the state' is not the reality that stands behind the mask of politics. Instead, it is 'the mask' that prevents us from 'seeing political practice as it is' (Abrams, [1977] 1988). Underneath the myths of class compromise, we can see how American Keynesians used full employment policies, social protections, labour laws and welfare provision to renovate the nexus of political practices and institutional structures. At the same time, they successfully presented their capitalist innovation in benevolent images of 'the state'. Through these reforms, governmental planners and administrators used the 'state idea' to project and purvey industrial corporations as if they represented ordinary people's best interests. In the process, practices of power became reified as 'the welfare state' and 'the Keynesian compromise' in ways that endowed these forms of control with a social character divorced from its practices, reimagined as a hard-fought 'compromise' between workers and capital.²

Central to the New Deal and Keynesian full employment policies—which is crucial for understanding contemporary forms of 'neoliberal' domination—the

state expanded repressive institutions that contributed to McCarthyism's marshaling of fear of putative communist infiltration of American democracy. Keynesian economic policies and welfare provisions grew from the grounds of class conflict that featured secret policing and domestic security agencies like the FBI and MI5. Increasing criminalization of political dissent developed along with practices that integrated workers into capitalist accumulation as mass consumers. A critical and historically grounded analysis of Keynesianism can contribute to a robust and far-reaching criticism of the contemporary predicament of economic uncertainty, political instability and environmental degradation. Rather than seeing the massive power of multinational corporations, the undemocratic rule of multilateral institutions and the prominent role of US military power as examples of neoliberalism's rupture, this paper shows these to be continuous with Keynesianism of the post-war period.

John Maynard Keynes: Restoring class power

John Maynard Keynes contributed to post-war capitalism's expansion in ways that had little to do with either strengthening the working class or combatting inequality. As a self-described bourgeois scholar, he became distressed by how World War I had damaged the economic mechanisms of production and trade that had produced Western Civilization. In organizing the finances of Britain's war efforts, Keynes became increasingly disillusioned with the scale at which western powers had wasted resources and destroyed human life. He deplored politicians' inability to negotiate a settlement that could end the destruction threatening the bourgeois values he held dear (Ahamed, 2009; Skidelsky, 1992). The Paris Peace Conference increased his disenchantment as he witnessed Allied leaders, with moralistic fervour, punish Germany while ignoring the logistics for rebuilding the economy.

Upon resigning from the Treasury, he dismissed the Treaty of Versailles as a 'Carthaginian Peace'. In *The Economic Conditions of the Peace* (1919), Keynes blasted the Allied Powers for their short-sightedness:

The Treaty includes no provisions for the economic rehabilitation of Europe—nothing to make the defeated Central Empires into good neighbors, nothing to stabilise the new States of Europe, nothing to reclaim Russia; nor does it promote in any way a compact of economic solidarity amongst the Allies themselves; no arrangement was reached at Paris for restoring the disordered finances of France and Italy, or to adjust the systems of the Old World and the New. ([1919] 2019: 174)

Keynes asserted that the lack of concern for rebuilding market relations and the European financial system grew from the failure to realize the 'intensely unusual, unstable, complicated, unreliable, temporary nature' of Western Europe's economic organization. Dangers to 'Civilization' grew from naive understandings of capitalism that assumed 'the most peculiar and temporary of our late advantages as

natural, permanent, and to be depended on, and we lay our plans accordingly' (Keynes, [1919] 2019: 45).

Over the next two decades, Keynes doggedly replaced what he described as the false foundations of 'classical economics' with 'scientific knowledge' to establish policies that could reproduce stable institutions. Keynes's focus on 'Civilization' as the central concern for economics drew from Edmund Burke. He credited the famous conservative with framing 'one of the finest problems in legislation, namely, to determine what the State ought to take upon itself to direct by the public wisdom, and what it ought to leave, with as little interference as possible, to individual exertion' (Keynes, [1931] 1963: 312–313). Keynes used Burkean principles to guide the way he addressed the state's role in addressing economic disorder to strengthen the institutions of private property, liberal trade and the legal framework of contracts (Skidelsky, 2003). Rather than being moved to 'wrath' by a 'fiery passion for justice and equality', Keynes was driven by 'an impatience with how badly society was managed' (Skidelsky, 1992: 3).

With *The General Theory of Employment, Interest and Money* (1936), Keynes authoritatively addressed the narrow causes of slumps and unemployment. He audaciously announced himself a 'revolutionary' as he labelled his predecessors—Adam Smith, David Ricardo, Alfred Marshall and his colleague Arthur Pigou—'classical economists' who built their theories upon the faulty logic of 'Say's Law' (Laidler, 1999). Keynes simplified the French Physiocrat's argument as 'supply creates its own demand' to expose the fundamental flaw that rendered classical economists incapable of foreseeing situations where demand for goods and services would fall below supply. As an alternative to, and seemingly oblivious of, the Marxist concern with overproduction crises, Keynes sought ways to turn demand into a force that would decisively boost the magnitude of capitalist production. Keynes used the sudden reduction of the demand for goods and plummeting investment during the Depression to highlight how investment and spending represented capitalism's driving economic force. The simultaneous overproduction and underconsumption of goods led Keynes to develop mechanisms that would expand 'effective demand' to initiate capitalism's recovery (Keynes, 1936). Increasing demand for goods and services would release the market's dynamic powers, leading businesses to invest aggressively in production, illustrating the dual effects of employment: bringing to life both idle capital and idle labour. In dispensing the Victorian ideal of thrift, he argued that raising consumption would provide a stable foundation for capitalist investment.

Like most bourgeois economists, Keynes identified the entrepreneur as the engine of prosperity and entrepreneurial 'investment demand'—the capitalist's desire to take advantage of 'productive investment'—as the source of economic expansion (Mann, 2017: 199). Consequently, Keynes formulated methods that would encourage entrepreneurs to invest in capital expansion rather than retreat to the refuge of savings. In promoting long-term capital investment, Keynes wanted to manage markets in ways that subordinated financial capital to the necessary conditions for 'productive' investment. Without proper controls,

Keynes argued that speculative capital could undermine society's moral bases by allowing speculators to profit from luck unfairly. In pointing out finance capital's tremendous capacity to inflate risk, Keynes warned that 'speculators' might not do much harm as 'bubbles on a steady stream of enterprise'. However, the position becomes 'serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done' (1936: 159).

In developing the concept of effective demand, Keynes brilliantly incorporated the working classes, and their struggles for dignity, into the expanding agenda for capital accumulation. Rather than supporting the Labour Party or trade unions, he identified labour's importance to economic policy. Expanding employment and consumption would secure the conditions for capital accumulation. For the imperatives of economic growth, Keynes brilliantly recognized that laborers, as consumers, had been an unrealized source for profits. Full employment policies integrated workers according to the strategies for expanding capital and raising output. With such a focus on boosting productivity, Keynes developed a view of democracy that narrowed its scope to the needs of improving capitalist techniques.

The Keynesian transformation of US power

To understand Keynes' influence in shaping post-war capitalism more critically, we must look at how US officials incorporated his economic principles. Keynes's concept of effective demand critically analysed capitalism's failures and offered an alternative that would incorporate the vigour of class struggle into institutions of the state. Taking inspiration from this view, 'a fervent band of "young Keynesians"'—including Lauchlin Currie and Harry Dexter White—began to persuade sceptics like President Roosevelt and Treasury Secretary Harry Morgenthau about the advantages of Keynesianism (Skidelsky, 2003: 625–626). *The General Theory of Employment, Interest and Money* inspired this emerging generation of economists to address the causes of the global slump. Keynesianism provided an analytic frame to understand the wicked pairing of declining investment and plummeting demand for goods in ways that considered American capitalism's faulty organization. This new viewpoint recognized that the focus of New Deal programs on 'relief' did not address the causes of sluggish capital investment. Rather than 'relief' to 'the poor', American Keynesians came to understand public spending as an aggressive policy tool that could initiate recovery (Collins, 1981: 6). Against the ravages of the resurgent economic slump, the Roosevelt administration started introducing Keynesian macroeconomic tools of deficit spending and public works projects to invigorate the New Deal by instilling capitalist organizations with new powers of the national government.

World War II provided the pivotal boost that catapulted American manufacturing and business to previously unimagined output levels. With gigantic orders for munitions, military equipment and provisions, business leaders discarded some of their fears of state intervention. Entrepreneurs entered into government service and

joined the Keynesian chorus by celebrating war-related Keynesian policies for ‘its prodigious feats of production’, legitimating Keynesian institutions and establishing a new configuration of cooperation between business and government. With new incentives to expand capitalization, entrepreneurs and enterprises formed ‘new groups in the shadowy areas where the private and public spheres intersected’ (Collins, 1981: 81).

The expansion of American industrial capacity required new approaches to international policy. Keynesians became aware that industrial expansion would require novel political mechanisms to ensure the growth of global markets. Treasury planners felt a sense of urgency to confront Europe’s colonial system and its policies of ‘imperial preferences’ for thwarting American businesses from freely trading through large parts of the world. In 1939, as the British struggled to defend itself against Nazi Germany, the US used the crisis to increase its position vis-a-vis the British Imperial trading system. When the British requested financial assistance, the US attached conditions that would initiate dismantling its colonial structure. Against World War II’s common lore as the great struggle for democracy, the US entered these negotiations without any felt obligation to help save Western democracy. Instead, Treasury officials conditioned Britain’s financial survival on Article VII, which required the British to eliminate ‘all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers’ (cited in Steil, 2013: 14).

In ending imperial preferences, Britain lost its privileged access to its colonies’ markets, providing the US a dominant position and stripping Britain of its traditional export rights (Steil, 2013: 107). The British authorities understood Lend-Lease as a ‘mortal threat to British solvency and sovereignty’. In losing its privileged access to the markets of its colonies and dominions, Britain would become increasingly dependent on US imports—a devastating blow to a war-ravaged nation, which Churchill later described as the ‘most sordid act in history’ (Steil, 2013: 13–14). Lend-Lease was pivotal in global politics. It laid the first steps of the process that anthropologist Stephen Reyna describes as American imperialism reducing Western Europe to ‘second tiered’ status vis-a-vis the US (Reyna, 2016: 118–119), making Britain dependent on American economic power. For many years, the Treasury Department would use Lend-Lease to ‘press the British relentlessly for financial and trade concessions that would eliminate Britain as an economic and political rival in the postwar landscape’ (Steil, 2013: 108).

In response to Lend-Lease’s devastating effects on Britain’s global stature, Keynes began drawing up a ‘detailed blueprint for a new global system—one that would offer Britain a measure of protection against American monetary and trade diktat’ (Steil, 2013: 137). Under the new conditions of ‘cooperation’ established by Lend-Lease, Keynes came to the negotiating table ‘with the mission of conserving what he could of bankrupt Britain’s historic imperial prerogatives’. He realized there would be scant room for political manoeuvre within a ‘dollar-dominated postwar world’ (Steil, 2013: 3). Economist Michael Roberts (2017) succinctly describes Keynes’s about-face: Keynes, the great ‘idealist of civilisation

turned into a pragmatist at the post-war Bretton Woods meetings, representing not the world's masses, or even of a democratic world order, but the narrow national interests of British imperialism against American dominance' (Roberts, 2017).

Harry Dexter White, Keynes's foil in the Bretton Woods negotiations, was a leading advocate for Keynesianism in the US Treasury. Such admiration for Keynes's technical abilities extended neither to personal liking nor to the support of the demands he made on Britain's behalf (Skidelsky, 2003: 625). As Steil describes,

White's role as the chief architect of Bretton Woods, where he outmaneuvered his far more brilliant but willfully ingenuous British counterpart, marks him as an unrelenting nationalist, seeking to extract every advantage out of the tectonic shift in American and British geopolitical circumstances put in motion by the Second World War. White had a vision of a postwar order antithetic to long-standing British interests, particularly as they related to the empire. (2013: 5)

US officials presented such antagonistic approaches to reorganizing international politics in reformist rhetoric. They promised to extend a 'New Deal for a New World' and offered an alternative to the colonialism of 'Old Europe'.

A dialectic of reform and repression

While the US Treasury Department was reorganizing its relationship with Britain and Western European powers, authorities generated new forms of violence domestically. In discussing how the New Deal and Keynesian reforms transformed the US, we must consider the context of repression and the proliferation of domestic security forces that shaped reform. During World War I, the federal government increasingly criminalized political dissent through the Espionage and Sedition Acts. As the government fashioned images of domestic threats to the nation, it expanded security institutions in the form of the Bureau of Investigation (BI)—later to become the Federal Bureau of Investigation (FBI)—and implemented wide-ranging censorship and surveillance (Luff, 2017). The rise of Soviet power became the pretext for policymakers to intensify their conflict with organized labour. Government officials and business leaders increasingly imagined labour leadership collaborating with Russia to overthrow the government, leading to the belief that labour militancy was a 'red menace'. As Mark Mazower argues, the Bolshevik Revolution became 'a permanent justification for expanding political policing work in capitalist societies' (1997: 244; cited in Luff, 2017). Congressional scrutiny facilitated the government's foray into policing politics. Congressmembers worked with the BI's General Intelligence Department to launch the Palmer Raids, which symbolized the government's war against the radical movement (Schmidt, 2004). When the Red Scare had dissipated in the 1920s, anti-radicalism became a crucial institutional and bureaucratic feature in

the US government, leaving a weakened and disorganized labour movement in its wake.

Though the labour movement continued during the early 1930s, governmental repression following the Russian Revolution debilitated its opposition to American business and industrialists. The appearance of a weak and quiescent labour movement vanished suddenly in 1934. Labour activists used New Deal programs and Franklin Delano Roosevelt's democratic rhetoric and calls for expanding economic opportunity to mobilize an unexpected outburst of militancy. Workers began to consider the federal government as responsive to their interests. Breaking from the demoralization of the first years of the Depression, protests, strikes and clashes with companies, and their security forces, spread across the country, resulting in violent confrontations in Flint, Minneapolis, Toledo, San Francisco and other industrial and mining sites. Ideologically committed radicals led thousands of militants in mostly successful clashes with employers and local government authorities (Lichtenstein, 2003: 9–10).

Bloody conflicts contradicted the New Deal's promise to 'restore American politics' through a more inclusive democracy. Labour's precipitous militancy triggered fear among elite politicians and policymakers who self-defined as 'progressives' and were committed to the New Deal rhetoric of renewing American democracy. Senator Robert Wagner led the way. He used the violent clashes to chart a new path to engage 'the rising tide of industrial discontent' through the National Labor Reform Act of 1935 (NLRA). The NLRA promised to correct the 'inequality of bargaining power' between workers and employers by granting trade unions the power to unionize, collectively bargain and strike. Known as the Wagner Act, these laws came to symbolize conciliation between labour and capital. Many critics of neoliberalism accept this legislation as a working-class victory and an expression of labour unions' considerable power. However, the bill represented the progressive-era tradition by implementing reforms that would make industrial sectors more efficient. On a strategic level, Wagner's initiative understood that 'legal symbols' would influence workers' consciousness, going beyond pacification and galvanize their commitment to the industrial order. The new legislation gave workers an avenue in seeking collective empowerment in ways that would secure their consent and cooperation with American enterprise and its development of mass production (Barenberg, 1993: 1381). Through the NLRA, the federal government made class conflict mediation an institutional feature of its recovery efforts. As the newly formed Congress of Industrial Organizations (CIO) superseded the American Federation of Labor (AFL), a new generation of labour leaders took on political roles, as unions became institutions for economic recovery (Blyth, 2002). After the passage of the Wagner Act, the CIO became noteworthy supporters of the State and Franklin Delano Roosevelt, claiming more than four million members in all the major industrial sectors.

Central to this mode of integrating labour into capital accumulation was what political scientist Mark Blyth describes as an 'underconsumptionist understanding of the depression'. Much like arguments for the Social Security Act, advocates for

the Wagner Act put forth a Keynesian view that the bill would increase purchasing power and drive up industrial output (Blyth, 2002: 66). As the Wagner Act states, ‘the inequality of bargaining power between employees . . . and employers . . . tends to aggravate recurrent business depressions, by depressing wage rates and the purchasing power of wage earners in industry’ (cited in Blyth, 2002: 67–68). Through labour reform, the state gave the labour movement new forms of organization that bestowed labour protections as part of an industrial growth strategy that boosted consumer demand and stimulated consumerism.

The radical patina that these reforms enjoy among contemporary social critics partially derives from how business leaders and right-wing groups opposed the Wagner Act and other New Deal initiatives. Industrialists and corporate managers often denounced the reforms as a socialist plot to erode democracy and property rights. Taking this resistance at face value, many American scholars have interpreted the Wagner Act as appeasing labour, thereby turning state power against capitalist prerogatives and preferences in ways that favoured workers (see Skocpol, 1980; Plotke, 1996). This interpretation does not adequately analyse the nature of the conflicts between state managers and capital. The Wagner Act emerged from a more profound concern for what Marxists call social reproduction. Advocates of the New Deal among the Democratic political elite understood the long-term need to stabilize economic conditions. As Keynes pointed out, capitalists were often conscious of their interests in the narrowest terms. They often followed their passions in ways that undermined the long-term social reproduction of capitalist relations. New Dealers and Keynesians, as managers of the state apparatus, had a broader understanding of what was necessary for the social reproduction of capitalist relations. Their power rested upon maintaining the political and economic order (Miliband, 1969). As Mario Tronti points out, Keynesianism of the New Deal was not a revolution ‘against capital’s structures’ as much as it was a ‘political initiative from above’ that invested capitalist institutions with a ‘new strategy’ (Tronti, [1966] 2019: 317). New Deal social reforms increased the state, and ultimately capital’s, control over labour. In providing rights, the Wagner Act constrained labour—along with the 1935 Social Security Act—in that its provisions reinforced the market’s discipline of labour within limited benefits and many conditions for eligibility (Panitch and Gindin, 2012: 59–60). In this way, labour laws fused with growth policies to subordinate labour to the dominant corporations’ imperatives.

The combination of Keynesian economic policy and welfare provision constituted innovative forms of power. These reforms reinforced and complemented domestic security institutions’ expanding capabilities from World War I and the Red Scare, embodying a dialectic of reform and repression. The New Deal’s ideal of change and desire for greater governmental efficiency expanded into the realm of domestic security. Leadership in the BI, which was renamed the FBI in 1935, employed the New Deal’s modernizing ethos to increase the centralization of its policing efforts and to raise its political importance and prestige. Along with welfare protections, the federal government redoubled its domestic security efforts by

expanding the FBI's surveillance programs against what authorities believed was an increasing threat of communism. The FBI collected information on people working in every major industry as part of its broad mandate to halt communist infiltration of labour organizations (Powers, 1987). Underneath the federal government's pronouncement of democratic renewal, J Edgar Hoover directed the FBI to arrest, intern and deport thousands of suspected subversives while furnishing the executive branch with more than '2,600 reports' of communist activities (Schmidt, 2004: 342). Just as A Mitchell Palmer promoted the domestic intelligence officers as objective experts of radical subversion during the Red Scare, the Roosevelt administration promoted the FBI as a responsible and fair party controlling the communist threat (Schmidt, 2004: 354). In this new iteration of the Red Scare, Senator Joseph McCarthy became J Edgar Hoover's partner.

Labour leaders gradually looked past the repressive aspects of expanding federal power and celebrated New Deal policies for providing workers higher wages and job security. Indeed, the federal government expanded control by using labour leaders to fight communism. During the 1920s, the American Federal Labor Union (AFL) solidified itself as an ally in the government's fight against communism. The 'conservative officials of the AFL were the vanguard of American anticommunism in the interwar period'. From the first days of the Bolshevik Revolution, AFL leadership 'evangelized against communism' and 'collaborated with the federal government's repression of communists (Luff, 2013: 102–103). As the CIO came to the forefront, it replaced the AFL as the dominant force leading the labour movement. With the Cold War and the Marshall Plan, authorities steadily pushed communists out of the CIO as both unions converged to participate in the anti-communist offensive. Rather than merely being co-opted, unions became an essential aspect of the state apparatus—internalizing Keynesian ideals. Historian Jennifer Luff argues that during the 'little Red Scare of 1939–1941, labor conservatives of the AFL helped erect the legal architecture of federal anticommunism and McCarthyism' (2013: 103–104). Simultaneously, the CIO 'gradually divested itself of its radical heritage and democratic procedure' (Van der Pijl, 2012: 150). Eventually, the two unions would merge to establish the International Confederation of Free Trade Unions as its leaders claimed a position in the Cold War battle against communism.

During World War II, the federal government expanded Keynesian economic policies to increase the militarization of industry. Enlarging the reach of the National Labor Relations Board's previous efforts, the War Production Board increased and intensified the federal government's role in managing labour. One could see this as solidifying the state's commitment to directing industries toward public purposes—which dwarfed the scale and the long-term impact of New Deal programs like the National Recovery Administration. However, this policy focused on military power in troubling ways. The CIO's consent to the emerging warfare state subordinated its membership to the expansion of military industries and a newly developing arrangement that tied state agencies and corporate America closer, in ways that would facilitate Cold War policies. Labour leaders

believed that by allying with the Roosevelt wing of the Democratic Party, and its commitment to military-based industrial expansion, they could advance their interests and those of their working-class constituency, moving society in a broadly social-democratic direction (Lichtenstein, 2003: 82–83). Under these conditions, war mobilization routinized union activity in ways that diminished the power of rank-and-file members while expanding the institutional role of union leadership, which consented to the more significant intervention of the federal government into union affairs (Lichtenstein, 2003). The economy's militarization co-opted workers to the war industry, aligning workers' interests with war profiteering. Taken together, post-war forms of capitalist relations destroyed the militant labour movement. They transformed the labour movement into a productive and active factor of capitalist growth and legitimizing the militarized state (Brenner, 2006: 82).

Many writers credit these developments with fostering a 'new labour movement' as the basis for building a 'new democratic order' (e.g. Blyth, 2002; Plotke, 1996). There were parallel processes in Europe, especially in Bismarckian Germany, where the state used welfare provision to control labour and complement policing of dissent (Beck, 1997; Clark, 2012; Steinmetz, 1993). Instead of theorizing this dialectic of reform and repression, many critics of neoliberalism take democracy for granted. They do not question the realities of power embodied in growth politics and the ways that military-fuelled consumerism contributed to reorganizing labour politics. Under the military-industrial complex's growing force, Keynesian social engineering created new political subjects and subjected people to new ways of being governed (Mitchell, 2011). With an institutional role for organized labour, these economic policies redefined 'democracy' in ways that made the economy the central feature of state power. With a focus on raising wages to expand effective demand, Keynesian growth policies transformed how the working classes participated in capitalist accumulation, which limited working-class politics to purely economic needs (Van Der Pijl, 2012: 150). Based on this new accumulation model, welfare state policies became productive in making labour central to economics as consumers. In this way, the Keynesian project imposed power upon working classes in ways that made them more docile and increasingly committed to capitalism through consumerism.

The Marshall Plan: Militarizing Keynesianism

With the end of World War II, the US Treasury Department envisioned a 'new' Europe that would become integral to building its liberal order. Department officials aimed to establish trade mechanisms that could enlarge global markets for American industrial goods and a friendly environment for overseas investment, which officials euphemized as the 'open door'. Continuing where Lend-Lease left off, the US sought to restructure Western European states in ways that would integrate Europe into a global system of multilateral trade (Cardwell, 2011). For this purpose, the US distributed billions of dollars in

grants and loans for rebuilding Europe. Most governments used these loans for expedient methods to stave off emergencies as they had little chance to embark upon comprehensive plans for reconstruction or a long-term investment. Instead of an 'open door' to American products and capital, protectionist blocs persisted. The Truman administration cancelled the Lend-Lease agreement, sending Britain toward what Keynes called an 'economic Dunkirk', contributing to an increasingly dire situation characterized by economic weakness and social turmoil. These problems came to a head when Britain, economically exhausted, pulled its support from the Greek government in its civil war with communists.

By 1947, the State Department began to step into the breach left by the Bretton Woods agreement's shortcomings. Officials feared that Greece's civil war could unleash the spread of socialism throughout the continent. Moreover, they recognized that the US' bilateral approaches to Europe's economic trouble had failed, and the Bretton Woods System was inadequate to halt a trade deficit that had doubled in just one year since 1946 (Judt, 2006). Under the Truman Doctrine's umbrella, Secretary of State George Marshall established the European Recovery Program (ERP) to shield the continent from communism. Embodying Keynesian logic, the ERP shifted focus from relief efforts to the recovery of economic productivity and increasing output. Paradoxical to pre-Keynesian thinking, US aid was concerned with making European businesses and corporations more competitive. Without such improvement, Europe would not develop into a viable market for American exports. As Europe's financial crisis deepened, it became probable that European leaders would seek recourse in nationalist policies, restricting American imports. This could limit the participation of Western Europe in international trade. The Marshall Plan's ambitious objective was to 'correct the massive structural disequilibrium in world trade by rebuilding Europe and Japan's industrial heartlands and restore their economic ties with primary producing areas in Asia, Africa, and Latin America' (Callinicos, 2009: 171). By improving European capital's competitiveness internationally, European businesses could earn enough dollars to balance trade on a multilateral basis, slow down inflation and increase industrial productivity (Block, 1977: 88).

Reengineering Western Europe's domestic policies through the Marshall Plan reduced American allies to what Stephen Reyna (2016: 119) calls a 'second-tier of countries', subordinate to the 'imperial core of the United States'. Though Western European regimes retained considerable power as 'second-tier states' of the Atlantic Community, they would have to

operate in ways consistent with US public délires. They are for capitalism—their own and that of America—and they will defend this world with violence if necessary. Because of their privileged position in the New American Empire, these states might be termed 'advantaged clients'. (Reyna, 2016: 119)

Along these lines, Western European leaders turned to the US' economic and military power to facilitate their liberal projects. In this respect, the US constructed

its empire in Europe through ‘invitation’, making its project distinctly liberal in its structure and substance (Latham, 1997: 112). The ERP framed the conditions for accepting aid as the movement toward balanced budgets, financial stability and stabilization of exchange rates; all focused on the agenda of knocking down barriers to liberal and multilateral trade. Moreover, the US required that recipient countries, for every dollar of Marshall Plan aid, would place an equal amount of domestic currency in a fund to be used only for purposes approved by the US government (Panitch and Gindin, 2012: 96).

In concentrating Marshall Plan aid on private capital and corporations, the US Congress stipulated that the State Department set up the Economic Cooperation Administration (ECA) to administer these programs. Emphasizing private business’s role, the ECA promoted corporate and bourgeois members of society instead of governmental powers (Latham, 1997: 169). The ECA often used private channels rather than governments to procure resources. Moreover, business representatives, mostly corporate leaders, directed advisory committees that had crucial policymaking functions reorganizing European political and economic structures. Business leaders engaged in unambiguous campaigns to strengthen national economies and international commerce according to the American model.

In supporting corporate leaders and the liberal transformation of the European governments, the Marshall Plan militated against communist parties, laying the foundations for Cold War containment policies. In de-emphasizing coercion and force, the Marshall plan backgrounded the military and the CIA to the more fundamental Keynesian impulse to generate economic growth. State Department planners recognized the working classes and their grievances with the status quo in designing corporate growth models that would integrate working classes into capitalist production in ways that would raise wages. Working with Social Democratic parties, State Department officials balanced their liberalization strategies and ‘financial restraint’ to accommodate the priorities of rebuilding the social infrastructure. In this way, American planners used Marshall Plan funds to underwrite Western European allies as ‘capitalist states’ while at the same time making it possible to secure cooperation from labour. They prioritized economic growth to produce ever-increasing wealth instead of economic redistribution (Panitch and Gindin, 2012: 97). Various programs and aid packages sought to raise productivity and to implement moderate reforms in ways that could isolate communist unions and political parties. In divergent ways, the AFL and CIO—with CIA funding—contributed to developing anti-communist and conservative trade unions in Europe (Van Der Pijl, 2012).

The minimal character of the ERP made it incapable of addressing Europe’s acute political and economic problems. To make Western Europe successful in an open world economy would require structural changes that transcended the Marshall Plan’s capabilities. By 1950, it became clear that the Marshall plan could not profoundly transform the European corporate structure or develop the efficient planning mechanisms that would integrate European countries through liberal trade. With this imminent failure, the US soberly faced the possibility of losing its European export market (Block, 1977: 92). As with the New

Deal in 1937, the State Department's reform efforts in Europe would turn to militarization as offering the economic engine necessary for recovery. When tension increased with the Soviet Union, caused by its successes in developing nuclear capabilities, Truman asked the National Security Council (NSC) to review US foreign policy in light of the Soviet atomic program's rapid progress. Paul Nitze, director of the Policy Planning Staff, wrote a report that foretold of impending confrontation with the Soviet Union that would require the US 'to assume unilaterally the defense of the free world at a tremendous price and without hesitation' (cited in Fletcher, 2016: 750). Working with Secretary of State Dean Acheson, Nitze used the rising showdown as a pretext for a rearmament program in the US and Europe. Military industries would become the motor for the political and economic transformation of Europe. The militarization of the economic recovery plan would provide the US with the mechanism to continue providing aid to Europe after the Marshall plan's expiration. Moreover, the close integration of European and American military forces would produce a means to prevent Europe from closing itself off from American exports and capital (Block, 1977: 103–104).

The State Department directed the rearmament program to solve the many intertwining political and economic problems that kept Europe from fully participating in America's global plan. Central to this approach was overcoming the 'dollar gap', which historian Curt Cardwell (2011: 58–59) defines as 'an international balance-of-payments crisis' that 'threatened to destroy the nascent global economy'. By tripling defence spending, the program boosted the industrial sector and neutralized the stagnating levels of employment. It boosted European industries, extended through the Korean War to solve Japan's dollar gap (Borden, 1984). Military spending ignited investment in Europe and Japan, raising export demand that the US industrial sector needed. The State Department reinvigorated Keynesianism with military spending in ways that further limited the scope of social change. Much like the expansion of the American industrial sector during World War II, military Keynesianism greatly expanded the power of industrial corporations. It provided them with a shield against the danger of economic disruptions during periodic contractions.

The militarization of the American and European economies represented the definitive shift in the balance of power in favour of capital vis-a-vis the working classes. Simultaneously, the political and business leaders could celebrate their authority as if it represented a new pact that provided workers with new levels of affluence and prosperity. New forms of consumption among the working classes, militating against the protective aspects of labour organization, further weakened their ability to combat capital, which would prove fatal during the 1970s as Euro-American capital ramped up its project of exporting capital to the global south.

Conclusion

Critics of neoliberalism have dramatized contemporary politics as if they represent a dangerous break or rupture in Euro-American societies. However justified, this

alarmism relies on idealistic views of Keynesian economic policies of the post-war era. By venerating and conflating full employment policies with welfare provision, these critics fail to consider how the Keynesian reorganization of capitalism established many of the conditions from which neoliberalism has flourished. With little interest in class compromise, Keynesian state managers understood essential flaws in the organization of capitalism. They deployed these insights to stabilize economic conditions in ways that allowed massive corporations new opportunities to expand their power globally. Many of the problems that critics detail as the outcome of neoliberalism—corporate power, militarization and imperial control of the ex-colonies—were essential to Keynesianism of the 1950s and 1960s. Rather than a compromise, this new matrix of power supplemented an expanding domestic security apparatus with social reforms that resulted in a dialectic of repression and reform. The government subjected the working classes to new forms of control, making labour unions weaker and more vulnerable to corporate power, including the export of capital and dismantling labour protections that would follow the late 1970s. These policies steadily weakened organized labour, and more problematically, transformed its desires through mass consumption and celebration of capitalist affluence.

A critical view of Keynesianism, which assesses rather than accepts the mythologies of class compromise, is crucial for a critical theory of contemporary capitalism and a more thorough analysis of neoliberalism. We should not interpret the dominance of corporations, the militarization of the global economy, the massive power of finance capital, Western control of multilateral institutions, the dangerous rise of inequality and the acceleration of ecological degradation as a radical break with post-war forms of capital accumulation. Instead, we should understand how these troubling forms of power and dominance grew from actually existing Keynesianism. As we seek better ways to theorize contemporary capitalism and its reckless tendencies that are destroying the planet, we must place Keynesianism, and its practices of power, in this picture of capitalist ruin. The mythology of Keynesian compromises feeds the idea that ‘neoliberalism’ is a particularly malevolent form of capitalism, leading us to believe that we can be saved by elites and their new plans while taking our attention from the critical study of capitalism in its continually shifting forms.

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Notes

1. My analysis has benefitted from several researchers who engage with and develop the concept of neoliberalism (see Collier, 2011; Kalb, 2012, 2013; Slobodian, 2018). These writers have described how state power and multilateral organizations have changed global capitalism without glorifying post-war capitalism. Despite these sharp criticisms of conventional views of neoliberalism, these writers have missed the opportunity to connect contemporary economic processes with Keynesianism.
2. In this analysis, I draw on well-known criticisms of the welfare state that emerged in the 1950s and 1960s. From the Miliband and Poulantzas debate, to trenchant analyses of Perry Anderson, Mario Tronti, the Frankfurt School among many others (Anderson, 1965; Horkheimer and Adorno, [1947] 2002; Miliband, 1969; Poulantzas, 1978; Tronti, [1966] 2019). These divergent criticisms highlighted how Western Europe and the US used Keynesian economic policies to create highly unequal societies, contributed to monopoly capitalism, and proliferated vacuous 'mass cultures' based on consumption, subordinating working-class desires and values to capitalist accumulation. I find it interesting that many critics of neoliberalism, who know this research and understand the negative forces of post-war capitalism, have not been able to incorporate these well-known insights into their criticisms of contemporary capitalism. Many theorists of post-Fordism and neoliberalism have become wedded to narratives of contemporary decline and social rupture so that they are obliged to overlook the critical lessons from these well-known analyses of post-war inequality and political repression. To be sure, this literature is not sufficient and needs many important updates.

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