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## Economic Consequences, Nationalist Passions: Keynes, Crisis, Culture, and Policy

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# ECONOMIC CONSEQUENCES, NATIONALIST PASSIONS: KEYNES, CRISIS, CULTURE, AND POLICY

Nathaniel Berman\*

## TABLE OF CONTENTS

I. DISCIPLINES OF RECONSTRUCTION: PERENNIAL PROBLEMS, RECURRENT RIVALRIES	620
II. NATIONALISM EXCLUDED: THE ECONOMIC CONSEQUENCES OF THE PEACE	629
III. NATIONALISM ENLISTED: PLANNING, "EXPERIMENTATION," AND NATIONALIST LEGITIMACY	637
A. ECONOMIC ANALYSIS: INVESTMENT "LIBIDO" AND NATIONALIST RESENTMENT	639
B. ECONOMIC POLICY: "HARNESSING" INVESTMENT AND NATIONALIST LEGITIMACY	647
C. NATIONAL DISCIPLINE AND INTERNATIONAL COORDINATION <sup>3</sup>	653
IV. NATIONALISM DISCIPLINED: THE INTERNATIONALIST PARADOX OF THE FORTIES	655
V. POLICY PROPOSALS AND MODERNIST FAITH	661

No! The economist is not King; quite true. But he ought to be! He is a better and wiser governor than the general or diplomatist or the oratorical lawyer . . . . But where the rulers of the State dethrone the economic power in favor of the false idols of diplomacy or any other of Monsieur Hanotaux's mystic and incalculable forces, squalor follows, and the Mayor of Pargnan lives and dies in a cellar.

John Maynard Keynes, *The Reconstruction of Europe* (1922)<sup>1</sup>

In Western Europe they had . . . mistaken ideas about the reconstruction of Europe . . . . [W]e meet frequently with the view that the destruction

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\* © Nathaniel Berman, Professor of Law, Northeastern University School of Law. I would like to thank Marie-Claire Belleau, Jerry Frug, James Hackney, David Kennedy, Duncan Kennedy, and Daniel Schaffer.

1. John Maynard Keynes, *The Reconstruction of Europe: An Introduction*, THE MANCHESTER GUARDIAN COMMERCIAL, SUPPLEMENT, May 18, 1922, at 66, 67.

of Austria was a mistake, because a great economic block in Central Europe was a necessity, and that it must, therefore, be established again . . . . The war caused the nationalism of all the different peoples there to expand to such a degree that any attempt to suppress it would lead to another terrible war . . . . [S]uch plans are nothing but illusions, chimeras, and phantasies for a long, long time to come.

Dr. Edward Beneš, *The Problem of the Reconstruction of Central Europe* (1923)<sup>2</sup>

# I. DISCIPLINES OF RECONSTRUCTION: PERENNIAL PROBLEMS, RECURRENT RIVALRIES

"At the expense of the nation," the Diet of Poland published in 1921 a speech by a scholarly parliamentary deputy on an issue central to national pride and economic prosperity. Deputy Andrzej Wierzbicki's speech,<sup>3</sup> entitled, *The Truth About Upper Silesia*,<sup>4</sup> concerned a region Germany and Poland had been disputing since the end of World War I.<sup>5</sup> Deputy Wierzbicki began his speech with a description of the two-fold structure of the debate:

The Upper Silesian question arose from two, equally important factors. One factor was the living Silesian people, the realization of President Wilson's principles which . . . would have certainty as to the will of the people, of that living feeling of a people which had been in the possession of another state, and which is to be united into one national entity with its mother nation.

But the one principle of nationality is not enough to defend Upper Silesia. Above it there rises more and more obstinately the economic factor . . . A book appeared by Keynes, an eminent English economist, Secretary to the Royal Economic Institute in London, the author of a well-known work on India, that pearl of the English crown, that land which is a beloved subject of study to the English. Through such studies a man may win himself name and fame . . . . Keynes' thesis is that a new political world cannot be built up without the economic rebuilding of the whole of Europe, including Germany . . . . And behold the whole

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2. Edward Beneš, *The Problem of the Reconstruction of Central Europe*, THE MANCHESTER GUARDIAN COMMERCIAL, SUPPLEMENT, Jan. 4, 1923, at 721, 722.

3. Wierzbicki authored a series of works on Polish political and constitutional history.

4. ANDRZEJ WIERZBICKI, *THE TRUTH ABOUT UPPER SILESIA* (1921).

5. *Id.*

world began to repeat after Keynes that the Germans could not stand without Upper Silesia.<sup>6</sup>

This passage establishes a dichotomy between two sets of issues, two projects, situating itself in an already ongoing contest between what I shall call two "disciplines of reconstruction." Wierzbicki first describes the "will" and "living feeling" of a "people" and a nation's desire to unite into one "national entity with its mother nation," in conformity with noble Wilsonian ideals.<sup>7</sup> To this harmony of organic nationalism and principled internationalism, he caustically juxtaposes the "economic factor," the "economic rebuilding of the whole of Europe," and the congruence between British imperialism and one English economist's ambitions.<sup>8</sup>

Keynes had set up a similar dichotomy in the book that was the subject of Wierzbicki's polemic, the attack on the Versailles Treaty published in 1919 as the *Economic Consequences of the Peace*.<sup>9</sup> Keynes, however, had reversed the relative importance to be accorded each of "the two factors."

To what a different future Europe might have looked forward if either Mr. Lloyd George or Mr. Wilson had apprehended that the most serious of the problems which claimed their attention were not political or territorial but financial and economic, and that the perils of the future lay *not in frontiers or sovereignties, but in food, coal, and transport*.<sup>10</sup>

For Keynes, the key problems facing Europe were thus those of economics, not nationalism. Keynes, moreover, rejected the configuration of nationalism and internationalism he discerned in the Treaty.

The Wilsonian dogma, which exalts and dignifies the divisions of race and nationality above the bonds of trade and culture, and guarantees frontiers but not happiness, is deeply embedded in the conception of the League of Nations as at present constituted. It yields us *the paradox that the first experiment in international government should exert its influence in the direction of intensifying nationalism*.<sup>11</sup>

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6. *Id.* at 8-10.

7. *Id.*

8. *Id.*

9. JOHN MAYNARD KEYNES, *THE ECONOMIC CONSEQUENCES OF THE PEACE* (1919) [hereinafter *ECONOMIC CONSEQUENCES*].

10. *See id.* at 146.

11. John Maynard Keynes, *A Revision of the Treaty*, reprinted in III *THE COLLECTED WRITINGS OF JOHN MAYNARD KEYNES* 1, 8 (Moggridge ed., 1972).

Rather than Wierzbicki's nationalist/internationalist harmony, Keynes thus saw the Treaty as embodying the cruel "paradox" that the new international "experiment" would bring into being an intense version of the very nationalism to which it was purportedly only responding. Indeed, for Keynes, even the paradigmatic implementation of the principle of nationalities by the Versailles settlement, the creation of Poland, should be subordinated to general economic reconstruction. With a mixture of prejudice and prophecy, Keynes quipped: "unless her great neighbors are prosperous and orderly, Poland is an economic impossibility with no industry but Jew-baiting."<sup>12</sup>

The Keynes/Wierzbicki polemic is not an historical curiosity; it is a particularly striking instance of disciplinary rivalries that have regularly resurfaced during periods of international instability in this century, most recently in the post-1989 period. Such periods see the emergence of distinctive, often competing, academic and policymaking disciplines. Each of these disciplines seeks to identify the key sources of social, cultural, and political instability and to propose its own innovative ideas and institutions in response. The period following World War I, like our own time, was particularly rich in such endeavors. An anxiety to repair the cultural chaos wrought by the war heavily marked European discussions of social conflict,<sup>13</sup> gender roles,<sup>14</sup> and art,<sup>15</sup> as well as nationalism and economics. On the occasion of this conference,<sup>16</sup> I examine the relationship between two such disciplines—those concerned with economics and nationalism—through an interpretation of some of John

12. ECONOMIC CONSEQUENCES, *supra* note 9 at 291.

13. See generally CHARLES S. MAIER, RECASTING BOURGEOIS EUROPE: STABILIZATION IN FRANCE, GERMANY, AND ITALY IN THE DECADE AFTER WORLD WAR I 19-86 (1975) (discussing class conflicts in post-World War I Europe).

14. See, e.g., SUSAN K. KENT, MAKING PEACE: THE RECONSTRUCTION OF GENDER IN INTERWAR BRITAIN (1993) (exploring World War I's effects on feminism and the feminist movement); MARY LOUISE ROBERTS, CIVILIZATION WITHOUT SEXES: RECONSTRUCTING GENDER IN POSTWAR FRANCE, 1917-1927 183-211 (1994) (examining images of the changes in gender roles in France following World War I).

15. See, e.g., AMEDÉE OZENFANT & CHARLES-EDOUARD JEANNERET GRIS [LE CORBUSIER], APRÈS LE CUBISME (1918). See generally CHRISTOPHER GREEN, CUBISM AND ITS ENEMIES (1987) (discussing Cubism in France between 1916 and 1928); KENNETH SILVER, ESPRIT DE CORPS: THE ART OF THE PARISIAN AVANT-GARDE AND THE FIRST WORLD WAR, 1914-1925 (1989) (examining Parisian art and architecture during and after World War I).

16. This article originated in a paper delivered at the International Economic Law Section of the American Society of International Law in February, 1994.

Maynard Keynes' writings. For want of better terms, we can provisionally designate the two disciplines that I will discuss as "economic" and "political" reconstruction, although I will only address specific versions of each.

Focusing on three different stages of Keynes' development, I will show that he accompanied each of his changing conceptions of economic reconstruction with a different interpretation of nationalism.<sup>17</sup> Given the simultaneous surfacing of the problems of economics and nationalism in post-World War I public debate, and the structuring of that debate by a choice between them, Keynes apparently felt that the only way to argue for the priority of his own discipline was through somehow confronting the claims of the other. Thus, as Keynes formulated different versions of economic reconstruction, he first sought to exclude nationalism as incompatible with economic reconstruction, then to enlist it as an ally, or even an agent, of economic planning, and finally, to subject it, as a "cultural" force, to international discipline, along with "economic" forces.

Yet, I will also suggest that Keynes shared many central cultural assumptions with those who saw nationalism as the key interwar problem, particularly some international legal writers.<sup>18</sup> The similarities between the disciplines' fears and fantasies about economic and nationalist forces, respectively, suggest that we need to educe the elements of a shared cultural matrix at work, rather than view the similarities as simply a coincidence of the results of separate inquiries into specific problems. My interpretation thus seeks to go beyond the notion of Keynes as a mere technocrat—or, rather, to recover some of the political and cultural assumptions on the basis of which modern technocracy emerged. This approach rejects the view, shared by some of his contemporaries,<sup>19</sup> that Keynes did not consider the political and cultural desires, especially those of nationalism, that provided the context for more strictly "economic" impulses. I have incorporated Keynes' views of such questions partly by aggressively interpreting his well-known "technical" works in light of lesser-known writings that others might consider as inessential.

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17. See *infra* parts II, III, and IV and accompanying notes (discussing the evolution of Keynes' interpretations of nationalism and economic reconstruction).

18. See *infra* part V and accompanying notes (examining the underlying cultural assumptions of Keynes and some of his contemporaries).

19. See WILHELM RÖPKE, *INTERNATIONAL ECONOMIC DISINTEGRATION* 4 (1942) (arguing that commentators must not overlook the effect of nationalism on the international economy).

The structuring of much of the public debate in the interwar period by a choice between economic and political approaches began no later than the very first session of the Assembly of the League of Nations in 1920.<sup>20</sup> The Italian delegate, Tittoni, declared that the League's economic role was "an indispensable supplement" to its political and legal functions.<sup>21</sup> When the Canadian delegate responded that the League should not sacrifice its "main function of defending the peace,"<sup>22</sup> Tittoni upped the ante, moving the economic question from a position of "supplementarity" to that of primacy: the international economic question was "the most important, the question of the future, upon which will depend peace or war between nations."<sup>23</sup>

The debate between the disciplines may similarly be described as the effort of each to show that its concerns were primary, while still finding it necessary to deal with the "indispensable supplement" of the concerns of the other. Closing out the era's debates with his famous 1944 attack on Keynes' 1919 book, Etienne Mantoux argued that commentators should accord nationalism both practical and moral priority over economics and that failure to do so would lead to a misinterpretation of both.<sup>24</sup> Thus, in "view of the national passions with which Europe was ablaze," the Paris peacemakers "did not think it possible to set even economic recovery in train before Europe had been made again peaceful and orderly."<sup>25</sup> Moreover, the "choice between economic and political advantage . . . rest[s] in the last resort, upon a choice of values."<sup>26</sup> The "Belgians had preferred the honor of the nation to the blessings of German state insurance;"<sup>27</sup> similarly, "the statesmen of 1919 must have believed that economic reconstruction could not be obtained at the price of spiritual destruction."<sup>28</sup> Finally, much of his book (like Wierzbicki's), was devoted to refuting Keynes on economic terms and to showing that Keynes' belief in the primacy of economics had led him to

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20. William Rappard, *Le Nationalisme économique et la Société des Nations*, in 61 RECUEIL DES COURS 103, 160 (III-1937).

21. *Id.*

22. *Id.* at 162-63.

23. *Id.* at 165.

24. ETIENNE MANTOUX, *THE CARTHIGINIAN PEACE* (1946). Mantoux, son of an adviser to Clemenceau at the Paris Peace Conference, died in battle in Bavaria shortly before the Allied victory in World War II.

25. *Id.* at 41.

26. *Id.* at 42.

27. *Id.* at 44.

28. *Id.*

misdescribe the potential *political resistance* to the Treaty as its *economic impossibility*.<sup>29</sup>

Disciplinary rivalry between "economic" and "political" reconstruction has resurfaced in the post-Cold War period, expressing itself both in the establishment of distinct groups of experts interested in each set of problems and in the sense that one has to choose which set to treat as central. The rivalry appears in the establishment of an academic and policymaking division of labor between those concerned with, for example, problems of separatist nationalism, minority rights, and international competence over civil conflicts, on the one hand, and those concerned with free trade, economic integration, and transnational regulation, on the other. To be sure, few sophisticated observers would today declare that problems of nationalist conflict are "really" problems of economic stability, or vice versa;<sup>30</sup> nonetheless, the notion lingers, in scholarly writing as well as in public debate, that problems grouped under the economics rubric might explain the emergence of those under the nationalist rubric, or vice versa. We are beset by fears and fantasies about such seemingly overwhelming new forces as "economic globalization" and the "new nationalism;" we anxiously witness the loss of familiar structures and seek to create ways of benefitting from the new social forces while restraining them within new manageable frameworks. The relationship between these two sets of concerns remains unclear, despite the growing acceptance that they often are intertwined in practice, if not in theory.

Studying the interwar period shows the historical depth of this recurrent rivalry, as well as the complexity of the relationship between the two approaches—a complexity which goes beyond the commonsensical notion that what is at issue is a false choice. When one examines the disciplines of reconstruction as they emerged during the interwar period, one sees that the difference between them is not an opposition between what one could call "vulgar" nationalism and economism—i.e., theories that identify one specific social domain as that which alone is eminently *real*, as an unambiguously self-interpreting and self-regulating unit that

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29. *Id.* at 156-58.

30. Many observers attempt, however obscurely, to link the various reconstructive projects. For example, Frans Andriessen, then vice-president of the European Commission, declared in 1992 that the integration of Eastern European countries into the European Community would "give new impetus to economic reconstruction, encourage investment, and dampen excessive nationalism." Frans Andriessen, *Europe and the World After 1992, Address Before the U.K. Presidency Conference*, Sept. 7, 1992, available in LEXIS, News Library, RAPID File.



determines overall social development. Certainly, both Keynes and those interwar lawyers who took nationalism as their main focus manifested strains of such simplistic approaches. Nonetheless, limiting a description of their ideas to these strains would overlook the innovativeness of their work as a whole, which consisted in radical departures from such simplistic understandings of their respective domains.

Rather, both Keynes and these interwar legal writers reconceptualized their respective fields of inquiry, "the economy" and "the nation," as turbulent domains of multiple and conflicting forces. They viewed such forces with deep ambivalence, at once welcoming their capacity to dissolve outmoded, rigid, pre-war social forms, while fearing their unboundedness and their potential for perverse excess. They sought the energy of business forces for the revitalization of the economy and the energy of nationalism for that of the state and the international political order; yet, they feared the destabilization of the economic and political orders by the unrestrained, transnational quality of both capital movements and nationalist appetites. Such writers believed that the loyalty of the forces unleashed by the collapse of pre-war society to the new political or economic order could be secured through an "alliance" with newly sophisticated agencies of high policy.<sup>31</sup> As I shall show, Keynes' aspiration to "harness"<sup>32</sup> the "uncontrollable and disobedient psychology of the business world"<sup>33</sup> is structurally similar to the aspiration of some interwar lawyers to "discipline"<sup>34</sup> the "elemental forces"<sup>35</sup> underlying the "psychological foundations of the nation."<sup>36</sup> Both disciplines sought to create new, autonomous policy institutions, staffed by those trained in their respective fields and insulated from the pressures of those whose interests or knowledge rendered them incapable of

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31. ROBERT REDSLOB, *LE PRINCIPE DES NATIONALITÉS* 35 (1931). A similar idea was expressed in the artistic innovations of the time: "The alliance of primitivism and abstraction is one of the most copiously documented facts of the [Modernist] period." J.C. Middleton, *The Rise of Primitivism and its Relevance to the Poetry of Expressionism and Dada*, in *THE DISCONTINUOUS TRADITION: STUDIES IN GERMAN LITERATURE IN HONOUR OF ERNEST LUDWIG STAHL* 182, 194 (P.F. Ganz ed., 1971). See generally ROBERT GOLDWATER, *PRIMITIVISM IN MODERN ART* (1st ed. 1938; 2d ed. 1986).

32. JOHN MAYNARD KEYNES, *THE GENERAL THEORY OF EMPLOYMENT INTEREST AND MONEY* 376-77 (1936) [hereinafter *GENERAL THEORY*].

33. *Id.* at 317.

34. REDSLOB, *supra* note 31, at 35.

35. *Id.* at 13.

36. *Id.* at 39.

establishing the required alliance. Only such institutions could give constructive shape and meaning to the new, unstable social forces. For these disciplines, the "real" played the role of a normative concept, the productive economy and the stable political order to which policy would compel psychological forces to commit themselves, rather than a pre-existing characteristic of either economics or politics.<sup>37</sup>

Confidence in the efficacy of a newly sophisticated form of reason to deal with such frightening and fascinating forces was the product, not of technocratic reason, but of a historically specific form of faith. Each of these disciplines embodied a dream that this advanced reason would construct innovative institutions capable of bringing out the fullest creative possibilities of the energies at large in the postwar world, while restraining their excesses. The structure that Keynes pejoratively identified as the "paradox" of the Versailles treatment of nationalism—that "experimental" international authority would bring into being an "intense" form of nationalism—may be applied to his own conception of the relationship between a novel, augmented policy authority and the economy. This notion, that a high cultural agency would come into "paradoxical" relationship with vital social forces which would only thereby achieve their fullest expression, is that which, in a series of studies, I have been calling a particular variety of "high modernism."<sup>38</sup> The deep cultural dimension of the analysis undertaken by both disciplines of reconstruction is emphasized by their shared references to images of the psychological and cultural "primitive" pervasive in cultural modernism,<sup>39</sup> as well as to images of gender crisis prevalent in the interwar period.<sup>40</sup> The paradoxical modernist faith was made attractive by a general cultural crisis

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37. See, e.g., *infra* notes 127-36 and accompanying text.

38. See, e.g., Nathaniel Berman, "But the Alternative is Despair": *European Nationalism and the Modernist Renewal of International Law*, 106 HARV. L. REV. 1792 (1993) [hereinafter *European Nationalism*]; Nathaniel Berman, *Modernism, Nationalism, and the Rhetoric of Reconstruction*, 4 YALE J.L. & HUMAN. 351 (1992) [hereinafter *Rhetoric of Reconstruction*]; Nathaniel Berman, *A Perilous Ambivalence: Nationalist Desire, Legal Autonomy, and the Limits of the Interwar Framework*, 33 HARV. INT'L L. J. 353 (1992).

39. See *Rhetoric of Reconstruction*, *supra* note 38, at 354. Please note that I use "modernism" in the sense used by cultural historians of the early twentieth century, not in the sense often used by economists.

40. See generally KENT, *supra* note 14 (describing the post-World War I feminist movement in Great Britain); ROBERTS, *supra* note 14 (discussing images of post-World War I gender roles in France).

marked by the terror and desire of such imagined forces, emerging out of a perceived loss of institutional and ideological moorings.

The "disciplinarity" of these rival approaches to reconstruction should be understood in two related ways. First, I have in mind academic and policymaking "disciplines," which take as their explicit theme the need to reconstruct social, political or cultural life. Secondly, I intend the term "discipline" in its other sense, as well, that of training unruly forces by channelling restless energy into socially useful forms. In the Twenties, as in the Nineties, distinctive "disciplines" emerged, sometimes bringing together insights or experts from other, more familiar disciplinary divisions, seeking to "discipline" through innovative expertise and institutions forces that had shaken formerly taken for granted social forms.

The historical approach underlying this article requires a revision of more familiar notions of the relation between these two disciplines. For example, if we can trace the rivalry between the disciplines to their common formative period in the early interwar period, we must reject the notion of an older, traditional public international law eventually yielding (perhaps after 1945, perhaps after 1989) to an international economic policy perspective. Rather, at least from the establishment of the new international institutional world after World War I, each of these disciplines sought to establish its own innovative authority, and sought to do so, in part, in competition with the other. In some respects, we may even need to reverse the familiar account: the post-World War I discipline of reconstruction in public international law, with its distinctive treatment of its central concerns such as nationalism, sovereignty, and internationalism, may be understood, in part, as an attempt to respond to a trenchant critique of the Versailles Treaty by one of the century's leading economists. In any event, we will see that their respective innovative features mean that familiar characterizations of their relationship—private vs. public, technocratic vs. humanistic, innovative vs. traditional, *even, above all, "economic" vs. "political"*—are inadequate.

The remainder of this article is divided into four parts. Parts II, III, and IV discuss Keynes' views of the relationship between nationalism, economics, and international authority in the early interwar period, the mid-Thirties, and the early Forties, respectively. Part V discusses the modernist faith that Keynes' discipline of reconstruction shared with what I call the "international legal modernism"<sup>41</sup> of some interwar writ-

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41. See articles cited *supra* note 38.

ers, a faith necessary for justification of their policy proposals; I ask whether our awareness of the underlying cultural assumptions of these writers might enable us to formulate a more critical perspective on our own situation. Throughout my discussion of Keynes, I use the *Economic Consequences of the Peace* as a point of departure for understanding his work.<sup>42</sup> From this unconventional perspective, I seek to understand his work as the creation of a discipline of reconstruction, as a response to the pervasive, although protean, sense of economic, political, and cultural crisis that the interwar years share with our own.

## II. NATIONALISM EXCLUDED: THE ECONOMIC CONSEQUENCES OF THE PEACE

Keynes' *Economic Consequences* may be read as a disciplinary brief for a focus on economic reconstruction, an argument which depends on a subordinating interpretation of the central concerns of its "political" rival, particularly those relating to nationalism. Written after Keynes resigned from the British delegation to the Peace Conference in protest, the *Economic Consequences* attacked the basic conception of the Versailles Treaty, the construction of a new set of international authorities to oversee the dismantling of the German Empire, and the establishment of a new central European political order.<sup>43</sup> Keynes criticized aspects of the territorial settlement, scoffed at the reorganization of Central Europe along national lines, and excoriated both the magnitude of the reparations imposed on Germany and the mechanisms provided for supervising payment.<sup>44</sup> Keynes sought to establish his own discipline of reconstruc-

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42. I note at the outset that my unusual focus, approaching Keynes' works from the perspective of the problems set forth in the *ECONOMIC CONSEQUENCES*, departs somewhat from the terrain of the fascinating recent debates in Keynes-interpretation. Those familiar with these debates will, nevertheless, recognize that the nature of my interest in Keynes firmly situates me in the field of what one writer has tendentiously called Keynesian "fundamentalism." See ALAN CODDINGTON, *KEYNESIAN ECONOMICS, THE SEARCH FOR FIRST PRINCIPLES* 92-111 (1983) (contrasting the "fundamentalists," the "hydraulicists," and the "reconstituted reductionists"). I view the "fundamentalist" school of Keynes scholarship as concerned with the textual interpretation of Keynes' writings, rather than with any notion of "original intent." Since I do not believe that textual interpretation in this or any other domain should or could truly capture the "original intent" of an author, I have no problem in situating my analysis in this field.

43. See *ECONOMIC CONSEQUENCES*, *supra* note 9, at 56-112, 226-51 (criticizing the Treaty and post-Treaty restructuring of Central Europe).

44. See *id.* at 113-225.

tion by providing an alternative view of the key source of instability in European affairs ("the perils of the future lay not in frontiers or sovereignties, but in food, coal, and transport"<sup>45</sup>) and promoting policies and institutions that would be centered around those concerns.<sup>46</sup>

Keynes prefaced his book with an historical analysis of the European economic situation, which foreshadowed his distinctive definition of the "economic" realm, a conception that gives a crucial role to psychological factors. Keynes viewed the half century preceding World War I as an "extraordinary episode in the economic progress of man."<sup>47</sup> Although many accepted the economic prosperity of the period as "natural, permanent, and to be depended on," it was in fact "peculiar [and] intensely unusual."<sup>48</sup> This period of unprecedented productivity rested on several components, including nearly-free trade throughout Europe, stable currencies, a Central Europe dominated by a "vast and complicated [German] industrial machine,"<sup>49</sup> and an implicit social compact between classes. This last factor amounted to a "double buff" in which the desires of the various social classes were restrained by "convention."<sup>50</sup>

On the one hand, the laboring classes accepted . . . or were compelled, persuaded or cajoled by custom, convention, authority, and the well-established order of Society into accepting, a situation in which they could call their own very little of the cake that they and Nature and the capitalists were cooperating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs . . . , on the tacit underlying condition that they consumed very little of it in practice.<sup>51</sup>

This analysis showed the "unstable psychological conditions"<sup>52</sup> underlying the "delicate organization by which these peoples lived,"<sup>53</sup> and the merely "conventional" quality of arrangements that some had taken as natural, particularly the fragility of the commitment of economic actors to the productive economy. While potentially destabilizing psy-

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45. *Id.* at 146.

46. *See, e.g., id.* at 252-98 (offering suggestions alternative to the Treaty for rebuilding Europe).

47. *Id.* at 11.

48. *Id.* at 3.

49. *Id.* at 13.

50. *Id.* at 19.

51. *Id.* at 19-20.

52. *Id.* at 21-22.

53. *Id.* at 15.

chological desires were restrained, "[i]n the unconscious recesses of its being, Society knew what it was about."<sup>54</sup>

For Keynes, as for other disciplinarians of reconstruction, the War and its aftermath upset this "delicate organization," unleashing two main sorts of potentially unrestrained desire, those of nationalists and economic actors.<sup>55</sup> The Versailles settlement established an array of new political frontiers across a Central Europe principally structured before 1914 by the three borders between Russia, Germany, and Austria-Hungary. These new frontiers would be harmless in a regime of free trade. Yet, under postwar conditions, they would result in economic irrationality because "nationalism and private interest"<sup>56</sup> would insist on the imposition of barriers between factors of production. The German economic machine, for example, would be disrupted by the loss of the coal fields of the Saar and Upper Silesia<sup>57</sup> and the iron ore of the Lorraine.<sup>58</sup> By thus allowing "economic frontiers . . . to be established between the coal and the iron, upon which modern industrialism is founded,"<sup>59</sup> the Treaty allowed "political considerations [to] cut disastrously across economic."<sup>60</sup> Finally, the War unleashed economic desires uncommitted to the productive economy, by revealing that:

[i]t was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the laboring classes may be no longer willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption as long as they last and thus precipitate the hour of their confiscation.<sup>61</sup>

Keynes thus characterized the changes in European society after World War I as the unleashing of a variety of psychological forces which had been restrained by social "conventions" before the War. Throughout Keynes' career, this dialectic between taken-for-granted, "conventional" social forms and their destabilization by psychological

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54. *Id.* at 20.

55. *See id.* at 3-8 (summarizing how these factors upset Europe's fragile organization).

56. *Id.* at 101.

57. *Id.* at 81-85.

58. *Id.* at 97-100.

59. *Id.* at 101.

60. *Id.* at 99.

61. *Id.* at 22-23.

desires served as a key structuring device for his analysis and policy proposals.

To establish his argument that economic reconstruction should prevail over political reconstruction, Keynes felt it necessary to show that nationalism did not or should not interfere with economic considerations. He sought to achieve this in the *Economic Consequences* in three different ways: by dismissing nationalism as unreal, by despairing over nationalism's radical incompatibility with economic rationality, and by reducing nationalism to a transitory emotion, at best an epiphenomenon of economics. Keynes accomplished each of these different techniques of excluding nationalism's claims through opposing the irremediably irrational quality of nationalism (whether or not nationalism itself was an enduring phenomenon) to the potentially rational quality of economic psychology, its potential to heed the dictates of objective imperatives. This technique permitted Keynes to rely heavily on an objectivist analysis in criticizing the Treaty, despite his opening psychological analysis of the pre-War European economy. We have already seen examples of his dismissal of nationalism ("the perils of the future lay not," etc.), and his despairing over nationalism ("political considerations cut disastrously across economic").

Keynes' territorial arguments relied mostly on the third, reductionist, technique. Keynes argued that the international policymakers in Paris should have deferred to the "natural localisation"<sup>62</sup> of industry in politically reconstructing Central Europe; in particular, they should have preserved as much as possible of the territorial integrity of pre-War Germany, including the Upper Silesian coal fields.<sup>63</sup> This argument's reliance on "natural" economic imperatives stands in contrast both with *Economic Consequences*' own description of the fragile balance of psychological forces necessary for a prosperous economy, and, as we shall see, even more sharply with the later Keynes.<sup>64</sup> Having absorbed economic psychology into "natural" imperatives, Keynes further argued that nationalist psychology would evaporate in the face of these imperatives—while acknowledging that the catastrophic alternative was also possible.

Thus, he expressed his position on Upper Silesia by anthropomorphically transferring the notion of ethnicity from human groups to economic regions: Upper Silesia's "population is mixed Polish, German, and Czechoslovakian . . . Economically, it is intensely German." Keynes

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62. *ECONOMIC CONSEQUENCES*, *supra* note 9, at 266.

63. *Id.*

64. *Id.*

thus implied that such "economic nationality" was more real, or at any rate more significant, than linguistic or ethnic nationality. International policymakers should, therefore, have subordinated the ethnically mixed nature of the population of Upper Silesia to the region's "economic Germanness." Such subordination would operate under a barely rebuttable presumption that the Upper Silesians ultimately would bend their nationalism to economic logic; Upper Silesia should remain with Germany "unless the wishes of the inhabitants are *decidedly* to the contrary."<sup>65</sup> Through this reductionist interpretation of nationalism, Keynes insured that his economic analysis could proceed relatively objectivistically.

Keynes' arguments about Upper Silesia, placing economic concerns as the dispositive factor, dovetail with the views of those commentators on the Versailles system who minimized its recognition of national identity and saw the state as the central guarantor of European stability. In particular, I refer to those commentators who viewed the interwar Minority Protection Treaties, imposed by the Allies on the new and greatly expanded states of Central Europe, as temporary in nature.<sup>66</sup> For this interpretation, the Treaties were intended to protect the minorities only during the transitional period required for them to assimilate into a unified polity, the period necessary for the rationality of state citizenship to prevail over nationalist passion.<sup>67</sup> The 1919 Keynes also viewed ethnic identity as ultimately yielding to rationality, in his case that of the unity of "natural" economic regions. Presumably, he thought that Germans generally, as well as Upper Silesians, would soon give their common economic "identity" priority over their divided ethnic and linguistic identities in constructing a new society.

Keynes' position was also strongly statist in its implications. Keynes' argument about "natural" regions was a historical tautology—the only reason the regions were "natural" was that political borders, often arising out of conquest, had shaped the industrial development of those regions. It was also overbroad in its implications. Given Keynes' emphasis on pre-War economic interdependence, the only consistent position he could have taken would have been to call for the abolition of all frontiers.<sup>68</sup> Keynes' call for deference to "nature" thus rested on an uncritical ac-

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65. *Id.* at 264 (emphasis added).

66. This interpretation was known as the "Mello-Franco Thesis." See C.A. MACARTNEY, NATIONAL STATES AND NATIONAL MINORITIES 277 (1934).

67. *Id.*

68. . See MANTOUX, *supra* note 24 at 32-41.



ceptance of the political frontiers on the basis of which the European economy of 1870-1914 had been constructed.

The 1919 Keynes, like the assimilationist commentators, could only see nationalist passion as an extraneous, wholly irrational factor which cannot be enlisted in the service of reconstruction but which must either be somehow subordinated or else acceded to as an undisciplinable, catastrophic, natural force. As Wierzbicki stated, Keynes thought that Upper Silesia should belong to Poland only if a pro-Poland plebiscite vote were "powerful and elemental like an avalanche which whirls down and shows the world the actual will of Silesia."<sup>69</sup> And yet, in his mature work, it would be precisely the unruly forces of desire that were to be at the core of Keynes' economic analysis.<sup>70</sup>

Keynes' attack on the powers of the new international authorities set up by the Treaty also rested on his views about the primacy of economics, including the elevation of economic over legal expertise, and the exclusion of nationalism from those forces that could be enlisted productively. An aspect of the Versailles Treaty that particularly drew Keynes' wrath were those provisions relating to the Saar, Danzig, and Upper Silesia, which some interwar legal writers saw as the highest achievement of the system.<sup>71</sup> These regions were subjected to comprehensive international legal regimes, each constructed through a unique deployment of all of the new legal techniques, self-determination, minority protection, international administration, and a greatly attenuated notion of sovereignty.<sup>72</sup> Keynes declared that the settlements for the Saar and Danzig were, respectively, "an act of spoliation and insincerity" and a product of Versailles "subtlest sophisters and most hypocritical draftsmen,"<sup>73</sup> we have already seen some of his views on Upper Silesia.

By contrast, for some interwar lawyers, the innovative international regimes constructed for these regions, these international "experiments," merited the highest praise.<sup>74</sup> The regime for the Saar, for example, was said to be the "incarnation of the [League's] lofty principles,"<sup>75</sup> mark-

69. WIERZBICKI, *supra* note 4, at 11.

70. See *infra* notes 117-21 and accompanying text.

71. See *infra* note 77 and accompanying text.

72. See generally Berman, *European Nationalism*, *supra* note 38.

73. ECONOMIC CONSEQUENCES, *supra* note 9, at 83, 51-52.

74. Each regime was frequently referred to as an "experiment." See, e.g., TEMPERLY, II HISTORY OF THE PEACE CONFERENCE OF PARIS 183 (1920) (the Saar); Malcom M. Lewis, *The Free City of Danzig*, 1924 BYIL 89, 100 (Danzig); GEORGES KAECKENBEECK, THE INTERNATIONAL EXPERIMENT OF UPPER SILESIA (1942).

75. Monsieur Caclamanos, *Report on the Saar Basin*, LEAGUE OF NATIONS OFFI-

ing "an undeniable progress in international legal history."<sup>76</sup> For these legal writers, the creation of the "experimentalist" regimes epitomized the achievement of autonomy by a discipline formerly obeisant to sovereignty, an achievement made possible by the entry of nationalism on the legal stage.<sup>77</sup> For example, Upper Silesia, the basis for the Wierzbicki-Keynes polemic, was subjected to a particularly complex regime, involving both partition between Poland and Germany and supranational legal integration in many fields. One of the original motivations for preserving the unity of Upper Silesia, despite partition, was the desire to preserve the economic integrity of the region in response to critiques by Keynes and others. Nevertheless, the Geneva Convention, which set up the regime, was directed beyond economics at "affect[ing] the whole life of that deserving people."<sup>78</sup>

The "crowning" achievements of this regime<sup>79</sup> were the new legal institutions set up to administer and adjudicate it, the Arbitral Tribunal and the Mixed Commission. These institutions embodied the realization of the autonomy of legal "experimentalism," autonomous from the contending nationalisms, the antagonistic states, and even from the central international authority, the "parallelogram of political forces" of the League of Nations.<sup>80</sup> These institutions were at once *local, yet international*, providing a concrete incarnation of the new autonomy of law made possible and necessary by nationalist disruption. For some legal writers, only such institutional and doctrinal autonomy for international law could give productive form to nationalist passion. Keynes' "paradox," the conjuncture of nationalism and autonomous international "experimentation," was, in fact, the ultimate aspiration of this branch of interwar international law.

While some of these provisions were established after the writing of the *Economic Consequences*, Keynes' critique of the new international authorities established by the Treaty implicitly rejected them in advance. In *A Revision of the Treaty*<sup>81</sup>, a 1922 postscript to the *Economic Consequences*, Keynes attacked the international authority responsible for the

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CIAL JOURNAL, Mar. 1920, at 45, 49.

76. HENRI COURSIER, LE STATUT INTERNATIONAL DU TERRITOIRE DE LA SARRE 139-40 (1925).

77. This paragraph summarizes my conclusions in several earlier studies. See sources cited, *supra* note 38.

78. KAECKENBEECK, *supra* 74, at 20 (quoting Felix Calonder).

79. *Id.* at 27.

80. *Id.* at 534.

81. KEYNES, A REVISION OF THE TREATY, *supra* note 11.

Upper Silesia settlement.<sup>82</sup> Keynes stated that the partition frontier had been drawn, "entirely irrespective of economic considerations."<sup>83</sup> in accordance with "Wilsonian dogma."<sup>84</sup> Keynes based his critique of this decision on a general challenge to the disciplinary, institutional, and ethnic and national underpinnings of political reconstruction:

A good decision can only result by impartial, disinterested, very well-informed persons taking *everything* into account. Since international justice is dealing with vast organic units and not with a multitude of small units, . . . it cannot be the same thing as the cut-and-dried lawyer's justice of the municipal court. It will be a dangerous practice, therefore, to entrust the settlement of the ancient conflicts now inherent in the tangled structure of Europe to elderly gentlemen from South America and the far Asiatic [sic!] East, who will deem it their duty to extract a strict legal interpretation from the available signed documents—who will, that is to say, take account of as *few* things as possible, in an excusable search for a simplicity which is not there . . . . My criticism strikes more deeply than a mere allegation of partiality.<sup>85</sup>

Presumably, the non-lawyer, "impartial, disinterested, and very well-informed persons," would be European experts in the discipline of economic reconstruction.

Similarly, he criticized the Reparations Commission set up by the Treaty with its large powers of oversight and enforcement.<sup>86</sup> He rejected these powers for their interference by international authorities with German sovereignty.<sup>87</sup> Moreover, he criticized the underlying motivation and composition of the Commission, seeing it as an "instrument of oppression and rapine."<sup>88</sup> The defects of such a Commission flowed from its basis in the underlying political conception of the Treaty. Promoting his alternative discipline of reconstruction, Keynes argued that such a Commission could only be justified if it were transformed into

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82. *Id.* at 7-8.

83. *Id.* at 8.

84. *Id.* at 7.

85. *Id.* at 7-8.

86. See ECONOMIC CONSEQUENCES, *supra* note 9, at 208-19 (describing and criticizing the role of the Reparation Commission).

87. *Id.* at 216 (complaining that the Commission will be located outside Germany and yet still have greater power over Germany than the previous Emperor ever possessed).

88. *Id.* at 219.

an "economic council of Europe,"<sup>89</sup> staffed by experts who were guided by Keynes' understanding of the central postwar problems.

The task Keynes envisioned for such a Council at this stage was relatively modest. Aside from doing away with the objectionable portions of the Treaty, such as the huge scale of reparations payments, Keynes' main remedies for the deficiencies of the Treaty, as set forth in the *Economic Consequences*, were the cancelling of inter-allied indebtedness and the arrangement of an international loan for reconstruction, financed largely by the U.S.<sup>90</sup> The way in which borrowing countries put the loan to use would be "subject to general, but not detailed, supervision, by the lending countries."<sup>91</sup>

To the "paradox" he condemned in the Versailles Treaty, the contradiction that international "experimentation" would come into a perverse alliance with a nationalism partially of its own making, Keynes contrasted a discipline of economic reconstruction based on "natural" economic imperatives, respect for state structures, a modest but rational and expert international economic authority, and the exclusion of nationalism from those forces which can be taken into account in a rational reconstruction of Europe. Despite his psychological preface, the bulk of Keynes' criticism of the Treaty neither reconceptualized the object of economic analysis nor required innovative arguments about the legitimacy of international or state political authority. This entire structure would change as Keynes developed his own most distinctive insights, integrating psychological instability into the heart of his analysis, an integration that, by the 1930s, acknowledged the role of nationalism as a force that could not simply be dismissed or excluded.

### III. NATIONALISM ENLISTED: PLANNING, "EXPERIMENTATION," AND NATIONALIST LEGITIMACY

In an essay published in July 1933, entitled *National Self-Sufficiency*, Keynes declared: "Each year it becomes more obvious that the world is embarking on a variety of politico-economic experiments, and that different types of experiment appeal to different national temperaments and historical environments."<sup>92</sup> While such an observation may indeed have

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89. *Id.*

90. *Id.* at 278, 283-87 (arguing that it is impossible for the European allies to pay the capital and interest of their debts and that the United States must bear the burden of providing resources for reconstruction).

91. *Id.* at 287.

92. JOHN MAYNARD KEYNES, *NATIONAL SELF SUFFICIENCY* (1933) [hereinafter

seemed "obvious" in the latter part of 1933, an appreciation of the conceptual distance between this essay and the *Economic Consequences* requires a rather more complicated explanation. Keynes' overall determination to escape from the "pre-Freudian"<sup>93</sup> rationalist optimism of his pre-war years impelled him to integrate systematically psychological factors into the heart of his economic analysis, thereby advancing beyond the piecemeal work of the *Economic Consequences*. Keynes' analysis of business psychology disclosed the emergence of an autonomous business "libido,"<sup>94</sup> uncommitted to particular investments, the productive economy generally, or national borders. This impulsive, uncommitted business energy meant that deliberate economic policy was indispensable; nationalism meant that such policy would be nationally specific. Keynes now accorded nationalism a role both more dangerous and more promising than in his 1919 alternation between despair and dismissal. He saw transnational business energy both as provoking potentially violent nationalist resentment and as making national "experiments" in economic planning indispensable for a peaceful world.

In Keynes' 1930s construction of a discipline of economic reconstruction, nationalism thus shifted from the role of the excluded force to that of a potential ally, or even agent, of reconstruction. Keynes' integration of psychological factors into the heart of economics made central an insight adumbrated in his earlier work: economic analysis could not be separated from cultural and political criticism, nor economic policy from cultural and political reconstruction. Moreover, even while explicitly seeking to take account of irrational factors, Keynes' own participation in general cultural fears, fantasies, and faith heavily marked his conception of economic analysis, economic policy, and internationalism.

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NATIONAL SELF SUFFICIENCY, *reprinted in* XXI THE COLLECTED WRITINGS OF JOHN MAYNARD KEYNES 233, 239 (Donald Moggridge ed., 1982) [hereinafter XXI COLLECTED WRITINGS]

93. See JOHN MAYNARD KEYNES, MY EARLY BELIEFS (1938) [hereinafter MY EARLY BELIEFS], *reprinted in* X THE COLLECTED WRITINGS OF JOHN MAYNARD KEYNES 433, 447-50 (Donald Moggridge ed., 3d ed. 1972) [hereinafter X COLLECTED WRITINGS] (noting that the pseudo-rational view of human nature led to a thinness, a superficiality, not only in judgment but also in feeling).

94. JOHN MAYNARD KEYNES, CLISSOLD (1927) [hereinafter CLISSOLD], *reprinted in* IX THE COLLECTED WRITINGS OF JOHN MAYNARD KEYNES 315, 320 (Donald Moggridge ed., 2d ed. 1973) [hereinafter IX THE COLLECTED WRITINGS].

A. ECONOMIC ANALYSIS: INVESTMENT "LIBIDO"  
AND NATIONALIST RESENTMENT

Keynes' 1930s reflections on nationalism were made possible only by his ever-increasing integration of psychological factors into the core of economic analysis. This integration emerged out of his comprehensive attack on the notion of the economy as a "naturally self-adjusting" system,<sup>95</sup> systematically extending the insights foreshadowed in his earlier work. He criticized the "classical theory" for its inability to explain the failure of *laissez-faire* economies to induce economic actors to commit the amount and kind of resources that would consistently bring out the economy's full productive potential.<sup>96</sup> This inability was due to that theory's assumption of a "calculable future" and its "underestimation of the concealed factors of utter doubt, precariousness, hope and fear."<sup>97</sup> Keynes, by contrast, showed how the various psychological forces necessary for a capitalist economy can fail to reach their optimum configuration due, in particular, to the emotional extremes of "paralysis" and "intoxication,"<sup>98</sup> on the one hand, and a fragile conventionalism, on the other.

In discussing the psychology of investment, Keynes argued that such "concealed factors" only had emerged in their full autonomy as a result of modern social and economic developments. Once again, Keynes constructed an image of a time before the modern release of autonomous psychological forces, although his new understanding of economic development led him to invent a somewhat different explanation than that of the "double bluff" of the *Economic Consequences*.<sup>99</sup> Keynes now por-

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95. See generally, JOHN MAYNARD KEYNES, *THE END OF LAISSEZ-FAIRE* (1926) [hereinafter *THE END OF LAISSEZ-FAIRE*], reprinted in IX COLLECTED WRITINGS, *supra* note 94, at 272.

96. *GENERAL THEORY*, *supra* 32, at 25-26.

97. JOHN MAYNARD KEYNES, *THE GENERAL THEORY OF EMPLOYMENT* (1937) [hereinafter *EMPLOYMENT*], reprinted in XIV THE COLLECTED WRITINGS OF JOHN MAYNARD KEYNES 109, 122 (Moggridge ed., 1973).

98. See JOHN MAYNARD KEYNES, *THE SOCIAL CONSEQUENCES OF CHANGES IN THE VALUE OF MONEY* (1923), reprinted in IX COLLECTED WRITINGS, *supra* note 94, at 59, 74 (using these metaphors in an early essay on monetary policy).

99. In particular, the aspect of the "double bluff" concerned with the voluntary restriction of consumption and the willingness to accept lower wages were incompatible with Keynes' new views about the negative consequences of insufficient demand. See *GENERAL THEORY*, *supra* note 32, at 373; II ROBERT SKIDELSKY, JOHN MAYNARD KEYNES, *THE ECONOMIST AS SAVIOR, 1920-1937* 238 (1992).

trayed "former times, when enterprises were mainly owned by those who undertook them or by their friends and associates"; in such a society, "investment depended on a sufficient supply of individuals of sanguine temperament and constructive impulses who embarked on business as a way of life, not really relying on a precise calculation of prospective profit."<sup>100</sup> The commitment of investment energy to the productive economy was guaranteed by this "way of life" and such decisions were largely "irrevocable."<sup>101</sup> In those "former times," full employment, the full commitment of psychological and material resources to the economy, was a product of the culture of "constructive impulses," rather than of putatively automatic adjustment mechanisms, such as the interest rate.<sup>102</sup>

This integrated "way of life," however, had largely been replaced by a segmentation of the economic process. For Keynes, the level of employment is determined by "effective demand," composed of consumption demand and investment demand.<sup>103</sup> These demands are, in turn, strongly influenced by three "fundamental psychological factors, namely, the psychological propensity to consume, the psychological attitude to liquidity, and the psychological expectation of future yield from capital assets."<sup>104</sup> The disappearance of the conventional unity of the erstwhile "way of life" meant that the various kinds of human desire involved in the economic process could now operate according to their own internal dynamics in determining the level of demand.<sup>105</sup>

Keynes argued that "given the psychology of the public, the level of output and employment as a whole depends on the amount of investment," since "it is usual in a complex system to regard as the *causa causans* that factor which is most prone to sudden and wide fluctuation."<sup>106</sup> Much of Keynes' psychological analyses, therefore, focused on

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100. GENERAL THEORY, *supra* 32, at 150; cf. ATHOL FITZGIBBONS, KEYNES' VISION 84 (1988) (commenting on this culture of "constructive impulses"). Commentators on Keynes' views on uncertainty differ on the extent to which he thought decisions lacked an ultimate rational grounding. For two polar views, compare G.L.S. SHACKLE, KEYNESIAN KALEIDICS: THE EVOLUTION OF A GENERAL POLITICAL ECONOMY 37-47 (1974) with CODDINGTON, *supra* 42, at 50-65. For a convenient summary of the range of views, see II ROBERT SKIDELSKY, JOHN MAYNARD KEYNES, THE ECONOMIST AS SAVIOR, 1920-1937 82-89 (1992).

101. GENERAL THEORY, *supra* note 32, at 150.

102. See *id.* at 150.

103. *Id.* at 30.

104. *Id.* at 246-47.

105. *Id.* at 31.

106. EMPLOYMENT, *supra* note 97, at 121. Keynes viewed the propensity to con-

the two "fundamental factors" that directly affected investment: 1) the attitude toward holding money as an alternative to investment, or "liquidity preference"<sup>107</sup> and 2) the expectation of future yield of capital assets, which determines the "schedule of the marginal efficiency of capital."<sup>108</sup> The increasing separation of ownership and management,<sup>109</sup> and the consequent disjunction of investment decisions from entrepreneurial decisions, played a crucial role in augmenting the role of these psychological switching points.

These two "fundamental factors" affect investment demand because the rate of interest compared to prospective profits determines that demand. For Keynes, the rate of interest is a "measure of the unwillingness of those who possess money to part with their liquid control over it."<sup>110</sup> This "unwillingness," "liquidity preference," or "propensity to hoard,"<sup>111</sup> reflects:

our desire to hold money . . . [which] is a barometer of the degree of our own distrust of our own calculations concerning the future. Even though this feeling about money is itself *conventional or instinctive, it operates, so to speak at a deeper level of our motivation.* It takes charge at the moments when the *higher, more precarious conventions have weakened.*<sup>112</sup>

Economic uncertainty means that the "deep" psychological impulses underlying liquidity preference will have many occasions on which to defeat the "higher conventions" and restrain investment.<sup>113</sup> Keynes declared that this ardent "love of money" was destined to furnish the

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sume, and, as a result, consumption demand, as relatively stable. Consumption increased with income, but always somewhat less than the increase in income. The proportion of income devoted to consumption tended to decrease as incomes rose. A government interested in increasing productive activity could, therefore, use this psychological tendency to increase consumption by redistributive policies in favor of those with lower incomes.

107. GENERAL THEORY, *supra* note 32, at 166.

108. *Id.* at 135. More precisely, the marginal efficiency of the capital is "that rate of discount which would make the present value of the series of annuities given by the returns expected from the capital asset during its life equal to its supply price."

109. *Id.* at 150.

110. *Id.* at 167.

111. *Id.* at 174.

112. EMPLOYMENT, *supra* note 97, at 116.

113. To be sure, this "pathological" element of the rate of interest could be affected—moderated or aggravated—by convention: the rate of interest is not only affected by the "deep" psychological attachment to money, but also by the "prevailing view of what its value is expected to be." GENERAL THEORY, *supra* note 32, at 203.



subject matter of pathology, rather than of economics.<sup>114</sup> This restraint on investment, pleasure, and creativity<sup>115</sup> was deeply rooted in "the opprobrium of two centuries of moralists and economists" who clung to the "virtuous" doctrine of the importance of the "utmost of thrift."<sup>116</sup>

The schedule of the marginal efficiency of capital is determined by the psychological dynamics of two kinds of investors, the entrepreneur and the professional investor. In deciding to plunge forward in enterprise, as well as to retrench, investors act under conditions of great uncertainty. At best, investors come to depend on a set of "conventions."<sup>117</sup> Yet,

[m]ost, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of *animal spirits*—of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities.<sup>118</sup>

For Keynes, exuberant "animal spirits" thus provided the healthy energy to defeat the morbid liquidity preference.<sup>119</sup> This instinctual dimension also meant "not only that slumps and depressions are exaggerated in degree but that economic prosperity is excessively dependent on a political and social atmosphere which is congenial to the average business man."<sup>120</sup> The "nerves and hysteria and even the digestions and reactions to the weather" of investors could upset the "delicate balance of spontaneous optimism."<sup>121</sup> Like Freud, with whose works he was highly familiar,<sup>122</sup> Keynes saw civilization's conventions as a "thin and

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114. JOHN MAYNARD KEYNES, *ECONOMIC POSSIBILITIES FOR OUR GRANDCHILDREN* (1930), reprinted in IX THE COLLECTED WRITINGS, *supra* note 94, at 321, 329.

115. *Id.* at 328-30.

116. GENERAL THEORY, *supra* note 32, at 362.

117. *Id.* at 152.

118. *Id.* at 161 (emphasis added).

119. Compare FITZGIBBONS, *supra* note 100, at 84-86 with Ted Winslow, *Keynes and Freud: Psychoanalysis and Keynes' Account of the "Animal Spirits" of Capitalism*, 53 SOC. RES. 549 (1986) [hereinafter *Keynes and Freud*] (offering contrasting views of Keynes' "animal spirits").

120. GENERAL THEORY, *supra* note 32, at 162.

121. *Id.*

122. Ted Winslow has written extensively on Keynes' familiarity with Freud's works and the parallel between Keynes' ideas and those of psychoanalysis, although direct evidence of "influence" is inconclusive. See, e.g., Ted Winslow, *Psychoanalysis and Keynes' Account of the Psychology of the Trade Cycle* in THE PHILOSOPHY AND ECONOMICS OF J.M. KEYNES 212 (Bill Gerrard & John Hillard eds., 1992); Ted

precarious crust" erected over irrational instincts.<sup>123</sup> An ongoing struggle between the "deep" impulses of "liquidity preference," on the one hand, and "animal spirits," on the other,<sup>124</sup> constantly buffeted the "precarious," conventional, business personality.

A different set of psychological dynamics is unleashed by the creation of an autonomous field of professional investment, especially in its extreme form—that of speculation. Professional investors are driven less by the vicissitudes of "animal spirits" than by their own analyses of "mass psychology,"<sup>125</sup> the "mass" in question that of other investors. In other words, they seek to anticipate the psychological predictions of other investors, to anticipate "what general opinion anticipates that general opinion to be," anticipation to "the third degree."<sup>126</sup>

Given this dependence of the marginal efficiency of capital schedule on the instinctual vicissitudes of "animal spirits" and on the hyper-reflexive conventionalism of the securities markets, it is no surprise that Keynes viewed it as potentially unstable:

Action based on so flimsy a foundation is liable to sudden and violent changes. The practice of calmness and immobility, of certainty and security, suddenly breaks down. New fears and hopes will, without warning, take charge of human conduct. The forces of disillusion may suddenly impose a new conventional basis of valuation . . . . At all times the vague panic fears and equally vague and unreasoned hopes are not really lulled, and lie but a little way below the surface.<sup>127</sup>

Despite the presence of a variety of stabilizing factors,<sup>128</sup> the emergence of autonomous psychological dynamics in the economic process leads to a release of unpredictable, surplus energy which is not sufficiently bound to production. As Keynes commented about "business men [*sic*]" in one of his non-technical essays:

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Winslow, *Bloomsbury, Freud, and the Vulgar Passions*, 57 SOC. RES. 785 (1990); *Keynes and Freud*, *supra* note 119; see also JEAN-JOSEPH GOUX, *LES ICONOCLASTES* 101-13 (1978) (examining Keynes and psychoanalysis).

123. MY EARLY BELIEFS, *supra* note 93, at 447.

124. For example, Freud wrote of the control exercised by the ego over the id's instincts as "more a matter of form than of fact" and saw the ego as "a poor creature owing service to three masters." SIGMUND FREUD, *THE EGO AND THE ID* 45-46 (Joan Riviere trans., 1960).

125. GENERAL THEORY, *supra* note 32, at 155.

126. *Id.* at 156.

127. EMPLOYMENT, *supra* note 97, at 114-15.

128. GENERAL THEORY, *supra* note 32, at 162-64.

They lack altogether the kind of motive, the possession of which, if they had it, could be expressed by saying that they had a creed . . . . That is why . . . they fall back on the grand substitute motive, the perfect *ersatz*, the anodyne for those who, in fact, want nothing at all—money . . . . [They] flutter about the world seeking something to which they can attach their abundant libido. But they have not found it. They would like to be apostles. But they cannot. They remain business men.<sup>129</sup>

For Keynes, investors are marked by this paradoxical surplus libido, both fickle and perversely inflexible, both “paralyzed” and “intoxicated,” the desire that “wants nothing” and yet invests itself, both emotionally and financially, in the “*ersatz*,” rather than in the real.<sup>130</sup> The chief problem for Keynes was thus how to bind investment “libido” to the “real,” productive economy and to secure the loyalty to that economy of the “loose”<sup>131</sup> energies formerly concealed by the bygone “way of life.”<sup>132</sup> The newly autonomous business “libido” is neither necessarily tied to the productive economy (it “wants nothing”) nor to a particular society (it “flutters about the world”).<sup>133</sup> The flip side of this untrustworthiness is its making a “fetish of liquidity.”<sup>134</sup> This “fetish” is one of the ways business people attempt to assuage the “vague panic fears” that stem from their “abundant libido,”<sup>135</sup> or, in the words of a contemporary psychoanalyst, from their “drive economy in want of an object.”<sup>136</sup>

This recognition of the importance and danger of the mobile, yet rigid, “abundant libido” of investors provides a crucial link between Keynes’ general economic analysis and his consideration of the role of nationalism in economic crisis. Keynes’ changing position on free trade<sup>137</sup> provides a useful thread by which to follow his integration of

129. CLISSOLD, *supra* note 94, at 320.

130. See *supra* note 122 (noting works in which Ted Winslow has written extensively on the parallel between psychoanalysis and Keynes and the possible influence of the former on the latter).

131. “Loose” was a metaphor frequently used by Keynes for mobile capital. See, e.g., JOHN MAYNARD KEYNES, POST-WAR CURRENCY POLICY (1941), reprinted in XXV THE COLLECTED WRITINGS OF JOHN MAYNARD KEYNES: SHAPING THE POST-WAR WORLD: THE CLEARING UNION 21, 31 (Donald Moggridge ed., 1980) (“Loose funds may sweep around the world disorganizing all steady business”).

132. CLISSOLD, *supra* note 94, at 316.

133. *Id.* at 320.

134. GENERAL THEORY, *supra* note 32, at 155.

135. CLISSOLD, *supra* note 94, at 320.

136. JULIA KRISTEVA, POWERS OF HORROR 35 (Leon Roudiez trans., 1982).

137. See generally Hugo Radice, *Keynes and the Policy of Practical Protectionism*,

such factors into his analysis. In 1923, he had declared that "[w]e must hold to Free Trade, in its widest interpretation, as an inflexible dogma, to which no exception is admitted."<sup>138</sup> He reasoned that long-term considerations militated for such a policy, even if temporary economic advantage could be had through infringing on free trade in particular cases: "For if pressure of population is to lead to a regime of armed and powerful nations grabbing resources from weak holders, our last state will be worse than it ever can be under any alternative policy."<sup>139</sup>

In the Thirties, Keynes declared that his prior, absolutist support of free trade was a relic of the "mental habits of the pre-war nineteenth century world,"<sup>140</sup> with its rationalism, optimism, and universalism. Keynes now associated the free trade dogma with the theory of *laissez-faire*: since, for that theory, the economy would always self-adjust at an optimum level of investment, international trade policy was a waste of time.<sup>141</sup> Extending his attack on *laissez-faire* to the international level, Keynes argued that free trade and international capital mobility would heighten the dangers intrinsic to the modern economy. The mobility of capital would internationally amplify the "remoteness between ownership and operation [that] is an evil in the relations between men."<sup>142</sup> Such "remoteness" can lead to an "intolerable"<sup>143</sup> lack of reciprocal responsibility and trust between investors and managers of different nationalities. Such "excessive entanglement between nations,"<sup>144</sup> heightening the dangerous autonomy of economic psychology, could yield "strains and enmities" and, ultimately, war.<sup>145</sup> Nationalist resentment and transnational capital untrustworthiness are thus perils inherent in the modern capitalist process.

In fact, we need look no further than Keynes' own writings to find examples of the rhetoric of nationalist resentment of transnational capital mobility prevalent in the interwar period. Keynes' anxious obsession with the unbound "libido" of transnational "business men" led him to magnify its power, to condemn the "decadent international but individu-

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in J.M. KEYNES IN RETROSPECT 153 (John Hillard ed., 1988).

138. John Maynard Keynes, *The Underlying Principles*, THE MANCHESTER GUARDIAN COMMERCIAL, SUPPLEMENT 717, 717-18, Jan. 4, 1923.

139. *Id.*

140. NATIONAL SELF-SUFFICIENCY, *supra* note 92, at 234.

141. GENERAL THEORY, *supra* note 32, at 339.

142. NATIONAL SELF-SUFFICIENCY, *supra* note 92, at 236.

143. *Id.*

144. *Id.*

145. *Id.* at 235-7.

alistic capitalism in the hands of which we found ourselves after the war."<sup>146</sup> Writing about Germany in 1926, Keynes favorably compared the nationalism and anti-semitism of the Right with the "accommodations with international finance and Red Russians" of the Left.<sup>147</sup> The obsession with the power and "decadence" of transnational capital, usually with an anti-semitic content, was a recurrent theme of European right wing rhetoric from the end of the nineteenth century at least through World War II<sup>148</sup>—and has resurfaced today.<sup>149</sup>

While Keynes associated the double characteristics of fetishistic inflexibility and transnational fickleness with capital, some interwar legal theorists viewed this psychological complex as typical of nationalism. Both the economic analyst and his legal counterparts saw the chief dangers of such forces in their lack of loyalty to constructive social forms, whether those of the economy or the state. Legal theorists as diverse as Dietrich Schindler and Hans Kelsen attributed nationalism's danger to the state system to these contradictory attributes of immobility and capriciousness.<sup>150</sup> For example, Kelsen declared, on the one hand, that nationalism provided an excessively rigid investment of loyalty: "a racial bond between members of different states forms, or at any rate can form, an infinitely closer tie than legal membership of the same state."<sup>151</sup> On the other hand, he wrote that nationalism was evanescent, "like waves in the sea and after a brief space . . . lost again in an ever-changing ebb and flow."<sup>152</sup> These contradictory attributes threatened to "cause [the State] inevitably to fall headlong into a bottomless pit of

146. *Id.* at 239.

147. JOHN MAYNARD KEYNES, *EINSTEIN* (1926) reprinted in X COLLECTED WRITINGS 382, 384 (Moggridge ed., 1972).

148. For the association in French right-wing rhetoric between attacks on "concentrations of capital serving speculation, nomad money," Jewish mobility, the global conspiracy, and decadence, see e.g., PIERRE BIRNBAUM, *UN MYTHE POLITIQUE: LA "RÉPUBLIQUE JUIVE"* 268-277 (1988); Pierre Birnbaum, *La Fin de la France: Le juif perversisseur dans le paradigme Drumont*, in *L'ÉTERNEL RETOUR: CONTRE LA DÉMOCRATIE, L'IDÉOLOGIE DE LA DÉCADENCE* 197 (Zeev Sternhell ed., 1994).

149. See, e.g., *Avant Propos*, 119 *LE CRAPOUILLOT* 5 (May-June 1994) (condemning "the camp of cosmopolitanism, liberal capitalism, and 'anonymous and vagabond fortunes'"). This right-wing, racist publication is closely associated with the French *Front National*.

150. See generally, Nathaniel Berman, *A Perilous Ambivalence: Nationalist Desire, Legal Autonomy, and the Limits of the Interwar Framework*, *supra* note 38.

151. Hans Kelsen, *The Conception of the State and Social Psychology with Special Reference to Freud's Group Theory*, 5 *INT'L J. OF PSYCHOANALYSIS* 1, 5 (1924).

152. *Id.* at 9-10.

economic, religious and national antagonisms."<sup>153</sup> For Kelsen, the only solution was a "pure theory of law," utterly detached from such "sociological"<sup>154</sup> considerations; other interwar lawyers expressed confidence that international law could theoretically and practically channel the potentially anarchic, border-defying forces of nationalism into pacific legal forms.<sup>155</sup> The problem of disciplining fickle, yet inflexible, libidinal forces was thus a shared cultural structure of interwar social thought, whose terms could shift from one discourse to another. Nationalism could sometimes play the role of the binder of trans-border business forces, while at other times it could play the role of a destabilizing trans-border force which only a firm international authority could discipline.

I now turn to Keynes' policy proposals, in which the need to cope with the unruly forces of both nationalism and the economy intersect.

#### B. ECONOMIC POLICY: "HARNESSING" INVESTMENT AND NATIONALIST LEGITIMACY

As he elaborated the economic planning he viewed as indispensable for economic prosperity in the Thirties, Keynes came to see nationalism both as an indispensable element in shaping the locus, scope, and content of policy, as well as an unavoidable factor in securing legitimacy for policy. The *General Theory* may give the impression that Keynes' vision was of "the good life brought within reach of all under the benevolent guidance of a Platonic,"<sup>156</sup> or at least a technocratic, state. His other writings of the Thirties, however, show that he took account of passionate psychological forces such as nationalism, as well as rational inquiry and technocratic expertise, in his notion of state planning.

Keynes declared repeatedly during the Thirties that the only way to accomplish his goal of disciplining impulsive economic forces was through innovative "experiments."<sup>157</sup> In "National Self-Sufficiency," Keynes argued that the outcome of such "experiments" was neither guaranteed in advance nor necessarily universalizable.

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153. *Id.* at 5.

154. *Id.*

155. See generally *A Perilous Ambivalence: Nationalist Desire, Legal Autonomy, and the Limits of the Interwar Framework*, *supra* note 38.

156. II SKIDELSKY, *supra* note 100, at 543.

157. NATIONAL SELF-SUFFICIENCY, *supra* note 92, at 246.

We each have our own fancy. Not believing we are saved already, we each would like to have a try at working out our own salvation. We do not wish, therefore, to be at the mercy of world forces working out, or trying to work out some uniform equilibrium according to the ideals of *laissez-faire* capitalism.<sup>158</sup>

Such passages dramatically shift the relationship between economic forces and nationalism from that presented in the *Economic Consequences*. Rejecting *laissez-faire*'s misplaced reliance on "the mercy of world forces," Keynes now viewed economic forces as in need of deliberate policy interventions; by contrast, nationalism, no longer the excluded irrational, is now accorded the role of one of the shapers of the particularistic "fancy" or "salvation" which is to guide those economic forces. Rather than advocating a universalist technocracy, Keynes' new appreciation of nationalism led to his acceptance of a multiplicity of "experimentalist" policy schemes.

Keynes' policy recommendations in the Thirties should be interpreted in light of this altered configuration between economic and nationalist psychology. The most familiar of his proposals to deal with the autonomization of business libido are those typically "Keynesian" measures concerning direct state involvement: "I expect to see the State, which is in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage, taking an ever greater responsibility for organizing investment."<sup>159</sup> An "optimum rate of investment" will only be secured by a "somewhat comprehensive socialization of investment."<sup>160</sup> This social organization of investment could and should intervene in the psychological dynamics released by the modern form of capitalism, restraining the dangerous instincts, while encouraging those conducive to full employment to develop into a healthy form.

The efficacy of such intervention would depend on the form and extent of the "somewhat comprehensive socialization." Ideally, Keynes sought to increase the stock of capital so that it ceases to be scarce, thus eventually bringing about the "euthanasia of the rentier."<sup>161</sup> This situation would allow the healthy instincts driving the entrepreneur, the "spontaneous optimism" of their "animal spirits," to develop without entanglement with the psychological and economic demands of the

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158. *Id.* at 240-241.

159. GENERAL THEORY, *supra* note 32, at 163-164.

160. *Id.* at 378.

161. *Id.* at 376.

rentiers. The proclivities of the "financier, the entrepreneur *et hoc genus omne* (who are so fond of their craft that their labor could be obtained much cheaper than at present)" will "be harnessed to the service of the community on reasonable terms of reward."<sup>162</sup>

Like the interwar lawyers discussed above who saw in the creation of autonomous legal institutions the crowning achievement of the Versailles system, Keynes sought to give the new policy powers to "semi-autonomous" economic institutions.<sup>163</sup> Like the lawyers' local, yet international, institutions, these autonomous bodies of experts would derive their powers from political bodies but their "criterion of action within their own field" would be "solely the public good as they understand it."<sup>164</sup> Only such new "separate autonomies"<sup>165</sup> would be able to fully articulate the innovative policy proposals of the new economics by understanding and "harnessing" the unleashed psychological forces. If such institutions may be characterized as technocracy, it is clearly of a highly sophisticated, psychologically and culturally informed variety. The Keynesian autonomous expert, who provides the necessary insight into the "precariousness" of the conventional business personality and its inability to productively "harness" its "propensities," resembles the Freudian superego, which "knew more than the ego about the unconscious id."<sup>166</sup>

Yet, even this complex expertise is subject to nationalist legitimization. Each nation must be able to work out its "own salvation" in accordance with its own "national temperament and historical environment."<sup>167</sup> For Keynes, control over investment was the key to the shaping of the economy; "[a]bove all," he therefore declared, "let finance be primarily national."<sup>168</sup> The national control of finance and, in general, "the policy of increased national self-sufficiency is to be considered not as an ideal in itself but as directed to the creation of an environment in which other

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162. *Id.* at 376-77. If political difficulties prevent such a "comprehensive socialization," the state could provide a set of "non-comprehensive" "inducements to invest"—such as Keynes' whimsical suggestion that the state bury bank-notes and leave it to private enterprise to increase the employment, income, and capital wealth of the community by developing the industry of digging them up. *Id.* at 129.

163. See THE END OF LAISSEZ-FAIRE, *supra* note 95, at 288.

164. *Id.*

165. *Id.* at 289.

166. FREUD, *supra* note 124, at 41.

167. NATIONAL SELF-SUFFICIENCY, *supra* note 92, at 239.

168. *Id.* at 236.



ideals can be safely and conveniently pursued"<sup>169</sup>—the ideals of particular national visions of "salvation."

To be sure, Keynes often used technocratic language, as in his claim that planning would affect only the "volume, not the direction"<sup>170</sup> of investment. Nonetheless, it is difficult both to see how this could be possible as well as to reconcile such statements with his many declarations about the uses to which public expenditure should be put. His own view of "salvation" included such statements as: "A country which cannot afford art or agriculture, invention or tradition, is a country in which one cannot afford to live."<sup>171</sup> In any case, the new emphasis placed on conscious "experimentation" meant that such questions, particularly those relating to national autonomy, would be subject to public debate and political legitimacy: "if the functions and purposes of the state are to be . . . enlarged, the decision as to what, broadly speaking, shall be produced within the nation and what shall be exchanged with, must stand high amongst the objects of policy."<sup>172</sup>

Keynes' analysis of the role of nationalism in economic "experimentation" implied a drastic shift in approaching the kinds of territorial issues he had considered in 1919. In the *Economic Consequences*,<sup>173</sup> as we saw, Keynes argued that the reconstructors of Europe at the Paris Peace Conference should have made their territorial decisions in deference to "natural" economic regions; he further implied that nationalist passions were either ephemeral or, in any event, must be bypassed if one sought to achieve a rational economic policy. Keynes' systematic critique of the "naturalness" of economic processes and his stress on the role of policy authorities in activating and channelling economic forces implied a rejection of both of these notions. Rather than deferring to the "natural localisation of industry," Keynes now declared that state policy should engage in the "deliberate planning of the localisation of industry."<sup>174</sup> He further maintained that technical developments had minimized the economic benefits of international specialization.<sup>175</sup> Modern conditions

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169. *Id.* at 240.

170. GENERAL THEORY, *supra* note 32, at 379.

171. JOHN MAYNARD KEYNES, PROS AND CONS OF TARIFFS (1932), *reprinted in* XXI COLLECTED WRITINGS, *supra* note 92, at 204, 210.

172. NATIONAL SELF-SUFFICIENCY, *supra* note 92, at 243; *See also* ANNA CARABELLI, ON KEYNES' METHOD 230 (1988).

173. ECONOMIC CONSEQUENCES, *supra* note 9.

174. JOHN MAYNARD KEYNES, STATE PLANNING (1932), *reprinted in* XXI COLLECTED WRITINGS, *supra* note 92, at 84, 89.

175. NATIONAL SELF-SUFFICIENCY, *supra* note 92, at 238.

meant that economic technique, concerned with the conceptual problem of the "general organization of resources,"<sup>176</sup> rather than material factors, had become the key to prosperity.

If the economy is not a self-adjusting entity, if one cannot analyze the economy in isolation from the actions or omissions of policy authorities, then one cannot simply defer to a "natural economy" in determining the political map. Instead, one must consider the relative efficacy and legitimacy of various possible loci of policy authority and of the authority to construct the economy through "deliberate planning." In the Thirties, this consideration meant that the territorial limits of nationalist legitimacy must be a primary consideration in determining the frontiers of economic units, *or, what for the Thirties' Keynes amounted to the same thing, the frontiers of economic experimentation*. Nationalism is thus no longer a simple hindrance, to be ignored if possible, but a key consideration in deciding where to situate policy authority *and, thereby*, how to create economic regions. Indeed, due to the importance of psychological factors in economic processes, the legitimacy of that authority is intrinsically related to its efficacy. Keynes may have concluded that internationalism must again defer to existing state frontiers—but now it is in deference to "nationalist temperament," rather than to "natural" economic imperatives.

I conclude this section with a less familiar proposal in the *General Theory* for dealing with the commitment to the economy of psychological investment energy. Keynes suggested binding such energy directly, by giving the individual no alternative other than either "consuming his income" or "ordering the production of [a] specific capital asset."<sup>177</sup> Explicitly emphasizing the "libidinal" quality of the binding, Keynes contemplated ending speculation by making investment decisions "permanent and indissoluble, like marriage, except by reason of death or other grave cause."<sup>178</sup> Such an irrevocable marriage would defeat the "fetish of liquidity"<sup>179</sup> and forestall the irresponsibility latent in the modern "divorce"<sup>180</sup> between ownership and management.

One can see the convergence of economic and cultural criticism latent in such metaphors by associating Keynes' analysis with discourses

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176. *Id.*

177. *GENERAL THEORY*, *supra* note 32, at 161.

178. *Id.* at 160. Keynes rejected this suggestion due to the inhibition of investment such "indissolubility" might cause. *Id.*

179. *Id.* at 155.

180. *NATIONAL SELF-SUFFICIENCY*, *supra* note 92, at 236.

whose concerns were focused on the literal meaning of the terms used by Keynes—and whose striking structural similarity to Keynes' analysis highlights the general cultural matrix within which his work should be placed. Two recent studies have analyzed interwar discussions of cultural crisis that focused on the purported confusion of gender roles by the war in both France and Britain.<sup>181</sup> Many British observers viewed the war as responsible for the release of sexual energy, particularly aggressive sexual energy in British men.<sup>182</sup> Some of these observers viewed this release as a liberation from the hypocritical sexual morality of Victorian society;<sup>183</sup> their goal, therefore was not to repress this energy, but to provide a healthy "outlet"<sup>184</sup> for it in marriage. These new technocrats of desire, the "sexologists and sex reformers," sought to create a reformed institution of marriage by emphasizing the importance of "mutual, pleasurable sexual experiences," which would in turn "reduc[e] the threat of war by removing the sexual repressions and tensions, that . . . helped to bring it about."<sup>185</sup> Thus, "British society sought in the establishment of harmonious martial relationships a resolution to the anxieties and political turmoil caused by the Great War."<sup>186</sup> French writers formulated analogous rhetoric concerning the purported release of female sexual energy by the war, often focusing on motherhood as possessing the power to turn "modern women" back into "real women."<sup>187</sup>

Keynes' proposal to "harness" the newly autonomous investment libido by "marrying" it to investment may be viewed as forming a series with these other discourses of reconstruction. In a manner structurally similar to those who sought to "reconstruct gender," Keynes proclaimed that his era was marked by a freeing up of desiring energy, that energy was at once responsible for social crisis and yet potentially revitalizing, and that the crisis could be resolved by new policies and institutions that would bind that energy in socially "productive" forms. Keynes sought not to "transform" human nature, but to "manage" it, to "canalize" potentially "dangerous human proclivities"<sup>188</sup> into the productive economy.

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181. KENT and ROBERTS, *supra* note 14.

182. KENT, *supra* note 14, at 94-96.

183. *Id.* at 99-108.

184. *Id.* at 107.

185. *Id.*

186. *Id.* at 140.

187. ROBERTS, *supra* note 14, at 147.

188. GENERAL THEORY, *supra* note 32, at 374.

Moreover, Keynes contended that his various proposals for coordinating economic forces would also have the effect of minimizing conflicts between nations. Under a system of *laissez-faire* and the gold standard, the only method for governments to "mitigate economic distress at home" was "through the competitive search for markets," or, in other words, through "forcing sales on foreign countries and restricting purchases."<sup>189</sup> However, "if nations can learn to provide themselves with full employment with their domestic policy . . . there need be no important economic forces calculated to set one country against its neighbors."<sup>190</sup> Like the "reconstructors of gender," Keynes sought to pacify the aggressive potential of newly autonomous "forces" by binding them to the "domestic" economy.

### C. NATIONAL DISCIPLINE AND INTERNATIONAL COORDINATION

While Keynes' Thirties' discipline of economic reconstruction was influenced by his appreciation of nationalism, he both retained his cosmopolitan aspirations and reflected on the impact of international developments on national experiments. As a cosmopolitan spirit, Keynes' appreciation of the importance and irreducibility of nationalism led him to sympathize with all of the new "experiments."

It may be that other countries will enjoy the rare opportunity of seeing three experiments carried on simultaneously . . . the Five Year Plan in Russia; the Corporative state in Italy; and state planning by Public Corporations responsible to a democracy in Great Britain. And as lovers of our species, let us hope that they will *all* be successful.<sup>191</sup>

Keynes' main criterion for supporting such experiments in the early Thirties was that they provide a stimulus to remedy the disastrous drop in demand that led to the general economic crisis.<sup>192</sup> He was relatively agnostic about the form of this stimulus.

The appropriate stimulus will vary from nation to nation; in some a relief from taxation, in some a programme of public works, in some an expansion of public credit, in some a relaxation of exchange and import restrictions, in some a repayment of pressing debts, in some the mere removal

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189. *Id.* at 382-383.

190. *Id.* at 382.

191. STATE PLANNING, *supra* note 174, at 92.

192. JOHN M. KEYNES, THE WORLD ECONOMIC CONFERENCE (1932) [hereinafter THE WORLD ECONOMIC CONFERENCE], reprinted in XXI COLLECTED WRITINGS, *supra* note 92, at 210, 211-214.

of anxieties and fear, in some the mere stimulus to the lords of business to be courageous and active again.<sup>193</sup>

Nevertheless, due to balance of payments pressure that arises when governments pursue domestic expansion in the face of world economic downturn, "combined international action is of the essence of policy."<sup>194</sup> Keynes proposed to achieve simultaneous international expansion in a manner which would respect the diversity of the experiments, in keeping with his agnostic attitude about their form. The plan was to "print gold," say five billion dollars worth, and to distribute it to national governments according to some formula.<sup>195</sup> After all, "we have long printed gold nationally. Why should we not print it internationally?"<sup>196</sup> Participation in the scheme would be made contingent on a commitment by countries to "abate certain unsound international practices" such as exchange restrictions and "tariffs and quotas . . . not in pursuance of permanent national policies."<sup>197</sup>

Keynes' striking plan was designed for its psychological impact, as well as its technical effects, in keeping with his ever-present awareness of the intertwining of psychology and economics: "Our plan must be spectacular, so as to change the grey complexion of men's minds."<sup>198</sup> Indeed, the plan itself presupposed Keynes' unmasking of the "fetishism" underlying the desire to hold money. In particular, Keynes had explicitly referred to Freud's explanations of the instinctual basis for the sacred status of gold.<sup>199</sup> If gold and gold-backed money were merely a "fetish" without an original, an "*ersatz*" without a real, then deliberate policy might induce its devotees to transfer their passion to "printed gold." A fetish of this kind can be substituted by another fetish, assuming political authority is able to imbue it "with the same symbolic weight."<sup>200</sup> The steadily disintegrating international community, however, was not up to the task. The World Economic Conference to which

193. *Id.* at 215.

194. JOHN M. KEYNES, *THE MEANS TO PROSPERITY* (1993)[hereinafter *THE MEANS TO PROSPERITY*], reprinted in IX COLLECTED WRITINGS *supra* note 94, at 335, 356 (ed., 1972).

195. *THE WORLD ECONOMIC CONFERENCE*, *supra* note 192 at 216; see also *THE MEANS TO PROSPERITY*, *supra* note 194, at 355-66.

196. *THE WORLD ECONOMIC CONFERENCE*, *supra* note 192, at 216.

197. *THE MEANS TO PROSPERITY*, *supra* note 194, at 361.

198. *THE WORLD ECONOMIC CONFERENCE*, *supra* note 192, at 216.

199. JOHN MAYNARD KEYNES, *AURA SACRA FAMES* (1930), in IX COLLECTED WORKS (1972), *supra* note 94, at 161-62.

200. CARABELLI, *supra* note 172, at 170.

Keynes had addressed his proposal adjourned inconclusively and only "national experiments" were left.

The Thirties' Keynes maintained a relatively minimal role for the international dimension, as an encourager of national experimentation. This role was not unlike that he foresaw for the international dimension in the *Economic Consequences*. Keynes remained an internationalist in the cultural realm—the realm of "[i]deas, knowledge, art, hospitality, travel"<sup>201</sup>—and a supporter, however critical, of a wide diversity of nationalist "politico-economic experiments." Yet, in view of the strong social and cultural significance he attributed to economic experimentation, this internationalism seems rather weak. As in the *Economic Consequences*, Keynes would have the international defer to states, but now it is due to their nationalist legitimacy, rather than their reflection of "natural" economic regions. Such emphasis on toleration of pluralist "experimentation" can be easily explained as one of the positions one might have taken in response to the international context of the Thirties. Despite proposals whose potential would blossom in the following decade,<sup>202</sup> Keynes did not, at this stage, imagine a more vigorous role for international "experimentation."

#### IV. NATIONALISM DISCIPLINED: THE INTERNATIONALIST PARADOX OF THE FORTIES

In 1941, Keynes responded to a demand that he choose between internationalist and nationalist approaches to post-World War II reconstruction by replying, "I must pursue both lines of thought . . . both."<sup>203</sup> Keynes' subsequent role as the key British figure in the preparation for Bretton Woods meant that his formulations from this period tend to clear and pragmatic positions, rather than speculative explorations of alternatives. The dominant tendency of his work at this time should be interpreted as a synthesis between the aspiration for international coordination and preservation of British prerogatives. Nevertheless, other strands in his work envisioned a greater role for international authority in the disciplining of both economics and nationalism. In these latter strands, Keynes saw nationalism as requiring, and amenable to, the same kind of innovative policy discipline as other psychological forces,

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201. NATIONAL SELF-SUFFICIENCY, *supra* note 92, at 236.

202. One commentator saw Keynes' Thirties' "printed gold" proposals as containing "many features of the International Monetary Fund." R. F. HARROD, *THE LIFE OF JOHN MAYNARD KEYNES* 444 (1963).

203. *Id.* at 526.

like those underlying investment. From the role of the excluded irrational of 1919, to that of an agent of "experimental" policy in the Thirties, nationalism moved in such reflections to the same level of disciplinability as other, more strictly "economic," forces.

Without describing the detail of Keynes' Forties proposals, one can summarize his goal as the establishment of a comprehensive international framework for encouraging investment, aimed "at the substitution of an expansionist, in place of a contractionist, pressure on world trade."<sup>204</sup> Keynes' proposed International Clearing Bank would have "generalize[d] the essential principle of banking"<sup>205</sup> by providing a mechanism whereby countries with trade deficits could make use of the resources left idle by surplus countries, substituting "a credit mechanism in place of hoarding."<sup>206</sup> Early versions of these proposals would have provided international enforcement of Keynesian virtue by providing a variety of sanctions against maintaining excessive creditor balances in the Bank, including required revaluation of national currency and the transfer of balances in excess of a stipulated amount to the Bank's "Reserve Fund,"<sup>207</sup> a fund to be used for a variety of international purposes. Moreover, excessive creditor countries would be required to "discuss" with the Bank such measures as expansion of domestic demand and foreign development loans, although they would not be forced to implement them.<sup>208</sup> Such proposals would enlist states in the service of international expansion, "putting at least as much pressure of adjustment on the creditor country as on the debtor."<sup>209</sup>

Keynes sought to accompany such constraints on selfish nationalist actions by states with control of the transnational mobility of private capital, one of his constant preoccupations. He wished to give policy authorities the means of

distinguishing—

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204. JOHN M. KEYNES, PROPOSALS FOR AN INTERNATIONAL CLEARING UNION (1942) [hereinafter CLEARING UNION], reprinted in XXI COLLECTED WRITINGS (1980), *supra* note 92, at 168, 176.

205. JOHN M. KEYNES, PROPOSALS FOR AN INTERNATIONAL CURRENCY UNION (1941) [hereinafter CURRENCY UNION], reprinted in XXI COLLECTED WRITINGS (ed., 1980), *supra* note 93, at 42, 44.

206. CLEARING UNION, *supra* note 204, at 177.

207. KEYNES, PROPOSALS FOR AN INTERNATIONAL CURRENCY UNION (1941), reprinted in XXV COLLECTED WRITINGS note 95, at 33, 36-37.

208. CLEARING UNION, *supra* note 204, at 175.

209. CURRENCY UNION, *supra* note 204, at 42, 48-49.

- (a) between movements of floating funds and genuine new investment for developing the world's resources; and
- (b) between movements, which will help to maintain equilibrium, from surplus countries, to deficiency countries and speculative movements or flights out of deficiency countries or from one surplus country to another.<sup>210</sup>

Keynes proposed to achieve such control of capital movements through a "uniform multilateral agreement,"<sup>211</sup> thereby enlisting states in the service of the international control of this "loose" investment energy. Since such control would only be effective if exercised "at both ends"<sup>212</sup> of all transactions, these measures would work only if all members of his proposed International Clearing Union adopted similar controls. The multilateral agreement, therefore, presupposed that "the central control of capital movements would be a "permanent feature of the post-war system."<sup>213</sup>

Many of these proposals were consistent with the "practical protectionist" spirit of Keynes' Thirties' "national self-sufficiency" program.<sup>214</sup> As one commentator argues, the Keynesian approach is "to restore public control over international liquidity, so that national governments can in turn regain control over their own domestic monetary systems."<sup>215</sup> This interpretation would stress Keynes' ultimate judgment that the method and degree of capital controls be left to state discretion.<sup>216</sup> In a speech to the House of Lords, Keynes advocated the imposition of such controls by Britain on the grounds that otherwise "we lose control over our domestic rate of interest."<sup>217</sup> Moreover, defending the British position in negotiations with the Americans, Keynes insisted that the role of the proposed "Stabilization Fund" be "passive," a "reserve resource" which would not "study the advisability of every transaction,"<sup>218</sup> and would leave considerable autonomy in the hands of national banks.<sup>219</sup> These passages support the notion that Keynes sought

210. *Id.* at 53.

211. *Id.* at 52.

212. CLEARING UNION, *supra* note 204, at 185.

213. CURRENCY UNION, *supra* note 205, at 52.

214. See generally, Hugo Radice, *Keynes and the Policy of Practical Protectionism*, in J.M. KEYNES IN RETROSPECT 153 (John Hillard ed., 1988).

215. *Id.* at 169.

216. CLEARING UNION, *supra* note 204, at 186.

217. JOHN M. KEYNES, ADDRESS BEFORE THE HOUSE OF LORDS (May 18, 1943), reprinted in XXV COLLECTED WRITINGS (ed., 1980), *supra* note 92, at 269, 275.

218. HARROD, *supra* note 204, at 570.

219. JOHN M. KEYNES, THE MAIN OBJECTIVES OF THE PLAN [hereinafter THE



augmented international authority only to the extent necessary to secure national autonomy. Keynes' reluctance to give more discretionary power to international institutions may have resulted both from his skepticism about their expertise and about their adopting the expansionist approach as their guide to policy.<sup>220</sup>

However, this tendency in Keynes' Forties formulations contends with other, more visionary, facets of his thinking that advocated even stronger international authority and political restructuring. He described his own plan as different than that of the Americans in that it embodied an unequivocal "general intention," that is, to be economically "expansionist."<sup>221</sup> In contrast with the American proposal, Keynes' plan was more creative (the creation of international credit),<sup>222</sup> centralized (the requirement that "exchanged transactions be centralized with the Clearing Bank through national controls"),<sup>223</sup> disciplined (the provision of the "means of disciplining a creditor country"),<sup>224</sup> and vigilant (the assumption of "prior scrutiny of all [capital] transactions").<sup>225</sup> Moreover, Keynes envisioned the use of the International Clearing Union for such activities as setting up accounts in favor of international bodies charged with post-war reconstruction as well as "the super-national policing body charged with the duty of preserving the peace."<sup>226</sup> He declared that the Union could become "the pivot of the future economic government of the world"<sup>227</sup>—an international version of Keynes' domestic "separate autonomies" and a considerably augmented descendant of his 1919 "economic Council of Europe." Keynes characterized the "surrender of sovereignty" inherent in his proposed Currency Union as "financial disarmament."<sup>228</sup> He viewed the international restraint on sovereignty entailed by his proposal as one of its key attractions: it was an "advantage,

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MAIN OBJECTS OF THE PLAN], reprinted in XXV COLLECTED WRITINGS, *supra* note 92, at 399, 404.

220. See, e.g., HARROD, *supra* note 202, at 525-526; see also THE MAIN OBJECTS OF THE PLAN, *supra* note 219, at 404.

221. JOHN MAYNARD KEYNES, A COMPARATIVE ANALYSIS OF THE BRITISH PROJECT FOR A CLEARING UNION (C.U.) AND THE AMERICAN PROJECT FOR A STABILISATION FUND (S.F.) (1943), reprinted in XXV COLLECTED WRITINGS, *supra* note 92, at 215, 225.

222. See *id.*

223. See *id.*

224. See *id.* at 220.

225. See *id.* at 225.

226. CLEARING UNION, *supra* note 204, at 168, 189-90.

227. *Id.* at 189.

228. CURRENCY UNION, *supra* note 205, at 42, 57.

rather than a disadvantage, of the scheme that it invites the member states and groups to abandon that license to promote indiscipline, disorder and bad-neighborliness which, to the general disadvantage, they have been free to exercise hitherto."<sup>229</sup>

Finally, we may associate these tendencies in Keynes' formulations with his more speculative vision of a systematic overhaul of the relationship between national groups, political borders, and economic integration.

One view of the post-war world which I find sympathetic . . . is that we should encourage *small* political and cultural units, combined into larger, and more or less closely knit, economic units. It would be a fine thing to have thirty or forty capital cities in Europe, each the centre of a *self-governing country entirely free from national minorities (who would be dealt with by migrations if necessary)* and the seat of a government and a parliament and a cultural and university centre, each with their own pride and glory and their own characteristics and excellent gifts. But it would be ruinous to have thirty or forty entirely independent economic and currency units. Therefore, I would encourage customs unions and customs preferences covering groups of political and geographical units, and also currency unions, railway unions and the like.

Thus it would be preferable, if it were possible, that the members [of the International Currency Union] should, in some cases at least, be groups of countries rather than separate units.<sup>230</sup>

This rather astonishing passage merits close reading—for it represents a drastic shift in Keynes' reflections on the relationship between nationalism and internationalism, in which he gives international authority a central, creative role and reinterprets nationalism as cultural difference. Heightening his Thirties' acknowledgment of the irreconcilability of nationalist differences, he now envisions their permanence. This radical accentuation of his recognition of nationalism entails an extreme solution to the conflict between "national temperaments": the creation of a system of homogeneous states, with minorities "dealt with by migrations if necessary."<sup>231</sup> With this proposal, Keynes departed even further than he

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229. *Id.* at 57-58.

230. *Id.* at 55 [emphasis added]. Keynes added that the economic federations he envisioned in the last quoted sentence were not indispensable; the Union could be organized along "nationalistic or economic federationist lines" and his proposal could be adjusted "either to older or newer notions." *Id.* at 56-57.

231. *Id.*

did in the Thirties from his 1919 assimilationist dismissal of the problem of national minorities in places like Upper Silesia.

Keynes also envisioned disciplining nationalism by reinterpreting it as limited to cultural difference, or at least as potentially so limited. Authority transcending states or nations would implement, or at least enforce, this discipline. The creation of the new "small units"<sup>232</sup> where homogeneous cultures could flourish, "free from national minorities", would presumably require massive international involvement, rather than mere encouragement. His simultaneous advocacy of unprecedented regional and international authority over economic matters would signify a great attenuation of state sovereignty, as well as serve to further restrain nationalism within its cultural limits.

In this strand of Keynes' writing, his discipline of reconstruction becomes comprehensive and truly international. He sought to empower international authority to engage in far-reaching experimentation with nationalist and economic forces, while pressing states into the service of internationalism. In this conception, nationalism is viewed as a cultural force, permanent and exclusivist, yet amenable to international discipline. International authority would determine political, or, rather, political/cultural frontiers, bypassing deference to either "natural" economic regions (as in the *Economic Consequences*)<sup>233</sup> or the frontiers of nationalist legitimacy (as in *National Self-Sufficiency*).<sup>234</sup> Economic forces would be disciplined through their unification into regional federations, integrated into an international economic order.

Ultimate experimental authority thus moves from the level of the state or nation to that of the international, while nationalism is firmly incorporated into the political order through comprehensive political reconstruction. Indeed, this passage from Keynes' Forties' writings represents a close approximation to the "paradox" he denigrated in the Versailles settlement: a paradoxical juxtaposition of a very strong version of nationalism with dramatically augmented international authority. The point of lingering over this passage is not an inquiry into what Keynes "really thought" but into the permutations which his discipline of reconstruction was capable of undergoing. This Forties variant of Keynes' views of the relationship between politics and economics, public and private, reason and emotion, international and national, embodies the most dramatic

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232. *Id.*

233. *ECONOMIC CONSEQUENCES*, *supra* note 9.

234. *NATIONAL SELF-SUFFICIENCY*, *supra* note 92.

departure from the views of the 1919 author of the *Economic Consequences*.

## V. POLICY PROPOSALS AND MODERNIST FAITH

. . . the futility of basing ethnic nationality on the race of peoples, which continually disappears and forms itself anew like the sparkling of glass in a kaleidoscope . . . .<sup>235</sup>

Baron Alphonse de Heyking, *La Conception de l'Etat et l'idée de la cohésion ethnique* (1927)

I think that what Keynes had in mind is an aspect of . . . his kaleidic account of the economic process of history. By the kaleidic theory I mean the view that the expectations, which together with the drive of needs or ambitions make up the 'springs of action', are at all times so insubstantially founded . . . that they can undergo complete transformation in an hour or even a moment, as the patterns in the kaleidoscope dissolve at a touch.<sup>236</sup>

G.L.S. Shackle, *Keynesian Kaleidics* (1974)

The foregoing presentation of Keynes' theories suggests several general conclusions and poses a puzzling dilemma. First, we have seen how Keynes constructed his discipline of economic reconstruction through assigning nationalism a series of roles: the excluded irrational,<sup>237</sup> the enlisted experimental,<sup>238</sup> and the disciplined cultural.<sup>239</sup> Secondly, the distinctiveness of Keynes' conception of economics forces a rethinking of conventional distinctions between economic, political, and cultural analysis and policy.<sup>240</sup> Thirdly, the basic schema of Keynes' analysis, the "harnessing" of "uncontrollable psychology" and "animal spirits," participates in general cultural fears and fantasies of the interwar period. Fourthly, these conclusions suggest that one of the major alternatives structuring public debate in the interwar period, and in our own, has a curiously indeterminate structure. To be a sophis-

235. BARON ALPHONSE DE HEYKING, *LA CONCEPTION DE L'ÉTAT ET L'IDÉE DE LA COHÉSION ETHNIQUE, LE POINT DE VUE DU DROIT PUBLIC ET DES GENS* 19 (1927).

236. SHACKLE, *supra* note 100, at 42.

237. See *supra* notes 43-91 and accompanying text.

238. See *supra* notes 92-202 and accompanying text.

239. See *supra* notes 203-34 and accompanying text.

240. See *supra* notes 156-80.

ticated disciplinarian of reconstruction is to grapple with a set of elements whose place in one's framework can shift dramatically, perhaps with changing circumstances, perhaps with changing allegiances. To advocate an "economic" (or a "political") approach signifies less a determinate position than a particular point of departure from which such "supplemental" considerations as nationalism (or economics) will be accommodated in a series of often surprisingly shifting ways. The general cultural anxieties and hopes underlying the structure of this rhetoric seem more decisive than the particular elements with which they are associated.

The issue left unexamined is that of the source of confidence in the efficacy of this schema. Given the turbulent cultural basis they thought underlay the crises they analyzed, why did modernist policymakers like Keynes believe in the efficacy of their prescriptions? Why should an advanced form of sophisticated reason be viewed as capable of accurately diagnosing and disciplining unruly psychological forces whose very description seems to render them impervious to such discipline? In this concluding section, I suggest that this confidence is not the product of technocratic rationality but a faith, a modernist faith, closely associated with the fears and fantasies it is meant to assuage.

The interwar international lawyers who defended and implemented the Versailles system for dealing with nationalism faced similar difficulties.<sup>241</sup> They saw the relationship between the turbulent nation and the new international authorities as a novel "alliance"<sup>242</sup>: between advanced internationalist "experimentation" and nationalist "primitivism,"<sup>243</sup> between complex international institutional and doctrinal innovation and the "essence"<sup>244</sup> of national groups. In other words, they believed in what Keynes pejoratively called the "paradox" of the Versailles settlement, a version of which he put forward in the Forties. Defense of the various Versailles techniques for dealing with nationalism depended on this modernist faith in a paradoxical alliance between the pacific potential of nationalist aspiration and the benevolent rationality of international authority. It entailed rejection of the notion that nationalism was irremediably violent and transnational or that international authority was purely a mask for power politics.

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241. See articles cited, *supra* note 38.

242. *Id.*

243. *Id.*

244. Minorities Schools in Albania Case, 1935 P.C.I.J. (ser. A/B) No. 64, at 17.

Let me quickly summarize some of the predictive arguments one could have made in 1919 about the three main techniques for dealing with nationalism in the Versailles system, viz., the creation of national states in central Europe, the imposition of Minority Protection Treaties, and the design of "experimental" international regimes for the Saar, Danzig, and Upper Silesia. One could have argued *either* that the construction of the new national states would provide final satisfaction of nationalist claims, *or* that it would intensify those desires and lead to wars between those states. One could have argued *either* that the establishment of minority protection within those new states would facilitate the minority groups' cultural flourishing while ensuring their political loyalty, *or* that it would create hotbeds of particularistic resentment and irredentist agitation. One could have argued *either* that the creation of international regimes for certain regions would result in thriving multicultural societies appreciative of international benevolence, *or* that it would provide convenient symbolic targets for nationalist propaganda pointing at the diabolical forces under the international mask.

At a minimum, the belief in the first side of each of these alternatives required the notion that a "good" form of international policy could find the right set of techniques that could bring out, or be allied with, the "good" side of nationalism in each particular situation. Yet, even this view would require suspending one's knowledge of the mercurial, "kaleidoscopic" quality of nationalism. Moreover, it would require ignoring the effect of an international presence on nationalist passion, effects that Hitler manipulated in the plebiscite campaign in the internationalized territory of the Saar—and that nationalists in the 1990's have also found useful.

In view of the potential instability Keynes attributed to the economy, one would expect to find analogous leaps of faith in both the disciplinability of economic forces and the wisdom of policy authority (even if, as befitting a modernist priest, Keynes often expressed an ironic attitude towards his own faith). On the first issue, as one commentator argues, the "key propensities of a *laissez-faire* economy like the 'inducement to invest' and the 'propensity to hoard' which are presented as inherently unruly have to be made sufficiently tractable to be acted upon by the policymaker."<sup>245</sup> Keynes' technique to accomplish this aim in the *General Theory* is to treat "expectations as given, or unchanging in the relevant unit of time."<sup>246</sup> This technique separated Keynes the

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245. II SKIDELSKY, *supra* note 100, at 546.

246.. *Id.*

policy proposer from Keynes the social theorist in at least two ways reminiscent of policy proposers concerned with nationalism: first, it abstracted from his assertion of the ever-present potential instability in investment psychology and, secondly, it abstracted "from any effect of policy on the psychology of society."<sup>247</sup>

Keynes himself gave an example of the latter problem in relation to monetary policy. One consequence of the economy's psychological dynamics is a limitation on the efficacy of government manipulation of the interest rate. First, the rate of interest cannot be pushed lower than a certain minimum level, below which liquidity preference will preclude lending. Secondly, lenders will not have faith in the durability of a rate of interest which, in Keynes' words, they view as "experimental";<sup>248</sup> lowering interest rates in this way may have the opposite effect than intended, namely, an increase in liquidity preference. "Experimental" policy could thus fail to achieve the desired "harnessing" of business psychology precisely due to its "experimental" character.

Yet, as one commentator points out, this effect on business psychology could also result from Keynes' preferred method of economic stimulus, government spending on public works. If such spending

strikes the business community as unsound, the state of confidence goes down, and liquidity preference goes up. It will then require an increasing quantity of money pumped into the economy to prevent the rate of interest from rising, which increases lack of confidence, liquidity preference, and so on. This brings us back to the ultimate independent variable: the 'state of the news.'<sup>249</sup>

Keynes would thus have proven too much: his introduction of psychological uncertainty into the economy would have taken us from a *self*-adjusting economy all the way to an economy *incapable* of adjustment. We would then have to agree with G.L.S. Shackle, the archetypal Keynesian "fundamentalist": "Keynes' book achieves its triumph by pointing out that the problems it is concerned with are essentially beyond solution."<sup>250</sup> We would, however, thereby be either ignoring Keynes' repeated advocacy precisely of economic "experimentation" or convicting him of simple inconsistency.

247. *Id.* at 547.

248. GENERAL THEORY, *supra* note 32, at 203.

249. II SKIDELSKY, *supra* 100, at 563.

250. G.L.S. Shackle, *Keynes and Today's Establishment in Economic Theory: A View* XI JOURNAL OF ECON. LIT. 516, 516 (1973). But see ANNA CARABELLI, ON KEYNES' METHOD 228-31 (1988).

I argue, instead, that, like other modernist policy proposers, Keynes manifested a paradoxical faith in an alliance between policy "experimentation" and the "uncontrollable and disobedient psychology of the business world"<sup>251</sup>—Keynes' version of the very kind of "paradox" he decried in the Versailles system. Indeed, writing about H.G. Wells's *Clissold*, Keynes seemed to envision how surplus business energies, so dangerous when they took the deviant form of speculation and panics, could be "harnessed" for deep social transformation.

The creative intellect of mankind is to be found not in [the Labour Movement] but amongst the scientists and the great modern business men . . . . We must recruit our revolutionaries, therefore, from the Right, not from the Left . . . . Clissold's direction is to the Left—far, far to the Left; but he seeks to summon from the Right the creative force and the constructive will to carry him there. He describes himself as temperamentally and fundamentally a liberal. But political liberalism must die 'to be born again with firmer features and a clearer will'.<sup>252</sup>

Keynes partially agreed with Clissold—he viewed certain kinds of business energy, the "spontaneous optimism" of "animal spirits," as a modern "primitive" force which can be "harnessed" for constructive social transformations.

Like the interwar lawyers concerned with nationalism, Keynes also felt that such forces could be greatly destructive.<sup>253</sup> As I noted above, the potentially destructive aspects of social energy feared by Keynes find their nearly identical equivalents in interwar reflections on nationalism. Nonetheless, like Clissold and his legal counterparts, Keynes spoke of the need to recognize the value of "spontaneous, volcanic and even wicked impulses," while simultaneously affirming "the order and pattern of life amongst communities."<sup>254</sup> This paradoxical double aspiration represents a generalization of his specific faith in an alliance between unruly investment psychology and economic policy, between "the spontaneous optimism" of "animal spirits"<sup>255</sup> and an "extension of the traditional functions of government."<sup>256</sup> It also evokes the writings of an interwar legal theorist who spoke in homologous fashion of the need for law to "model itself on the real movement of nationalities, on the pathos

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251. GENERAL THEORY, *supra* 32, at 317.

252. CLISSOLD, *supra* note 94, at 318.

253. Keynes makes this point in his review of CLISSOLD, *supra* note 94.

254. MY EARLY BELIEFS, *supra* note 93, at 433, 449.

255. GENERAL THEORY, *supra* note 32, at 161.

256. *Id.* at 379.



of an elemental force that arises in the history of peoples,"<sup>257</sup> while urging that this "creative, emotional passionate movement," this "tumultuous flood of history,"<sup>258</sup> "discipline itself in adapting to the conception of law from which it derives its legitimate title."<sup>259</sup>

The second element of modernist faith was belief in the wisdom, however "experimental," of the new policy authority—whether situated on the state or international levels—and its capacity to interpret and "canalize" unstable nationalist or economic forces. This assumption can be challenged in a variety of ways. A relatively generous form of this criticism would be to view the experimental policymaker as a tool in the hands of cynical manipulators. Thus, Keynes thought that Wilson had allowed his idealistic vision to be transformed into rhetorical cover for British and French political maneuvers at the Paris Peace Conference.<sup>260</sup> Keynes' friend, Duncan Grant, argued that Keynes should see his own wartime service in the British Treasury as providing Cambridge brains and legitimacy for crass ends: Grant wrote to Keynes that he was "a genie taken out of Kings . . . by savages to serve them faithfully for their savage ends, and then—back you go into the bottle."<sup>261</sup> A less generous view would be to view the policy recommendations as themselves embodying an arrogant will to power by the cultural sophisticate. One commentator has argued that "Bloomsbury fuelled Keynes' fantasies of elitist discretion imbued with pure motives . . . and encouraged his attempts to convert such fantasies into a real world expression."<sup>262</sup>

Sometimes these two criticisms—the will to power of the policy authority itself and its manipulation by nefarious forces—are combined. An extravagant version of this kind of criticism can be found in the 1919 attack by the Italian poet and war hero Gabriele D'Annunzio on the Paris Peace Conference in general and on Woodrow Wilson and his "Fourteen Points" in particular:

All the rebels of all the races will be gathered under our sign . . . .  
[T]he new crusade of all poor and free men against the usurping nations,  
the accumulators of all wealth, against the races of prey and against the

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257. REDSLOB, *supra* note 34, at 13.

258. *Id.* at 36.

259. *Id.*

260. See ECONOMIC CONSEQUENCES, *supra* note 9, at 27-55.

261. I ROBERT SKIDELSKY, JOHN MAYNARD KEYNES, HOPES BETRAYED 1883-1920, 321 (1983).

262. Charles Rowley, *John Maynard Keynes and the Attack on Classical Political Economy*, in DEFICITS 120 (James Buchanan, et. al, eds., 1987).

caste of usurers who yesterday exploited war in order to exploit peace today, the new crusade will reestablish that true justice that has been crucified by an icy maniac with fourteen dull points and with a hammer borrowed from the German Chancellor.<sup>263</sup>

Combining rhetoric of left and right, D'Annunzio thus saw Wilson as a mad power seeker in his own right *and* as a tool in the hands of both the "usurping nations" and an international cabal of "usurers." D'Annunzio sought to establish an "anti-League of Nations"<sup>264</sup> composed of "the rebels of all races" to oppose this kind of policy experimentation. D'Annunzio's speeches of this period are classics of the genre because they prefigure a wide variety of subsequent critiques of international experimentation—from Thirties' fascists to Sixties' Third Worldists.<sup>265</sup>

Yet, one need not be an adherent of any specific ideology to question the identification of the "best and brightest" policymakers with benevolent reason. As I have suggested, a key characteristic of the modernist position is its seemingly obsessive fear of the border-defying aspect of nationalist and business energy. The need to bind such energy, to "discipline" or "harness" it may indeed be reasonable in some circumstances, yet it may express an irrational fear of misunderstood forces in others. Moreover, this obsessive fear tends to be associated with a range of political and social prejudices, in our time as well as in the interwar period.

The fear that the Versailles recognition of self-determination would lead to destabilization by transnational nationalist forces affected the design of the policies for dealing with nationalist aspirations. A common criticism of the interwar minority protection system, for example, was that it reinforced trans-border links between members of ethnic groups either with states in which their ethnic group formed the majority<sup>266</sup> or with minority communities of their kin in other countries.<sup>267</sup> The de-

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263. MICHAEL A. LEDEEN, *THE FIRST DUCE: D'ANNUNZIO AT FIUME* 120 (1977).

264. *Id.* at 177.

265. *Id.* at vii-x, 120, 200-203.

266. The minority protection system was designed to prevent giving such "kin-states" any role in defending their "co-nationals" in other countries. *See Report of the Committee Instituted by the Council Resolution of March 7, 1929 in LEAGUE OF NATIONS*, SPEC. SUPP. 73, at 42, 63 (1929).

267. The Polish leader Paderewski tried to argue against the minority protection system by evoking the fear of the transnational power of the Jews. *Memorandum of M. Paderewski* (June 15, 1919) in *MINUTES OF THE COMMITTEE ON NEW STATES printed in X LA PAIX DE VERSAILLES: COMMISSION DES NOUVEAUX ETATS ET DES*

fenders of the system tried to show that the system was designed in such a way to restrain potentially uncontrollable trans-border forces.<sup>268</sup>

Keynes, as we have seen, feared the destabilizing effects of the transnational mobility of speculative capital for a good part of his career. In the Forties, some of the troubling aspects of this fear came out in his statements that countries could no longer tolerate the flight of funds for a variety of reasons, including the "anticipation of the owner turning refugee."<sup>269</sup> In the Thirties, as I have noted, Keynes had even participated in the unsavory political rhetoric of the time with his denunciations of the "decadent international but individualistic capitalism in the hands of which we found ourselves after the war."

There are many ways in which one can argue that these fears can often be misplaced, even without the odious politics with which they are sometimes associated. I would like to mention two of these ways because they seem particularly characteristic of our own time and show the potentially positive links between transnational economic and nationalist forces. Rather than exclusively portending uncontrollable violence, transnational ethnic connections often form the basis for productive economic links between various parts of the world. An American journalist has recently set out to show how ethnic diasporas, or "global tribes," have served throughout history as crucial agents of international economic development.<sup>270</sup> In the past, these "tribes" were indispensable for forging trade links; today, they often remain on the cutting edge of trade and technological innovation. Thus, the emphasis on reinforcing policy structures to control nationalist longings and capital flight may often be misplaced; for it is often ethnic loyalties which assure that capital movements are responsible and rational. Fidelity to the productive economy may be secured precisely through the combination of the two transnational forces of economic desire and ethnic solidarity.

Alternatively, transnational capital mobility may produce the conditions for the reinforcement of local community solidarity. Saskia Sassen has shown how the development of a hyper-mobile financial industry,

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MINORITÉS 129, 130 (1932).

268. See, e.g., Clemenceau's response to Paderewski, *Letter Addressed to M. Paderewski by the Conference Transmitting to him the Treaty to be signed by Poland under Article 93 of the Treaty with Germany* (June 24, 1919) in *id.* at 160, 164.

269. CURRENCY UNION, *supra* note 205, at 42, 53.

270. JOEL KOTKIN, TRIBES: HOW RACE, RELIGION AND IDENTITY DETERMINE SUCCESS IN THE NEW GLOBAL ECONOMY (1992). For some scholarly reservations and amendments to Kotkin's rather boosterish account, see Peter L. Berger, 95 *Commentary*, Apr. 1993, at 60.

made possible by seemingly dematerialized cyber-space, has led to increasing concentration of business in certain cities. "Paradoxically," Sassen concludes, "in particular instances, the local and the global will be partners, co-conspirators, indispensable allies."<sup>271</sup> This "paradox" is the post-modern converse of the modernist faith which I have been describing. An emphasis on international policy to regulate potentially destabilizing transnational energies may thus often be misplaced: for Sassen describes the possibility that the unleashed international energy of technological and economic innovation may bring renewed legitimacy and scope for local policy regulation. In Sassen's vision, we would reverse the more familiar associations with the local and the international: Sassen identifies avant-garde policy with local community solidarity, and unleashed energy with international business. Sassen's post-modern faith would believe in the possibility of a "paradoxical alliance" of this new configuration.

Thus, there are good reasons for thinking that modernist fears, fantasies, and faith are part of a rhetoric, rather than a logic—a rhetoric whose descriptive accuracy may be only fortuitous in relation to particular historical situations. This flexible rhetoric, composed of all of its alternative versions, is a structure of images whose hold on elite discourse has lasted at least a century. It is a rhetoric of unleashed energy flows and the "experimentalist" rationality that seeks to discipline them, a rhetoric with deep cultural connotations, rather than an inexorable logic of modern society. Sometimes the metaphor of energy, with its promises and dangers, is projected on underlying social forces, sometimes on the sophisticated policy makers. Sometimes the metaphor of productive rationality is projected on the policy makers, sometimes on the underlying social forces. Sometimes danger is said to come from the excessive unleashing of energy, by transnational speculation or trans-frontier nationalism, and sometimes from the magnification of avant-garde policy authority into a sadistic super-ego.

If we cannot give up this rhetoric, if its hold on us is too tenacious, we can at least become aware of its indeterminacy and manipulability, as well as of the cultural and historical connotations with which it has become associated. We can expose its deeply gendered and ethnically inflected imagery. We can become aware of the extent to which some of the more determined efforts to move outside this rhetoric often replicate some of its basic assumptions. We may claim no longer to believe fully in the modernist paradox, that of "an existence oriented solely

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271. Saskia Sassen, *In a Corner of the City*, in *NEWSDAY*, Jan. 12, 1992.

toward Boulevard Bonne Nouvelle, in rooms by Le Corbusier and Oud"<sup>272</sup>—to quote one of Keynes' culture-critic contemporaries. Yet, our own fears, fantasies, and faith continue to emerge out of the kinds of crisis moments that have served as the recurrent point of departure of much of twentieth century culture:

With the [First] World War a process began to become apparent which has not halted since then . . . For never has experience been contradicted more thoroughly than strategic experience by tactical warfare, economic experience by inflation, bodily experience by mechanical warfare, moral experience by those in power. A generation . . . now stood under the open sky in a countryside in which nothing remained unchanged but the clouds, and beneath those clouds, in a field force of destructive torrents and explosions, was the tiny, fragile human body.<sup>273</sup>

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272. WALTER BENJAMIN, *Surrealism* (1929) in REFLECTIONS 173, 189 (Jephcott trans. 1978).

273. WALTER BENJAMIN, *The Storyteller* (1936) in ILLUMINATIONS 83, 84 (Hannah Arendt ed. & Harry Zohn trans., Schocken Paperback 1969).