

History of Economics Review

ISSN: 1037-0196 (Print) 1838-6318 (Online) Journal homepage: <https://www.tandfonline.com/loi/rher20>

One Hundred Years Ago: John Maynard Keynes's *The Economic Consequences of the Peace*

edited by John Maynard Keynes, London: Macmillan, 1919; New York:
Harcourt, Brace and Howe, 1920, 298 pp.

Robert W. Dimand

To cite this article: Robert W. Dimand (2019) One Hundred Years Ago: John Maynard Keynes's *The Economic Consequences of the Peace*, History of Economics Review, 73:1, 1-13, DOI: [10.1080/10370196.2019.1656080](https://doi.org/10.1080/10370196.2019.1656080)

To link to this article: <https://doi.org/10.1080/10370196.2019.1656080>



Published online: 13 Oct 2019.



Submit your article to this journal



Article views: 95



View related articles



View Crossmark data



Citing articles: 1 View citing articles



One Hundred Years Ago: John Maynard Keynes's *The Economic Consequences of the Peace*

Robert W. Dimand

The Economic Consequences of the Peace, edited by John Maynard Keynes, London: Macmillan, 1919; New York: Harcourt, Brace and Howe, 1920, 298 pp.

'Bursting into International Fame'

Joseph Schumpeter, by no means an unqualified admirer of John Maynard Keynes or all of Keynes's works, argued in his *History of Economic Analysis* that even if John Maynard Keynes had never written his *General Theory* (1936), he 'would still have been the man who wrote *The Economic Consequences of the Peace* (1919), bursting into international fame when men of equal insight but less courage and men of equal courage but less insight kept silent' (1954, 1170). In his memorial article on Keynes, Schumpeter (1951, 266–7) elaborated that

the book is a masterpiece – packed with practical wisdom that never lacks depth; pitilessly logical yet never cold; genuinely humane but nowhere sentimental; meeting all facts without vain regrets but also without hopelessness; it is sound advice added to sound analysis. And it is a work of art. Form and matter fit each other to perfection.

The Economic Consequences of the Peace made John Maynard Keynes famous, the subject of intense praise and denunciation around the world (see, for example, Da Empoli 1991 on Italian responses). The book would have earned him a place in the history of his times even if he had never written another line. Before World War I, Keynes was known within British economics as a rising star, already by the age of 30 editor of the *Economic Journal*, secretary of the Royal Economic Society, author of a monograph on Indian currency and finance, and member of a Royal Commission on that subject. During the war Keynes took charge of external finance in the British Treasury, ranking below only the two Joint Permanent Secretaries, and after the war he represented the Treasury at the Paris Peace Conference, deputizing for the Chancellor of the Exchequer on the Supreme Economic Council, but he was not known to the world at large. That changed once Keynes resigned in 'misery and rage' and wrote his devastating analysis of the impracticality, futility and injustice of the economic and financial clauses of the Treaty of Versailles. Despite the mishap of 2000 unbound copies being thrown into the North Sea to keep the ship taking them from Edinburgh to London from capsizing in a storm,¹ by 22 April 1920, 18,500 copies had sold in the UK (not counting a cheap edition of 10,000 copies issued by the Labour Research Department) and nearly 70,000 in the United States (see Skidelsky 2003, 243–4), with translations that year or the next into French, German, Dutch,

Italian, Swedish, Spanish, Flemish, Romanian, Danish, Chinese, Japanese and Russian (the last of these published in Stockholm). Keynes had paid for the printing himself, with Macmillan receiving only 10% of the profits for distributing the book (which the firm had not expected to sell well), so he was suddenly prosperous as well as famous or notorious, contrary to the expectations of George Macmillan, who had considered a first printing of 5000 copies excessive and an American edition unnecessary. Keynes abruptly became a renowned public intellectual, seriously considered for the 1923 Nobel Peace Prize (Keynes 1971–89, vol. XVII, 104–7); no prize was given that year.

Reparations and the Transfer Problem

The central economic argument of *The Economic Consequences of the Peace* is summarized by Quentin Bell's recollection that, when Bell was a child in 1919, 'Keynes told me that he was going to Versailles to tell the Allies that the Germans could not pay what they had not got' (Bell 1968, 87). Keynes (1920, 36), likening the Treaty of Versailles to the harsh peace terms by which Rome destroyed any possibility of Carthage recovering power after the Punic Wars, announced that his 'purpose in this book is to show that the Carthaginian Peace is not *practically* right or possible' (italics in the original). But because the practical impossibility of carrying out the terms of the treaty, extracting reparations equal to four times Germany's prewar national income, meant that, in the words of Bell (1968, 100):

Versailles was not a 'Carthaginian' peace in the sense of being a peace that would permanently disable Germany – perhaps better if it had been; it was a peace such as that which the Samnians imposed upon the Romans, who were thereby humiliated but not permanently disarmed.

The British War Cabinet appointed a committee, chaired by Australian Prime Minister William Hughes, which advocated that Germany pay the full cost of the war, estimated at £24,000 million, perhaps 11 times Germany's prewar national income. This estimate included all military costs including military pensions and separation allowances, even though Britain and France, when accepting President Wilson's Fourteen Points as the basis for an armistice with Germany, had only reserved a claim for German reparation for direct damage to the civilian population and civilian property,² and Germany had surrendered on those terms – see Elcock (1975, 164–5, 168–9). British Prime Minister David Lloyd George won the general election of November 1918 by promising to extract the full cost of the war from Germany³ and to 'Hang the Kaiser' (on which see Schabas 2018), but seems to have regarded the claim for full costs as a means to increase the British Empire's share of such reparations as Germany could afford to pay relative to France and Belgium (see, for example, Kent 1989). Hughes and the other two British representatives on the Reparations Commission, Lord Cunliffe, a former Governor of the Bank of England, and Lord Sumner, a Lord of Appeal (appellate judge), were more serious about obtaining the full cost of the war (as was British public opinion at the time of the election) and were unmoved by the implication that the reparations-receiving countries would have to run trade deficits with Germany equal to the transfers: demands

for payment of full costs were often paired with protectionist demands to keep German goods out of British Empire markets.⁴

At the conference, while the British and French agreed that the Reparations Commission should calculate how much Germany could pay over 30 years, the French insisted that if this sum came to less than the full cost of the war, German payments should continue indefinitely until the full cost was covered; see Elcock (1975, 170). Like Tardieu (1921), Trachtenberg (1980) argued that Clemenceau and his colleagues were in fact moderate about reparations,⁵ driven to make grandiose demands only by British vindictiveness against Germany (Marc Trachtenberg viewed Britain's claim for pensions and other war costs as an attempt to increase Germany's liability rather than to increase the British Empire share) and by the refusal of the United States to continue inter-Allied control of raw materials, finance, transportation and food after the war. Since the raw materials, finance, transportation and food to be controlled were American, any such proposal for continued shared inter-Allied control was doomed to American rejection from its inception. More persuasively, Harold Nicolson emphasized that it was not yet decided in the early stages of the conference whether what was being drafted was a final treaty to be imposed on Germany or merely a basis for negotiation with Germany. Nicolson (1933, 100) writes:

Many paragraphs of the Treaty, and especially in the economic sections, were in fact inserted as 'maximum statements' such as would provide some area of concession to Germany at the eventual Congress. This Congress never materialized ... Had it been known from the outset that no negotiations would ever take place with the enemy, it is certain that many of the less reasonable clauses of the Treaty would never have been inserted ... This ... was most serious and has not, except by Mr. Keynes, been sufficiently stressed.

Keynes (1920, 28) pointed out that:

When the final result is expected to be a compromise, it is often prudent to start from an extreme position; and the French anticipated at the outset – like most other persons – a double process of compromise, first of all to suit the ideas of their allies and associates, and secondly in the course of the Peace Conference proper with the Germans themselves.

Keynes (1920) stressed that once Germany's foreign securities, overseas assets, gold reserves and remaining merchant marine had been transferred (amounting to at most \$3 billion), further reparations required German export surpluses equal to the reparation payments, matched by trade deficits in the transfer-receiving countries – trade imbalances not acceptable to protectionists who nevertheless wanted massive reparations. Keynes recommended that Germany be required to make a flow of payments equivalent to an annuity with a capital value of £2000 million (approximately US\$10 billion), roughly equal to Germany's prewar national income but much less than the US\$33 billion specified in the treaty. Actual payments, beyond the initial transfer of gold, ships and overseas assets, were trivial compared to the sum demanded, but Keynes (1922, 3) insisted:

I do not admit error in having *The Economic Consequences of the Peace* on a literal interpretation of the Treaty of Versailles, or in having examined the results of actually

carrying it out. I argued that much of it was *impossible*; but I do not agree with many critics, who held that, for this very reason, it was also harmless.

The impossibility of extracting from Germany several times its national income, and the conflict, bitterness and instability that would result from attempting to do so, was Keynes's theme, not a reason for brushing aside his analysis. The terms of a Carthaginian peace were impossible to achieve, without resorting to the methods of Nazi Germany in occupied France. To try to impose a Carthaginian peace but fail, whether on the terms envisioned by Hughes, Cunliffe and Sumner or only those embodied in the actual treaty, was to have only a Samnian peace, laying the groundwork for future conflict without obtaining the desired transfer of wealth.

Keynes managed to make a vital difference on one issue. French insistence that reparations payments take priority over paying for imports prevented Germany and Austria using gold or foreign exchange to pay for food imports. As Keynes later recounted to the Memoir Club (see Keynes 1949), Lloyd George was able to use harrowing accounts of malnutrition and starvation to get French agreement to let Germany pay for food imports provided that the German delegates were not told of that decision until after they had reiterated their agreement to hand over what remained of the German merchant marine. Keynes was able to arrange informally with Carl Melchior, a Hamburg banker advising the German delegation (see Keynes 1949; Melchior 1922), for such a pledge, after which the food trains could roll into Germany.

Keynes decried as extreme and unattainable the changes in the terms of trade that would be required to increase German manufactured exports sufficiently to cover even the reduced reparations payments of the later Young and Dawes Plans, let alone those originally specified in the Treaty of Versailles. In an *Economic Journal* exchange with Keynes, the Swedish trade theorist Bertil Ohlin (1929a, 1929b) argued that the adjustment in trade balances could be achieved through changes in the equilibrium levels of national income in Germany and in reparations-receiving countries, not just through changes in the terms of trade. As Ohlin (1974) remarked, he had been more 'Keynesian' (in the sense of the *General Theory*) than Keynes in their 1929 exchange about the German transfer problem (see also Rueff 1929; Oppenheimer 1974).

The Conference

In his preface to *The Economic Consequences of the Peace*, Keynes stressed that 'The grounds of his objections to the Treaty, or rather to the whole policy of the Conference towards the economic problems of Europe ... are entirely of a public character, and are based on facts known to the whole world.' Keynes (1919, 30), describing how US President Woodrow Wilson was overwhelmed by the dexterity of British Prime Minister David Lloyd George and the determination of French Premier Georges Clemenceau, was careful to emphasize that he depicted only the scene 'in the room in the President's house, where the regular meetings of the Council of War were held (as distinguished from their private and unattended conferences in the smaller chamber below)'. Despite such statements, Clemenceau's interpreter Paul Mantoux circulated what he regarded as the sensational rebuttal that Keynes had only attended the regular

meetings of the Council of Four, with their technical advisers, but had not attended their private and unattended meetings. Skidelsky (1983, 398n) quotes Mantoux's statement in *The Times*, 14 February 1920; see Mantoux [1955] 1992 for his notes on the meetings of the Council of Four. The minutes of the Council of War (only kept for the later meetings, usually by Colonel Sir Maurice Hankey, secretary to the British War Cabinet) record Keynes's attendance at eight sessions from 7 April to 4 June 1919, and on 29 April Keynes took the minutes in Hankey's absence (Moggridge 1992, 340).

Keynes (1920, chapter III) vividly portrayed Wilson being 'bamboozled' by Lloyd George and then Wilson's stubborn pride preventing Lloyd George 'de-bamboozling' him when Lloyd George at the last moment desired moderation. This chapter provoked considerable outrage but less from Lloyd George than might have been expected. Josiah Stamp wrote to Keynes on 8 February 1920, quoting J. C. C. Davidson (then private secretary to the Chancellor of the Exchequer), that 'while parts of [the book] made [Lloyd George] wild, on the whole he liked it, "for it showed he was a cleverer man than Wilson" which after all is the thing that matters!' (in Hemery 1991, 46, 53n22). According to A. J. P. Taylor (1965, 136–7):

Ironically, much of the outcry against the peace treaty had been engineered by Lloyd George himself. During the peace conference he tried to strengthen his hand by stirring up a campaign for conciliation among Liberal journalists and Labour leaders ... The campaign was intended to hit the French and the men of violence at home.

Lloyd George would have liked *The Economic Consequences of the Peace* considerably less had not, among several others, former Prime Minister H. H. Asquith dissuaded Keynes from including a harsher character sketch of Lloyd George. The eventual publication of that sketch by Keynes (1933, 31–41) in his *Essays in Biography*, following a reprint of his 1919 chapter on the Council of Four, definitively ended his collaboration with Lloyd George, whose 1929 campaign to end unemployment by public works Keynes had eloquently supported, and moved Lloyd George to strike back bitterly in his memoirs (see Lloyd George 1938; compare Lloyd George 1932).

Keynes's treatment of Clemenceau differed sharply from his unflattering portrayal of Wilson and Lloyd George:

Clemenceau was by far the most eminent member of the Council of Four, and he had taken the measure of his colleagues. He alone both had an idea and had considered it in all its consequences ... One could not despise Clemenceau or dislike him, but only take a different view as to the nature of civilized man, or indulge, at least, a different hope ... He felt about France what Pericles felt about Athens – unique value in her, nothing else mattering; but his theory of politics was Bismarck's. He had one illusion – France; and one disillusion – mankind, including Frenchmen, and his colleagues not least. (Keynes 1920, 29, 32)

Critics of Keynes's chapter on the conference, offended by Keynes's remarks about Wilson or Lloyd George, often found it more convenient to pretend that Keynes had written scurrilously about Clemenceau. Thus, the great Cambridge physicist J. J. Thomson, president of the Royal Society when Keynes was apparently blackballed for membership, complained that Keynes 'merely got easy publicity by mentioning things that he could have known only by being in the public service, such as Clemenceau wearing mittens' (quoted by Davenport-Hines 2015, 121), mittens being Thomson's

mis-remembering of Keynes, in describing Clemenceau, referring to Clemenceau wearing gloves. The single sentence by Keynes (1920, 29–30) about how Clemenceau dressed also brought a mild rebuke from Etienne Mantoux (1946, 134n), although Mantoux's objection was the mention of Clemenceau's unusual shoe-buckles. Nonetheless Mantoux (1946, 46) judged that Keynes's portrait of Clemenceau 'was masterly, and it is beyond anyone's power to excel it'. In contrast, the historian Margaret Macmillan, Lloyd George's great-granddaughter, insists that 'Keynes had come to loathe the French' and 'the vengeful, grasping Clemenceau' (see Macmillan 2002, 181–2).

Keynes was not the only observer to impugn the dignity of the Council of War. British diplomat Harold Nicolson recorded in his diary for 13 May 1919, that when it was remarked that the League Covenant's article on mandates called for respect for 'the consent and wishes of the people concerned', Italian Premier 'Orlando's white cheeks wobble with laughter and his puffy eyes fill with tears of mirth' (see Nicolson 1933, 334).

Considering what the Great Depression was later to do to Herbert Hoover's reputation, it is striking that Keynes (1920, 274) held that 'Mr. Hoover was the only man who emerged from the ordeal of Paris with an enhanced reputation', who 'imported into the Councils of Paris, when he took part in them, precisely that atmosphere of reality, knowledge, magnanimity, and disinterestedness which, if they had been found in other quarters also, would have given us the Good Peace', and that Hoover's American Relief Commission 'not only saved an immense amount of human suffering, but averted a widespread breakdown of the European system'.

In the words of Margaret Macmillan:

At four o'clock in the morning of May 7, the day the Germans got the terms, Herbert Hoover, the American relief administrator, had been woken by a messenger carrying a copy of the treaty fresh from the presses. Like everyone else, he had never before seen it as a whole. The sheer scope, the cumulative impact of all the provisions, worried him. Unable to get back to sleep, he wandered out into the empty Paris streets. There, as day was breaking, he ran into Jan Smuts and John Maynard Keynes. 'We agreed,' Hoover recalled years later, 'that the consequences of many parts of the proposed Treaty would ultimately bring destruction.' (Macmillan 2002, 467)

Reception and Criticism

According to Douglas Jerrold (grandson and namesake of one of the founders of *Punch*), Keynes's views on the peace treaty were shared by others at the Treasury, although Keynes was the only one to make them public. Jerrold (1937, 239–40)

found in the Treasury files many memoranda expressing in forcible terms what came to be famous as Mr. Keynes's ideas, but the memoranda were hand-written and the writing was not that of J. M. Keynes but of [Ralph] Hawtrey and Basil Blackett ... Far be it from me to suggest that Keynes's voice did not cry forcibly and eloquently at the time in what might be called a wilderness, but it was expressing nothing more or less startling than the current orthodoxy in Treasury Chambers ...

But he agreed that Keynes 'after all, had done nothing more than tell the truth'. Hawtrey wrote to Keynes on 18 December 1919 that he was 'full of admiration', but

did not claim any share in originating Keynes's analysis of the treaty (see Hemery 1991, 41). Blackett, who was Controller of Finance at the Treasury from 1919 to 1922 (and who had brought Keynes to the Treasury in August 1914), wrote four memoranda in 1920 and 1921 urging unilateral cancellation of inter-Allied war debts to Britain, to be followed by a moratorium on German reparations, in hope of a treaty revision such as Keynes had proposed. When he failed to persuade the government, 'Blackett sent his rejected Cabinet memoranda to Keynes, asking him to have them published anonymously so that at least the weight of his argument might bear upon outside opinion' (see Hemery 1991, 51, 54). Although many of Keynes's wartime colleagues sent him private messages of congratulation and agreement, including the Chancellor of the Exchequer, Austen Chamberlain,⁶ who 'chortled with joy' at Keynes's chapter on the conference, none would say so publicly, and Foreign Office officials were much less appreciative of Keynes's book (and less inclined to judge the peace treaty by its economic implications) than their Treasury counterparts (Hemery 1991, 46–8; Davenport-Hines 2015, 113–14, 118–19).

Regarding Jerrold's claim that Keynes's *Economic Consequences* simply publicized the prevailing orthodoxy in the Treasury, shared by Blackett and Hawtrey in 1919, it is noteworthy that Keynes drew attention within the government to the transfer problem of postwar reparations years before the peace conference. Keynes and the economic historian Sir William Ashley of the University of Birmingham (at the Board of Trade during the war) argued in a memorandum to the Board of Trade on 2 January 1916, that the indemnity of five milliard francs paid over four years that Germany extracted from France after the Franco-Prussian War of 1870–71 disrupted Germany's balance of payments and financial markets, sparking an unstable boom that collapsed in 1873, but that such disruptions could have been avoided if the indemnity had been spread over a longer period (Keynes 1971–89, vol. XVI, 313–34; Elcock 1975, 163; Kent 1989, 28–30; Skidelsky 2003, 217). According to Keynes and Ashley, reparations would benefit the recipients if paid gradually over many years but were problematic if transferred quickly in large amounts.

In the back pages of his sequel, *A Revision of the Treaty* (1922), Keynes gleefully reprinted such denunciations as that of the *Cincinnati Enquirer* on 24 April 1920:

Such superficial books as that of J. M. Keynes are the work of the most dangerous pseudo-idealists or hidebound 'liberals.' Nine times out of ten their authors are disgruntled, egotistical, clever 'mugwumps' with that tyrannous, schoolmasterish habit of mind which prefers the real or apparent enforcement of its 'cure-alls' to the attainment of plain truth and justice.

And that of 'Realist' in the *English Review* in March 1921: 'The operation of indemnity-payment must be followed through to its remorseless end ... The cry "Germany must pay" has still a good healthy sound about it.' Keynes reprinted the pronouncement of the *Liverpool Courier* on 2 February 1921, that:

In the eyes of the world – at least, of the world that is not pro-German – the reparation costs are wholly inadequate. It is true that in the eyes of Mr. J. M. Keynes it is wicked to charge Germany with the cost of war pensions, but we imagine that the average man with a simple sense of simple justice does not agree with Mr. Keynes.

But Keynes was able to balance these diatribes with assessments by more authoritative commentators such as Frank Taussig of Harvard in the *Quarterly Journal of Economics*:

I find myself in general accord with what Mr. Keynes says. He makes out an estimate of what Germany can do in the way of reparation ... The maximum cannot, in his judgment, exceed ten billions of dollars. Some such figure, it is not improper to say, was reached independently by Professor A. A. Young in his estimates for the American financial advisers.

A British popular newspaper, the *Star*, wrote in an editorial on 13 February 1920, that 'We are all Keynesites now' (Hemery 1991, 39).

In a notable review of Keynes's book, Thorstein Veblen rebuked Keynes for naively failing to recognize the apparently harsh economic terms of the Treaty of Versailles as a charade, not intended to be carried out and merely providing cover for the inner meaning of the peace settlement, the uniting of Germany with its former enemies in a crusade against Russian Bolshevism (Veblen and Keynes 1920). The Treaty of Rapallo between Germany and the Soviet Union in 1922 indicates that the German and Soviet governments were as naive as Keynes in overlooking that aspect of the treaty. The French occupation of the Ruhr in 1923–24 suggests a genuine desire to be paid, although the occupation did more to bankrupt the German government (which resorted to printing money) and to intensify German nationalism than to extract reparations payments.

Influence and Consequences

Etienne Mantoux (1946, 9–11), the son of Clemenceau's interpreter at the conference, blamed Keynes's *Economic Consequences of the Peace* for the rejection of the Versailles peace treaty by the US Senate and thus, because US participation was crucial for the success of the League of Nations and the postwar settlement (including the joint Anglo-American guarantee of French security against Germany), for World War II. Noting that *The Economic Consequences of the Peace* was published in London in December 1919 and in New York in January 1920, Mantoux (1946, 10–11) quoted the use made of Keynes's book by the isolationist Republican Senator William Borah in debate on 10 February 1920 (the day after the Senate voted to reconsider the treaty), before ratification 'was finally defeated' in March. Mantoux did not suggest that the views upheld by Borah and the other isolationist Senators were changed in any way by Keynes's book, only that Borah quoted Keynes at length in support of a stand he had already taken. Making his case for the role of Keynes's book, Mantoux refrained from mentioning that the treaty was twice defeated by the Senate on 19 November 1919, first without and then with reservations proposed by Senator Henry Cabot Lodge (Republican chair of the Senate Foreign Relations Committee), before the publication of *The Economic Consequences of the Peace*. In addition to reiterating the Monroe Doctrine against any European meddling in the Western Hemisphere and rejecting any international army or navy, Lodge's reservations insisted that the exclusive constitutional right of Congress to declare war superseded any treaty clause, giving the President the power to commit the United States to military action. The exercise of such power by US Presidents since the Korean 'police action' suggests that Lodge's

concern was not groundless. Mantoux also refrained from stating that when the Versailles treaty was finally rejected by the Senate on 19 March 1920, the treaty with Lodge's reservations (which both Lloyd George and Clemenceau declared acceptable to them) came within seven votes of the necessary two-thirds majority and failed only because of Wilson's refusal to countenance any reservations or amendments or any compromise with the Republican majority in the Senate. Twenty-three Democratic Senators followed Wilson's orders to join the isolationists in denying a two-thirds majority to the treaty with Lodge's reservations, while 21 Democrats voted with the majority (Blitch 1991, 56, 64–6). The Versailles treaty was not rejected by the US Senate because of Keynes's *Economic Consequences of the Peace* but because of Wilson's insistence that Lodge and the Republican majority accept the treaty exactly as Wilson had signed it. Lodge's name does not appear in the index of Mantoux (1946).

Andrew Roberts, quoting at length (Roberts 2006, 160–2) from Mantoux's 'brilliant and persuasive exposé of the myriad faults in Keynes's critique of Versailles', also condemns Keynes, because 'The refusal of the US Senate to ratify the Versailles Treaty – perhaps America's most fateful and worst decision in the history of the twentieth century – was itself ratified by Keynes's book published that same month.' Roberts (2006, 163–4) does later mention the Senate's 55 to 39 rejection of the treaty in November 1919 (before Keynes published), and what aspects of the treaty Lodge wished to change, but follows Mantoux in not reporting that the treaty was ever voted on with Lodge's reservations, that the Senate voted to reconsider the treaty a month after the American publication of Keynes's book, or that it would have been ratified in March 1920 had not Wilson ordered his loyal supporters to vote against ratification with those reservations.

Keynes (1920, 1922) did much to persuade readers, especially in Britain, the United States, Germany and Austria but not France, that the economic terms of the Versailles treaty were unworkable and unjust (or to confirm them in already-held beliefs to that effect). Reparations and the related problem of inter-Allied war debts (see Horn 2003) were the subject of intense and complicated negotiation through the Young Plan and Dawes Plan to the Hoover moratorium of 1932, a supposed one-year moratorium on both reparations and inter-Allied debts that is still in effect (see Kent 1989). The reparations payments made by Germany were exceeded by American loans to Germany on which the Third Reich eventually defaulted (see Schuker 1988). But Germany would have resisted making reparations payments supposed to equal four times its national income and would have resented attempts to extract such payments regardless of whether Keynes had ever written about the transfer problem or about how the extension of reparations beyond direct damage to civilian property violated the terms on which Germany surrendered. The contradiction between making such huge transfers and taking a protectionist stand against German exports would have been the same whether Keynes drew attention to it or not. Etienne Mantoux (see Mantoux 1946) insisted that the reparations could have been obtained if Germany had been treated after World War I as harshly as Nazi Germany treated occupied France in World War II, but no one contemplated such measures in the 1920s. (See McIntosh 1977 on Keynes versus Mantoux on reparations and German income).

The greatest effect of *The Economic Consequences of the Peace*, and its role in shaping the climate of opinion, may be seen in the aftermath of World War II. Mantoux

(1946, 184) insisted that reluctance to exact reparations from Germany after World War II ‘amounted to telling Germany: “Go, and sin again! Kill, burn, bomb, levy, plunder, ravish, deport, devastate, massacre: whatever you may do, you will be held to no account.”’ In contrast, Keynes urged in wartime Treasury memoranda that:

this time, there will not be post-armistice starvation of Germany ... that *after the war is over* we shall not continue starvation and unemployment as an instrument for enforcing our political settlement ... I cannot see how the rest of Europe can expect economic reconstruction if Germany is excluded from it and remains a festering mass in their midst. (quoted in Moggridge 1992, 767, emphasis in original; see also Moggridge 1992, 766–73)

The Morgenthau Plan for eliminating Germany’s economic means of waging war by deindustrializing Germany (named after the US Treasury Secretary and briefly endorsed at the August 1943 Quebec conference between President Roosevelt and Prime Minister Churchill) was ultimately not adopted.⁷ Rather than attempting to extract massive postwar reparations, the United States through the European Recovery Program (the Marshall Plan, named after the postwar US Secretary of State who had been wartime Army Chief of Staff) and its counterpart for Japan subsidized the economic reconstruction of both allies and vanquished enemies in Western Europe and Japan, at an annual cost that reached 3% of US gross domestic product (comparable to the contrast between Lend-Lease in World War II and the accumulation of Allied war debts to the US in World War I). The Soviet Union, in contrast, took substantial reparations in kind from its zone of occupation in eastern Germany. Undoubtedly Cold War considerations about limiting the spread of Soviet influence mattered for the decision to launch the Marshall Plan, but so did recollections of the futility and ill will of attempts to recover the cost of World War I through reparations. What Keynes saw as the mistakes of the Paris conference and Versailles treaty were not repeated after World War II. Even Keynes’s dream of a European Free Trade Union, of which he hoped Britain would be an original member (Keynes 1920, 265), came to eventual fruition, although Britain was not an original member and is now leaving.

Robert W. Dimand
Brock University
rdimand@brocku.ca

Notes

1. ‘Many of these copies were washed ashore in Denmark, dried out and sold. This says much for the entrepreneurial spirit of the Danish beachcombing community and for the efficiency of their tumble driers, as well as for the power of Keynes’s ideas’ (Hemery 1991, 53n9).
2. Colonel House, then President Wilson’s closest adviser, told the British and French that ‘The President had insisted on Germany’s accepting all his speeches, and from these you could establish almost any point you wished against Germany’ (quoted by Lloyd George 1938, vol. 1, 80). As Harold Nicolson (1933, 16) observed, ‘it is difficult to resist the impression that the Enemy Powers accepted the Fourteen Points as they stood; whereas

the Allied Powers accepted them only as interpreted by Colonel House'. Etienne Mantoux (1946, 54), after quoting these two passages, remarked that 'Mr. Keynes could be excused for being, at the time, unaware of this most unsatisfactory situation.' Mantoux (1946, 55) nonetheless held that this situation, unsatisfactory or not, disposed of Germany's claims that Allied demands should be limited by the Fourteen Points subject only to the two reservations openly made by Britain and France before the Armistice: 'Mr. Keynes's interpretation of the "pre-Armistice Contract," whether he wished it or not, would thus have forced President Wilson on to Germany's side every time', therefore Mantoux did not consider the Armistice terms a contract.

3. A. J. P. Taylor (1965, 127n) notes that former Prime Minister H. H. Asquith and former Foreign Secretary Sir Edward Grey, Liberals opposed to Lloyd George, were the first British politicians to demand German reparations to Belgium and France, and that Sir Donald Maclean, leader of the Asquithian remnant after the election, strongly protested abandonment of the trial of the Kaiser.
4. Germany had imposed extremely harsh terms on Soviet Russia in the Treaty of Brest-Litovsk in March 1918. On 9 September 1914, Reich Chancellor Bethman-Hollweg outlined German war aims including 'a war indemnity, to be paid in installments ... high enough to prevent France from spending any considerable sums on armaments in the next 15–20 years'. The next month he obtained memoranda from the heads of the five major Berlin joint-stock banks and three private banks on how much France and Belgium could pay, stressing that the bankers 'were not to confine themselves to naming large sums, but were to concern themselves primarily with the modalities of payment and the security for it'. Already on 28 August Walter Rathenau had proposed demanding from France an indemnity of 40 thousand million gold francs, eight times the indemnity paid by France after the Franco-Prussian War (Fischer 1967, 104, 117–18).
5. It is of course true that whatever level of reparations Clemenceau, Klotz, Loucheur and Tardieu demanded, their domestic political opponents would be able to think of a higher number and would demand that. Mantoux (1946, 48) quoted at length Clemenceau's speech to the French Senate on 11 October 1919, arguing against demands to permanently destroy Germany's economy: 'Yet, if we want Germany to pay Reparations, she will have to work.' Clemenceau was defeated for the Presidency of the Republic in 1920 amid claims that the Treaty of Versailles was too soft on Germany.
6. Keynes's links to his Treasury colleagues extended beyond the happenstance of his joining them as a temporary civil servant in wartime. In 1913, Austen Chamberlain had chaired the Royal Commission on Indian Currency and Finance, of which Keynes was a member and Basil Blackett was secretary. Hawtrey, the only economist among the permanent Treasury officials, was treasurer of the Royal Economic Society, of which Keynes was secretary.
7. Roberts (2006, 381) rejects as a myth any influence of Keynes's critique of the Versailles treaty on the post-World War II settlement since the possibility of German rearmament was not an issue in 1945 and because he surprisingly holds that Germany was treated more sternly after World War II than in the Versailles treaty, but does not mention the Morgenthau Plan, which would have impoverished and deindustrialized Germany to prevent rearmament.

References

- Bell, Q. 1968. *Bloomsbury*. London: George Weidenfeld & Nicolson.
- Blitch, C. P. 1991. 'American Responses to Keynes's *The Economic Consequences of the Peace*.' In *Perspectives on the History of Economic Thought*, edited by W. J. Barber, vol. VI, 55–67. Aldershot, UK: Edward Elgar for the History of Economics Society.
- Da Empoli, D. 1991. 'The Impact of Keynes's *The Economic Consequences of the Peace* in Italy, 1919–1921.' In *Perspectives on the History of Economic Thought*, edited by W. J. Barber, vol.

- VI, 68–74. Aldershot, UK, and Brookfield, VT: Edward Elgar for the History of Economics Society.
- Davenport-Hines, R. 2015. *Universal Man: The Seven Lives of John Maynard Keynes*. London: William Collins.
- Elcock, H. 1975. 'J. M. Keynes at the Paris Peace Conference.' In *Essays on John Maynard Keynes*, edited by Milo Keynes, 162–176. Cambridge: Cambridge University Press.
- Fischer, F. 1967. *Germany's Aims in the First World War*, with an introduction by H. Holborn and J. Joll. New York: W. W. Norton.
- Hemery, J. A. 1991. 'Something and Nothing: The Impact of J. M. Keynes's *The Economic Consequences of the Peace* in Britain, 1919–1921.' In *Perspectives on the History of Economic Thought*, edited by W. J. Barber, vol. VI, 39–54. Aldershot, UK: Edward Elgar for the History of Economics Society.
- Horn, M. 2003. *Britain, France, and the Financing of the First World War*. Kingston, Ont.: McGill-Queen's University Press.
- Jerrold, D. 1937. *Georgian Adventure: The Autobiography of Douglas Jerrold*. London: The 'Right' Book Club, 1938.
- Kent, B. 1989. *The Spoils of War: The Politics, Economics, and Diplomacy of Reparations 1918–1932*. Oxford: Clarendon Press.
- Keynes, J. M. 1920. *The Economic Consequences of the Peace*. New York: Harcourt, Brace and Howe.
- Keynes, J. M. 1922. *A Revision of the Treaty, Being a Sequel to the Economic Consequences of the Peace*. London: Macmillan.
- Keynes, J. M. 1933. *Essays in Biography*. London: Macmillan.
- Keynes, J. M. 1936. *The General Theory of Employment, Interest and Money*. London: Macmillan.
- Keynes, J. M. 1949. *Two Memoirs: Dr. Melchior, a Defeated Enemy, and My Early Beliefs*. London: Rupert Hart-Davis.
- Keynes, J. M. 1971–89. *The Collected Writings of John Maynard Keynes*, 30 vols, general edited by D. E. Moggridge and E. A. G. Robinson, volumes edited by E. S. Johnson and D. E. Moggridge. London: Cambridge University Press; New York: Macmillan for the Royal Economic Society.
- Lloyd George, D. 1932. *The Truth about Reparations and War Debts*. London: Oldhams.
- Lloyd George, D. 1938. *The Truth about the Peace Treaties*, 2 vols. London: Oldhams.
- Macmillan, M. 2002. *Paris 1919, Six Months That Changed the World*. New York: Random House.
- Mantoux, E. 1946. *The Carthaginian Peace or the Economic Consequences of Mr. Keynes*, with an introduction by R. C. K. Ensor and foreword by P. Mantoux. London: Oxford University Press; New York: Charles Scribner's Sons, 1952.
- Mantoux, P. 1955. 1992. *The Deliberations of the Council of Four*, 2 vols, translated and edited by A. S. Link. Princeton, NJ: Princeton University Press.
- McIntosh, D. A. 1977. 'Mantoux versus Keynes: A Note on German Income and the Reparations Controversy.' *The Economic Journal* 87 (348): 765–767. doi:10.2307/2231369.
- Melchior, C. 1922. 'The Collapse of the Mark and the Problem of Stabilisation.' In *Manchester Guardian Commercial Supplements on Reconstruction in Europe*, edited by J. M. Keynes, 26, 20 April.
- Moggridge, D. E. 1992. *Maynard Keynes: An Economist's Biography*. London: Routledge.
- Nicolson, H. 1933. *Peacemaking 1933*. London: Constable; revised ed., London: Methuen, 1964.
- Ohlin, B. 1929a. 'The Reparations Problem: A Discussion. I. Transfer Difficulties, Real and Imagined.' *Economic Journal* 39: 172–178.
- Ohlin, B. 1929b. 'Mr. Keynes' Views of the Transfer Problem. II. A Rejoinder.' *Economic Journal* 39: 400–404.

- Ohlin, B. 1974. ‘On the Slow Development of the “Total Demand” Idea in Economic Theory: Reflections in Connection with Dr. Oppenheimer’s Note.’ *Journal of Economic Literature* 12: 888–896.
- Oppenheimer, P. M. 1974. ‘Non-Traded Goods and the Balance of Payments: A Historical Note.’ *Journal of Economic Literature* 12: 882–888.
- Roberts, A. 2006. *A History of the English-Speaking Peoples since 1900*. London: Weidenfeld and Nicolson; New York: Harper.
- Rueff, J. 1929. ‘Mr. Keynes’ Views on the Transfer Problem. I. A Criticism.’ *Economic Journal* 39: 368–399.
- Schabas, W. A. 2018. *The Trial of the Kaiser*. Oxford: Oxford University Press.
- Schuker, S. A. 1988. *American ‘Reparations’ to Germany, 1919–33: Implications for the Third-World Debt Crisis*, 61. Princeton, NJ: Princeton University Department of Economics, International Finance Section, Princeton Studies in International Finance.
- Schumpeter, J. A. 1951. *Ten Great Economists: From Marx to Keynes*. New York: Oxford University Press.
- Schumpeter, J. A. 1954. *History of Economic Analysis*. New York: Oxford University Press.
- Skidelsky, R. 1983. *John Maynard Keynes: Hopes Betrayed, 1883–1920*. London: Macmillan.
- Skidelsky, R. 2003. *John Maynard Keynes 1883–1946: Economist, Philosopher, Statesman*. London: Macmillan.
- Tardieu, A. 1921. *The Truth about the Peace Treaties*. Indianapolis: Bobbs-Merrill.
- Taylor, A. J. P. 1965. *English History 1914–45*. Oxford: Oxford University Press.
- Trachtenberg, M. 1980. *Reparations in World Politics: France and European Economic Diplomacy, 1916–1923*. New York: Columbia University Press.
- Veblen, T. 1920. ‘Review of *The Economic Consequences of the Peace* by J. M. Keynes.’ *Political Science Quarterly* 35 (3): 467–472. doi:[10.2307/2142587](https://doi.org/10.2307/2142587).