

## The Economic consequences of the Peace

*John Maynard Keynes*

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As is well-known Keynes was part of the British delegation during the Peace conference in Paris 1919. He resigned in protest, appalled at the unrealistically punitive terms of the Peace treaty dictated to the Germans. He predicted that those would lead to economic disaster and the book was hastily put together finished already in the fall of that year. The book is basically a pamphlet, arguing his case with passionate urgency, and although masterly at times, most of it, at least eighty odd years afterwards, reads tediously.

The introductory pages are simply marvellous. Keynes has the gift of the grand overview as well as the telling detail. You feel in the company of a great intellect, lucid, witty and urbane. In a few strokes with the brush he paints the progress of the past fifty years, how Germany after its unification consolidated by the Franco-Preussian War of 1870-71, had developed from a basically agricultural society into a powerful industrial one, sustaining in the process a population increase from 40 million to almost 70 millions on the verge of the World War. A similar development took place in Russia, and also in the Austrian-Hungarian empire (which along with the Ottoman empire made up the four pillars on which Central and Eastern Europe rested). The upshot was that while before economies were local and self-sustained, in the Modern world, they were fundamentally interconnected and could not be isolated.

His thumb-nail sketches of Clemenceau and Wilson are gems of condensation and insight. Clemenceau is quickly delineated by a few strokes by the pen. To him Germany is the foe, just like Carthago was the foe of Rome, and there is only one goal, to weaken her as much as possible to prevent her from rising up again to strike. Clemenceau is locked in an old frame of thinking, in which Nation states are transcendental entities to be expressed in glory. Thus to him everything is simple, no need for him to carry any papers, to surround himself with a large staff, to engage in subtle negotiations, he may remain aloof, saying little except for the intermittent cynical remark. Keynes notes his curiously buckled boots, his tail-coat of thick black cloth and his never hands never unclad.

Wilson is different. Initially hailed as a hero with his fourteen points, the head of the true victors of the war - the Americans, set about to be magnanimous and usher the world into a new era of understanding and no wars, the League of nations being the favourite of his brood of fourteen. But Wilson was to disappoint. His marvelous Fourteen points were not based on any thought-out foundation, his staff of experts were kept short and included no real expertise. Wilson in fact was not of an intellectual bent, his approach was theological. Keynes was struck by the slowness of his mind, no match to the quick-witted Lloyd-George, who was, however, if equally ignorant, yet able to quickly seize up a situation, catch the meat of an argument and to return on his feet. Wilson lacked the elementary skills of negotiations, to make the necessary retreats or reformulations in order to temporarily placate a foe, yet keeping the essentials of your thrust intact. What Wilson could do was to dig in his toes, but in negotiations lasting for months, you cannot always

be stubborn. Thus Wilson was made to concede, one point after another, until the end he was totally overrun only to be concerned about the final treaty having the appearance of fairness not necessarily the substance thereof, just so that he could still think that he was doing the right and the just. Keynes wonders whether any man of such distinction has ever been so incompetent.

The Great War ended with the Armistice of November 1918. The Germans accepted on the promise of generous terms as indicated by Wilson. The Allies were at the time not fully aware of the desperate situation of the Germans, and thus reluctant to press points. The final Treaty to be written up constituted a breach of promise that greatly offends Keynes sense of basic decency. It is a tradition in wars that the losing side cedes territory, in fact the prospect of territorial gain has motivated most wars. The Great War was not to be an exception. German had to give up all its overseas colonies, as well as Alsace-Lorraine to the French and part of Silesia to the newly reconstituted Polish republic. France also toyed with the idea of making the Rhine the new frontier between the countries arguing that the Rhineland was not really German in its Catholic orientation. In addition to that it was imposed on the Germans to give up most of its merchant marine, and a certain, far from insignificant, amount of coal and iron-ore to the victors. Keynes cites figures, which being in the nature of well-defined commodities, unlike the tedious estimates of financial values later to be juggled, have intrinsic interest. But what was of really inflammatory nature was the issue of repartitions. Germany was to be made to pay the cost of the war. Whatever that meant. The precedent being the punitive reparitions Bismarck imposed on the French<sup>1</sup>. For the French and the Italians it was a matter of necessity, as their fiscal budgets were far from balanced and they counted on a German influx of capital. But the trouble is how do you estimate the cost of destruction, in fact there is no natural way of delineating its confines. Should also immaterial losses, as say projected earnings and expected profits, be included among those directly suffered? And how much do you value the life of a young soldier? Problems of a perennial nature. A large part of the pamphlet is taken up by various estimates of costs. One would expect here a thorough analysis of how to make such estimates, but apart from a few hints and suggestions, the reader is treated to a long and tedious list of guesses and back-of-the-envelope calculations. Keynes tries to stay within reason, to shy away from the parochial exaggeration. He pokes, in a footnote, fun of the writer of a letter to the editor, who cites (as always on the basis of an undisclosed authority) a simple astronomical sum of the value of the total assets present in Germany. Keynes notes drily, that if those estimates were true, the concession of Alsace-Lorraine was more than enough to allow the extraction of the required amount of money; then pointing out that the writer belongs to the kind of people who considers the coal untapped in the mine to be as valuable as the one already in the basement, and that the value of a field of land, is equal to the combined value of all its future harvest in perpetuity. As Keynes writes out all the digits of the figures, it is hard to distinguish in once glance the difference between a billion and a mere million, making the long strings of numbers quoted hard to survey. The main point about the repartition should be that they

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<sup>1</sup> MacMillan in her book on Paris 1919 claims that the repartitions Germany then demanded of the French was in far proportional excess of what was to be demanded by the Germans. Keynes also makes a similar comparison and comes to a very different conclusion

should be fixed, not open-ended as the treaty wanted it. Keynes, more or less arbitrarily sets a figure of 10 billion dollars to be treated as a lump sum to be partitioned by the allies accordingly. The indeterminate sum, subject to endless reassessment of the victors at their discretion, would condemn a whole generation of Germans to servitude.

Keynes notes two things. The desperate plight of the Germans, actually surpassed by the Austrians and above all the Russian sunk into such desolation that is hard to imagine. And indeed when considering the situation after the First World War, our present troubles, like international terrorism, appear very insignificant. This naturally engages his sympathy but also his intellect making way for his second point, the whole message of the tract, namely that due to the interconnection of economies, involving trade, any excessive financially punitive action against the German will backfire. The simple truth is that we can only expect compensations from a rich Germany, so our main concern would be the economic strengthening of our former enemy. Such ideas would of course be utterly alien to a mind like that of Clemenceau, but somebody like Lloyd-George should have known better. Keynes believes that the rashness of the British Prime-minister can be traced to his decision to further his personal ambition and call for a general election at the time, thus being trapped into endorsing a populist cry for making the Germans pay up. The Americans with the relief administered by Hoover (of which he has very nice things to say in a footnote) were already quietly pursuing a more humane and rational track.

Within a few years the wisdom of Keynes would prevail. The harsh conditions imposed on Germany was being renegotiated and as Germany was gradually welcomed back it was able to default on a large part of its obligations. Economical sense eventually carrying the day.

In addition to the above the book contains some interesting statistical material relating to national production and trade during the relevant years. Furthermore as an eye-witness to contemporary events his perspectives are unique and instructive. Bolshevism was recently established but its sustained future far from certain. Lenin is quoted with some respect as a perceptive critic of capitalism.

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