

The Economic Consequences of the Peace, John Maynard Keynes (1919)

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In 2014, a slew of new books examining the “war to end all wars” appeared on the shelves of libraries and booksellers around the world. The centennial of that bloody conflict seemed an appropriate time to revisit its causes and consequences. While some of these efforts offered genuinely new insights, most did not. Beyond these freshly bound attempts to encapsulate one of the most destructive events of human history, there is a rich, much older set of works that any serious student of strategy and diplomacy should consider. Among these, *The Economic Consequences of the Peace* holds a special place. Written by John Maynard Keynes in 1919 just months after he resigned his position as lead representative of the Britain Treasury at the Paris Peace Conference, this short book offers an insightful and to this day contested take on the processes and people that birthed the Treaty of Versailles ending World War I.

Fully appreciating this classic is a complex task, and one about which an introduction to the man and book may only begin to hint. Still, to begin the effort, a short account of Keynes’ life and professional background opens this paper and is followed by an examination of his critique of the Treaty of Versailles focusing on his argument about the adverse effects of the Treaty’s excessively punitive economic provisions. Next, his proposed alternative to the Treaty is considered with a focus on aspects that involved mitigating the demand for reparations, forgiving or restructuring inter-allied debts and loans, bringing about currency reforms, and coming to some sort of tacit working economic relationship with communist Russia. Finally, a description of the contemporary reaction to Keynes’ criticisms and the modern scholarly debate over the

implications of the Versailles Treaty and the legacy of Keynes' analysis offers perspective on the man and his work.

A Political Economist at Heart

For his entire life, Keynes was in a position of respect. From his birth in 1883 to a Cambridge don, to his education at Eaton and Cambridge and ultimately to his high posts in government, everything about the man suggested to the world that he was a rare intellect – he never knew treatment as anything less.¹ Although he was trained as a mathematician and studied under Alfred Marshall, one of the fathers of the marginal revolution in economics, Keynes eschewed cold numbers as a means of analysis and was in many ways a traditional political economist with an approach in the tradition of Adam Smith, David Ricardo, and Karl Marx.² Unabashedly willing to blend the research of economics with that of politics, he would go on to father an entire branch of macroeconomics, Keynesianism, which became the guiding spirit behind much of post-World War II economics and which remains influential to this day. However, according to Robert Skidelsky, author of the definitive biography of Keynes, for all the economist's diverse interests and efforts, he "... cared most for this family and friends, the arts, his College and his country."³

Keynes' life, as it relates to his work as a member of the British delegation to Paris in 1919, is much simpler to describe. At that point of his career, Keynes was not yet the world renowned economist he would become. After his graduation from Cambridge, he had spent time as both a

¹ Robert Skidelsky, *John Maynard Keynes: 1883-1946: Economist, Philosopher, Statesman*. Compiled and abridged one-volume ed. (London: Macmillan, 2003), 3.

² "John Maynard Keynes," *The Concise Encyclopedia of Economics*, David R. Henderson, ed., accessed 3 July 2015, <http://www.econlib.org/library/Enc/bios/Keynes.html>. A special thanks to Dr. Matthias Matthijs for originally pointing out this aspect of Keynes' approach and perspective on analysis to me during his Comparative Political Economy class at Johns Hopkins University, SAIS.

³ Skidelsky, *Economist, Philosopher, Statesman*, 836.

civil servant in government and as a lecturer at his alma mater.⁴ In less than ten years, he had established himself as one of the British government's leading thinkers on monetary policy thanks in part to his publication of his first book, *Indian Currency and Finance*.⁵ As World War I raged, Keynes left his university position and rejoined the government to help with wartime economic operations. By the time the Armistice silenced the guns on the Continent, he had risen to the highest reaches of the British Treasury and was a natural choice to represent his ministry in the Paris Peace Conference.

After intense negotiations between January and June of 1919, Keynes ultimately resigned his post in protest and returned to England to work on what would become *The Economic Consequences of the Peace*.⁶ Once his devastating critique of the Treaty of Versailles was published, the man once well-known just within government became world famous.⁷ The arguments and predications he laid out featured both the cold calculus of economics and a careful examination of leadership and politics as he understood them. To this day the issues he raised still feature in debates within academic and policy circles.

An Unsatisfying Peace

When not lost in sometimes tedious back of the envelope estimates, *The Economic Consequences of the Peace* is a compelling read. Its structure is essential to Keynes' argument. He begins with an analysis of the causes for pre-war economic stability. From there he moves to a description of the people and interests responsible for crafting the Versailles Treaty before he goes on to consider

⁴ "John Maynard Keynes."

⁵ "John Maynard Keynes."

⁶ "John Maynard Keynes."

⁷ "John Maynard Keynes."

the structure of the German economy itself. A natural progression from this point is his analysis of the issues surrounding reparations (those that he feels are most damning), and their potential economic and political effect on Europe. All along the way Keynes lays the foundations for the alternatives to what he sees as the most grievous mistakes of the Treaty, and he ties these together in the concluding pages of his book.

Through these stages Keynes aims to pull his readers to the same conclusion he reached while engaged in the frustrating process of the Paris Peace Conference; namely, the Treaty of Versailles establishes a Carthaginian Peace, a peace that will doom Germany for the foreseeable future and that in doing so will bring dangerous political and economic consequences to Europe. Keynes is not interested in dissecting specific aspects of justice or injustice captured in the Treaty; instead, he aims to discuss in some detail the economic and political implications of the peace.⁸ In his own words, the economist focuses on the “wisdom” and “consequences” of the Treaty.⁹

The Stability of the Old World

Keynes minces few words in *Consequences*. After clearly placing blame for the war on Germany’s “insane delusion and reckless self-regard”, he takes aim at the Allied and Associated power who “... have run the risk of completing the ruin, which Germany began, by a Peace which, if it is carried into effect, must impair yet further....”¹⁰ This indictment of French, British, and American efforts and motives during the peace process permeates the book. Keynes constantly frets that perceived vengeance wrought unto the Germans only invites future destruction to the

⁸ John Maynard Keynes, *The Economic Consequences of the Peace* (Lanham: Start Classics, 2014), 55 - 56

⁹ Keynes, *Consequences*, 56.

¹⁰ Keynes, *Consequences*, 7.

political and economic fabric of wider Europe due to the complex interconnectedness of the region.¹¹

This interconnectedness, according to Keynes, was only the beginning of how things in the 20th century were changing even before the outbreak of the war. Underpinning his later arguments on the quality of the Treaty are observations about how the traditional stability of the European economy was unlikely to hold in the post-war world for immutable structural reasons. Namely, favorably sized populations, specific economic organizations, accommodating societies, and a particularly close relationship between the New and Old Worlds had in recent centuries buttressed the European economic and political system but would not last.¹² Massive population growth in Germany, Russia, and indeed throughout Europe placed stresses on economies and governments throughout the continent that before had been kept in check by a “delicate” organization of export and import in which Germany played a central role.¹³ Additionally, societies across Europe had been willing to accept economic systems that disproportionately benefited capitalists; and while the capitalists had been good stewards and reinvested in capital improvement projects for their countries, the war had shown the masses that they had the political and economic power to achieve more comfort in life.¹⁴ Finally, because of shifting populations and diminishing returns to scale, the Old World could no longer depend on the New World for food or as a market for manufactured goods as it had in the past.¹⁵ For Keynes, even

¹¹ Keynes, *Consequences*, 8.

¹² Keynes, *Consequences*, 14.

¹³ Keynes, *Consequences*, 16.

¹⁴ Keynes, *Consequences*, 19 – 22.

¹⁵ Keynes, *Consequences*, 24.

without a World War to create additional hardships, Europe needed to work together to face new economic and political realities.

Leaders, Leadership, and Interests

In the shadows brutal fighting and these changing structural forces, leaders of the world's Great Powers met in Paris throughout 1919 to bring peace to Europe. While countries from around the world were represented at the talks, most important were certainly the delegations from France, the United Kingdom, and the United States – led by Prime Minister Georges Clemenceau, Prime Minister David Lloyd George, and President Woodrow Wilson. While Italy was included in the Council of Four, a body that came to dominate the discussions and that held the most important negotiations privately, its representative, Vittorio Emanuele Orlando, was only a marginal player. Notably absent from the proceedings were representatives from Germany, Austria-Hungary, and other Central Powers.

As meetings began, the general expectation was that they would take place under the auspices of particular guidelines, specifically, Wilson's Fourteen Points. Keynes stresses that when Germany agreed to an Armistice on November 11, 1918, its leaders and most observers agreed that cessation of hostilities and subsequent negotiations would be framed by these terms.¹⁶ In short, these Points outlined the president's broad view of what a peace might look like and reflected a contemporary liberal worldview.¹⁷ While the Allies had not been consulted by the United States on the Points, they generally agreed given two qualifications. First, they reserved

¹⁶ Keynes, *Consequences*, 50 - 52.

¹⁷ See the Avalon Project at the Yale Law School, "President Woodrow Wilson's Fourteen Points," accessed 13 July 2015, http://avalon.law.yale.edu/20th_century/wilson14.asp.

the freedom of the seas; second, they insisted that reparations to non-combatants be applied to both invaded territories and all other damage done “by land, by sea, or from the air.”¹⁸ A series of notes and letters captured these caveats and, in the view of Keynes, made their understanding “plain and unequivocal” to all involved.¹⁹ In his estimation, when the Armistice came into effect, no “responsible authorities in the Allied countries expected any indemnity from Germany beyond the cost of reparation for the direct material damage which had resulted from the invasion of Allied territory and from the submarine campaign.”²⁰

Beyond reparations issues, Keynes highlights the importance of the spirit contained in Wilson’s Fourteen points, especially as it related to self-determination in settling territorial issues, and to the importance of a functioning League of Nations. Keynes quickly laments, however, that this spirit was ultimately lost in Paris during negotiations and that the treaty suffered as a result.²¹ According to him, once the sorry state of German power was fully realized, the Allies understood that they could have achieved an unconditional surrender had they pushed for it.²² With this knowledge, new interpretations of prior commitments began to make an appearance in the deliberations. As the negotiations dragged on “...a general popular demand for an indemnity, covering the full costs of the war, made it politically desirable to practice dishonesty and to try to discover in the written word what was not there.”²³ This process Keynes describes with obvious rage. He paints a picture of Americans and British officials who apathetically allowed harsh French

¹⁸ Keynes, *Consequences*, 104.

¹⁹ Keynes, *Consequences*, 53 – 55.

²⁰ Keynes, *Consequences*, 116.

²¹ Keynes, *Consequences*, 53 – 55.

²² Keynes, *Consequences*, 116 – 117.

²³ Keynes, *Consequences*, 104.

provisions to come into the document out of apathy.²⁴ He suggests that Clemenceau, the unrepentant realist, foisted a Carthaginian peace on France's long-term rival.²⁵ And it is on the leaders engaged in the talks that Keynes places the most blame for a Treaty that he insists will imperil the future of Europe. From his own observations of the three principle players, he paints detailed descriptions of each and underscores the importance of individuals to process of war termination.

Keynes' treatment of Clemenceau is hardnosed, though he has sympathy for the difficult place from which the French entered the negotiations. The British Treasury representative writes that the war-weary French leader thought the Germans would only understand "intimidation," were incapable of understanding generosity or remorse, were always seeking an advantage, and had no honor in their quest for national gain. In short, politics was a zero sum game for Clemenceau, especially in dealing with Germany, and thus a strong, dictated Treaty was the only acceptable peace that would meet French security needs.²⁶ Because Clemenceau viewed European fights as ongoing and France in a position of relative economic and demographic decline to Germany, it was natural for him to seek a Carthaginian Peace. France had suffered greatly during the war and was certainly in a position to receive some recompense from Germany.²⁷ Yet, from Keynes' point of view, the reparations numbers thrown about by France seemed grossly out of line with what Germany was capable of paying.²⁸ The French aim was to "set the clock back" as much as possible on the strength of Germany, and Clemenceau embodied the belief that no "new

²⁴ Keynes, *Consequences*, 27.

²⁵ Keynes, *Consequences*, 49.

²⁶ Keynes, *Consequences*, 30.

²⁷ Keynes, *Consequences*, 110.

²⁸ Keynes, *Consequences*, 111 – 114.

age” of peace and prosperity, as hoped for by Wilson and his Fourteen Points, was ever possible; rather, the balance of power between France and Germany needed restructuring as much as possible in the French favor.²⁹ And it is this final, bottom line view that Keynes criticizes as short sighted. He scathingly remarks:

Although the school of thought from which it [France’s Carthaginian Peace] springs is aware of the economic factor, it overlooks, nevertheless, the deeper economic tendencies which are to govern the future. The clock cannot be set back. You cannot restore Central Europe to 1870 without setting up such strains in the European structure and letting loose such human and spiritual forces as, pushing beyond frontiers and races, will overwhelm not only you and your ‘guarantees,’ but your institutions, and the existing order of your Society.³⁰

Meanwhile, the leadership of Lloyd George gets no special treatment in *Consequences*. Keynes suggests that domestic political considerations in Britain led the Prime Minister to support a more stern peace.³¹ That Britain could not “let the Hun off” was a rallying cry during the General Election of 1918 that preceded the Peace Conference.³² Lloyd George’s own instincts may not have led him to agreement with such harsh terms toward Germany, but the need to maintain popular support at home for his government appealed to his baser political sensibilities.³³ Indeed, the Prime Minister attempted to keep talk of dramatically punishing the Germans out of his own election platform until popular support for such measures was so strong that he seemed to have

²⁹ Keynes, *Consequences*, 31-33.

³⁰ Keynes, *Consequences*, 33.

³¹ Keynes, *Consequences*, 117 – 119.

³² Keynes, *Consequences*, 118.

³³ Keynes, *Consequences*, 119.

no choice.³⁴ In his heart of hearts Lloyd George may not have wanted or thought such reparations possible, but Keynes finds this a weak excuse. “The progress of the General Election of 1918 affords a sad dramatic history of the essential weakness of one who draws his chief inspiration not from his own true impulses, but from the grosser effluxions of the atmosphere which momentarily surrounds him,” wrote Keynes in his assessment of George.³⁵

The most biting criticism, however, is reserved for President Woodrow Wilson. In many ways the American president dashed the hopes of Keynes upon the rocks of ineffectiveness and wayward idealism. At the beginning of the negotiations in January 1919, Wilson had “prestige and a moral influence” – hardly so by the end.³⁶ The disappointment Keynes feels toward Wilson almost drips from the pages of his book. “But, if ever the action of a single individual matters, the collapse of the President has been one of the decisive moral events of history,” mused Keynes before making an attempt to explain the failures of the American leader.³⁷ There is no shortage of faults from the economist’s point of view. Wilson was “insensitive to his surroundings” and failed to read the intensions of those around him.³⁸ He also lacked the capacity to negotiate in any meaningful way; rather, he was only capable of digging in and being out maneuvered by the other heads of government.³⁹ Beyond these character flaws, domestic pressures in the United States forced the president to go along with actions viewed as “tough” on the Germans, and in the end Wilson believed in the Treaty only because he viewed it as the singular means of establishing the

³⁴ Keynes, *Consequences*, 120 – 122.

³⁵ Keynes, *Consequences*, 119.

³⁶ Keynes, *Consequences*, 34.

³⁷ Keynes, *Consequences*, 33.

³⁸ Keynes, *Consequences*, 36.

³⁹ Keynes, *Consequences*, 39.

League of Nations. For Wilson, the League was the key instrument that would provide for future international security and through which the flaws of the Treaty could be amicably adjusted.⁴⁰

The most damning criticism coming from Keynes focuses on the president's lack of preparedness to codify the Fourteen Points. In short, Wilson "...had no plan, no scheme, no constructive ideas whatever for clothing with the flesh of life the commandments which he had thundered from the White House."⁴¹ In this vacuum of tangible ideas, the French plan to clip the wings of Germany was dressed up in flowery language of "freedom and international equality" to make it palatable to Wilson, who then stood by and allowed a bad peace.⁴² Keynes holds that Wilson accordingly had faith in the outcome and his "temperament allowed him to leave Paris a really sincere man."⁴³ Once in this frame of mind, he could never accept the Germans' criticism of the Treaty or their claims that it cut against pre-Armistice assurances; consequently, Wilson ultimately supported a document that cut the Germans out from the process of making a lasting peace.⁴⁴ Thus was born the Treaty of Paris.

Germany's Economy and the Peace

Then, as today, subject matter experts were called on to assess the economic implications of peace following war. This was in fact part of Keynes' role at the Paris conference, and in exercising these duties Keynes made great efforts to understand the economy of Germany and its relationship with the rest of Europe. According to him, the German economic system in the 19th

⁴⁰ Keynes, *Consequences*, 41.

⁴¹ Keynes, *Consequences*, 37 – 38.

⁴² Keynes, *Consequences*, 45.

⁴³ Keynes, *Consequences*, 46.

⁴⁴ Keynes, *Consequences*, 46.

and early 20th century had relied on overseas commerce, exploitation of coal and iron industries, and the country's transportation system and tariff arrangements. The Treaty of Versailles that he came to loath explicitly threatened all three of these to various degrees.⁴⁵

Several elements of German commercial power were specifically targeted by the Treaty's reparations clauses. For example, Germany handed over to the Allies a huge portion of its shipping fleet and for five years agreed to build additional ships for the Allies as credit against its reparations, which led Keynes to claim that "the German mercantile marine is swept from the seas and cannot be restored for many years to come on a scale adequate to meet the requirements of her own commerce."⁴⁶ Germany also ceded public and private overseas possessions, and those in the Alsace-Lorraine, to the Allies, including infrastructure like railroads, while retaining any debt that went into their development.⁴⁷ Additionally, personal property caught in this transaction would not be reimbursed by the Allies.⁴⁸ Keynes finds no precedent for such non-reciprocal terms in past peace agreements and finds them draconian in their Versailles application.⁴⁹ After rough calculations, the economist estimates the Treaty would result in reparations equaling US\$40 billion plus interest from the defeated adversary.⁵⁰

The provisions regarding coal were even worse in Keynes' estimation since the success of the German reunification had been built on the back of the iron and coal industries.⁵¹ By targeting these in a concerted way, the Treaty was undermining Germany's ability not just to rebuild its own

⁴⁵ Keynes, *Consequences*, 56.

⁴⁶ Keynes, *Consequences*, 57.

⁴⁷ Keynes, *Consequences*, 57.

⁴⁸ Keynes, *Consequences*, 58.

⁴⁹ Keynes, *Consequences*, 60.

⁵⁰ Keynes, *Consequences*, 178.

⁵¹ Keynes, *Consequences*, 67.

industrialized state, but its ability to play an important role in the economy of wider Europe.⁵² Specifically, the Treaty made exploiting the coal mines of the Saar Basin in Germany the sole right of France for at least fifteen years. Only after this time could the region (up to that point administered by the League of Nations) vote to again become the sovereign territory of Germany. The mines themselves would then have to be repurchased in gold.⁵³ The coal fields of Upper Silesia, meanwhile, were ceded to Poland despite the region's long-held economic connections to Germany. Finally, the Germans were to provide coal to France equal to the difference between pre- and post-war production of the mines damaged in France during the war.⁵⁴ Of all these stipulations, Keynes feels the last is a reasonable condition, provided Germany had its pre-war mining capacity.⁵⁵ Still, he is generally pessimistic. "If the distribution of the European coal supplies is to be a scramble in which France is satisfied first, Italy next, and every one else takes their charge," he writes, "the industrial future of Europe is black and the *prospects of revolution very good*."⁵⁶

Keynes also touches additional economic clauses targeting the transportation and tariff systems of Germany. The granting of nonreciprocal most favored nation status to Allied and Associated States for five years, free trade from the Alsace-Lorraine into Germany but not vice-versa, the surrender of railroad locomotives and boxcars, transportation fees, river management, and other similar issues, are all highlighted as economically burdensome to Europe generally.⁵⁷ He links these back to other issues, especially the mining of iron and coal, by noting that these

⁵² Keynes, *Consequences*, 73.

⁵³ Keynes, *Consequences*, 68.

⁵⁴ Keynes, *Consequences*, 69 – 70.

⁵⁵ Keynes, *Consequences*, 70.

⁵⁶ Keynes, *Consequences*, 76. Emphasis added.

⁵⁷ Keynes, *Consequences*, 79 – 86.

hindrances to free trade make the implementation of the iron and coal plans even more problematic.⁵⁸

Thus, according to Keynes, the Treaty as written is incompatible with a minimally workable German economy and with its essential role in the wider European system. A fair assessment of *Consequences* should note that Keynes is not wholly critical and he often does offer in footnotes comments on aspects of the Treaty that might be feasible if the onerous characteristics were altered.⁵⁹ Still, even after assessing Germany's economy against the terms of the Treaty, Keynes saved his greatest criticism for last.

Wider Consequences of the Peace

Keynes loses no moment to share his dismay with the Treaty, especially with the reparations expected from Germany. "... I believe that the campaign for securing out of Germany the general costs of the war was one of the most serious acts of political unwisdom for which our statesman have ever been responsible."⁶⁰ His fears revolve around a belief that the leaders in Paris were so concerned with political and territorial issues that they failed to see the broader dangers wrought by their economic decisions.⁶¹ He laments that "the Council of Four paid no attention to these issues, being preoccupied with others – Clemenceau to crush the economic life of his enemy, Lloyd George to do a deal and bring home something which would pass muster for a week, the President to do nothing that was not just and right."⁶²

⁵⁸ Keynes, *Consequences*, 77 – 78.

⁵⁹ Keynes, *Consequences*, 99.

⁶⁰ Keynes, *Consequences*, 124.

⁶¹ Keynes, *Consequences*, 124.

⁶² Keynes, *Consequences*, 202.

Keynes also considers the moral implications of the peace. While he proclaims there is a right to expect some payment from Germany, he stresses that it is “abhorrent and detestable” to place entire generations into destitution.⁶³ The long-term, systemic consequences then receive the bulk of his attention:

*The Treaty includes no provisions for the economic rehabilitation of Europe, - nothing to make the defeated Central Empires into good neighbors, nothing to stabilize the new States of Europe, nothing to reclaim Russia; nor does it promote in any way a compact of economic solidarity amongst the Allies themselves; no arrangement was reached at Paris for restoring the disordered finances of France and Italy, or to adjust the systems of the Old World and the New.*⁶⁴

The productivity of the continent, he suggests, will plummet, transportation and trade will break down, and access to vital supplies will be delayed by the Treaty’s prescriptions.⁶⁵ From this perspective, he wonders about the effect of the Treaty on democracy. For example, after a lengthy discussion about the Reparations Commission, a body created in the Treaty to determine at some later date the final reparations due from Germany and the schedule of payments, Keynes argues that this organization is hardly democratic.⁶⁶ Where are the lofty aspirations of Wilson’s Fourteen Points found in an extra-national body with the power to take the earnings of a sovereign country?

Ultimately, Keynes foresees starvation and unrest as a result of the peace.⁶⁷ Because governments engaged in inflationary policies during the war, capitalists who owned property and

⁶³ Keynes, *Consequences*, 180.

⁶⁴ Keynes, *Consequences*, 202.

⁶⁵ Keynes, *Consequences*, 206.

⁶⁶ Keynes, *Consequences*, 169 – 173.

⁶⁷ Keynes, *Consequences*, 203.

factories necessarily became richer, while the rest of society sank into poverty as savings were erased. Keynes fears this will ultimately lead to social disorder as the rich are increasingly resented by the many who suffer abject poverty.⁶⁸ He clearly has the recent revolution in Russia on his mind with this class analysis of post-war potentialities, and the peace negotiated in Paris had no means of dealing with this issue and did nothing to replace the economy of the 19th century with one adapted to the circumstances of the day.⁶⁹

As the calamity unfolds in Europe, the destructive economic forces left unaddressed or exacerbated by the terms of peace would lead those in despair to look for hope wherever possible. At this point “...man shakes himself, and the bonds of custom are loosed. *The power of ideas is sovereign, and he listens to whatever instruction of hope, illusion, or revenge is carried to him on the air.*”⁷⁰ Men of all nations are connected, and conflicts would come “before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is victor, the civilization and the progress of our generation.”⁷¹ Here was the greatest danger of the peace as written. Here is where economic, social, and political forces could swirl to create a new, dangerous world. Here is where those who hold Keynes up as a prescient analyst of the inter-war years and predictor of the ultimate outbreak of World War II take their greatest inspiration. “The bankruptcy and decay of Europe, if we allow it to proceed, will affect every one in the long-run, but perhaps not in a way that is striking or immediate,” wrote Keynes, “This has one fortunate side. We may still have time to reconsider our courses and to view the world with new eyes.”⁷²

⁶⁸ Keynes, *Consequences*, 210.

⁶⁹ Keynes, *Consequences*, 210.

⁷⁰ Keynes, *Consequences*, 219. Emphasis added.

⁷¹ Keynes, *Consequences*, 236 – 237.

⁷² Keynes, *Consequences*, 257

An Alternative

That Keynes felt he had the antidote to the flaws of Versailles is evident throughout *Consequences*. His alternative ideas are wound through the pages of his book, though they see their most comprehensive treatment only at its conclusion. In short, Keynes proposes revisiting the Treaty, addressing inter-ally debt, restructuring international loans, bringing about currency reforms, and reconsidering relations with Russia.⁷³ Most of these suggestions had been floated at various points by Keynes or other subordinate officials in Paris but, for reasons he lays at the feet of senior leadership at the negotiations, they were never adopted. Keynes clearly hopes that they still might be implemented, and *Consequences* was published with that agenda in mind.

The areas of the Treaty that needed alterations were those relating to reparation, coal and iron, and tariffs, according to Keynes.⁷⁴ On the reparations from Germany, he suggests a total of \$10 billion without interest, of which \$2,500,000 would immediately be covered by surrender of materials like merchant ships, while the remainder would be paid over a period of thirty years in increments determined by Germany.⁷⁵ To reach this conclusion, Keynes relies on rough estimates and argues the \$10 billion number is justifiable to cover the damages incurred by civilians during the war in all of the affected Allied countries and is reasonable for Germany.⁷⁶ In setting such a number the Allies would “avoid the perpetual friction and opportunity for improper pressure arising out of the Treaty clauses which are impossible of fulfilment.”⁷⁷ Meanwhile, on coal, Keynes calls for Germany to give France the coal lost in damaged mines for up to ten years, but advocates

⁷³ Keynes, *Consequences*, 228.

⁷⁴ Keynes, *Consequences*, 231.

⁷⁵ Keynes, *Consequences*, 231 – 232.

⁷⁶ Keynes, *Consequences*, 116.

⁷⁷ Keynes, *Consequences*, 234 – 235.

that the other coal provisions be dropped.⁷⁸ In such a way he hopes to breathe important life into Germany's industrial capacity that would pay dividends across Europe.⁷⁹ Finally, regarding tariffs, Keynes calls for a Free Trade Union across all of Europe featuring reciprocal status for those who engaged in it.⁸⁰ This would help improve economic efficiency and help promote peace as countries were increasingly tied together.⁸¹

Keynes' take on inter-ally indebtedness is straightforward – there should be none. He calls on the Allied and Associated governments, especially the United States and Great Britain, to simply cancel all debts owed to one another in an act of “far seeing statesmanship.”⁸² In Keynes' mind, “the existence of great war debts is a menace to financial stability everywhere.”⁸³ Consequently, it should be dealt with swiftly. On the issue of loans, he pushes for some kind of international assistance supported in large part by the United States.⁸⁴ Both the debt forgiveness and the loans are designed to give governments the financial resources needed to rebuild and grow in a timely manner. In these and his thoughts on coal and reparations Keynes is clearly trying to build a Europe more capable of addressing the structural changes he outlined early in his book.

Finally, as something of an aside, the economist turns his attention to Russia. The specter of the revolution there hovers throughout his book, especially in the class analysis he employs to suggest the future economic, political, and security dangers of the Treaty's terms. Keynes begins this portion of his prescription by suggesting concern over a German-Russian pact seems

⁷⁸ Keynes, *Consequences*, 232 – 233.

⁷⁹ Keynes, *Consequences*, 235.

⁸⁰ Keynes, *Consequences*, 234.

⁸¹ Keynes, *Consequences*, 235.

⁸² Keynes, *Consequences*, 238.

⁸³ Keynes, *Consequences*, 244

⁸⁴ Keynes, *Consequences*, 247

misplaced.⁸⁵ He advocates allowing German business interests to penetrate Russia and suggests that these links may help bring Russia back into the fold of functioning capitalist states.⁸⁶ Additionally, he suggests that the ongoing blockade of Russia only serves to further isolate the country when it should be tied more closely to Europe.⁸⁷ Finally, he argues strongly against preventing Russian-German trade or economic interaction because it is vital for food security in Germany and important for politics in Russia.⁸⁸

So closes Keynes' unrealized hope for a revised peace.

Reception and Influence

As Margaret MacMillan, one of the foremost historians of the period wrote, "The peacemakers in 1919 felt they had done their best, but they had no illusions that they had solved the world's problems."⁸⁹ As the conference came to a close, the leaders who had gathered there returned home to sell the peace they had negotiated. This was a halting process. While the European Allies ratified the Treaty and began the process of implementing its terms, the United States did not. Upon returning to the United States, President Wilson was unable to convince the Republican-controlled Congress to accept the document. Consequently, the United States signed separate treaties with Germany and the other Central Powers and did not join in his beloved League of Nations.

⁸⁵ Keynes, *Consequences*, 252.

⁸⁶ Keynes, *Consequences*, 255.

⁸⁷ Keynes, *Consequences*, 256.

⁸⁸ Keynes, *Consequences*, 255 - 256

⁸⁹ Margaret Olwen MacMillan, *Paris 1919: Six Months That Changed the World*, 1st U.S. ed. (New York: Random House, 2002), 487.

While public opinion in Britain and elsewhere had strongly favored the punishment of Germany during the negotiations, the popular view of the Treaty and its implications shifted dramatically over the next few years following the publishing of *The Economic Consequences of the Peace* and other criticisms of the proceedings. Harold Nicholson, another British representative to the negotiations, captured this criticism of the Treaty and its implementation in his own book, *Peacemaking 1919*, published in 1933 and revised in 1943. “The flagrant discrepancy between the principles proclaimed by President Wilson... and the promises which had previously been exchanged between other members of the Coalition led to... many hypocritical inconsistencies in the Treaties themselves,” wrote Nicholson.⁹⁰ Reflecting what would become the general mood of many in the Allied and Associated states and echoing some of Keynes’ own criticisms, he published a letter written to his father in June 1919 from Paris:

Now that we see them [the terms] as a whole, we realize that they are much too stiff. They are not stern merely but actually punitive... the real crime is the reparation and the indemnity chapter, which is immoral and senseless. There is not a single person among the younger people here who is not unhappy and disappointed with the terms. The only people who approve are the old fire-eaters...⁹¹

Nicolson does note that not all the fault lies with the Treaty itself and that aspects of it, like the provisions for the League of Nations, seemed quite reasonable.⁹² He also reserves some blame for the future instability of Europe on the implementation of the peace – though poor implementation was in part a result of a vague and “imprecise” settlement born of compromises

⁹⁰ Harold Nicolson, *Peacemaking, 1919* (Reprint. London: Faber & Faber, 2013), Introduction to the Edition of 1943.

⁹¹ Nicolson, *Peacemaking*, June 8 Letter.

⁹² Nicolson, *Peacemaking*, Introduction to the Edition of 1943.

between Wilson's idealism and Clemenceau's realism.⁹³ But the problems of the settlement were deeper than those caused by the provisions in the document itself. Many of the issues that arose were the result of selective enforcement of "convenient articles" and the lapse of others.⁹⁴ As time progressed, politicians of a liberal persuasion and the public at large generally echoed Nicolson's assessment and largely agreed with the logic Keynes presented. Thus was set the modern academic debates.

The Modern Debate

The modern debate over the implications of the Versailles Treaty and the legacy of Keynes' analysis has become more nuanced as additional scholars from a range of fields have engaged in the dialogue. To review the entire array of scholarship produced on these topics is well beyond the scope of this introductory essay; however, a representative selection helps to paint the general picture.

Fred Iklé, author of perhaps the most influential work on war termination in the second half of the 20th century, largely views Keynes and his analysis as accurate. He argues that democracies having won large military victories should not engage in revenge during settlement; rather, they should aim to reform the governments of their former adversaries and make them into friends.⁹⁵ He is quite clear in his view about the ending of World War I and Keynes' assessment of it:

The victors of the First World War sought a punitive ending. France, Great Britain, and (more reluctantly) the United States imposed heavy reparations on defeated

⁹³ Nicolson, *Peacemaking*, Introduction to the Edition of 1943.

⁹⁴ Nicolson, *Peacemaking*, Introduction to the Edition of 1943.

⁹⁵ Fred Charles Iklé, *Every War Must End* (New York: Columbia University Press, 2005), xiii.

*Germany, sliced off parts of German territory, and presided over the Balkanization of the Hapsburg Empire. But they paid no attention to the impact of the reparations on the evolution of Germany's postwar government and gave little thought to new ethnic clashes that their arbitrary redrawing of national boundaries might provoke. John Maynard Keynes predicted, with enviable prescience, the catastrophic consequences of this punitive peacemaking...Having sown the wind of vengefulness, the victors of 1918 reaped the whirlwind twenty years later.*⁹⁶

Iklé's work touches on several general observations about war termination worth considering in the context of Paris 1919. For example, according to him, those engaged in a peace negotiation naturally seek a unilaterally favorable settlement in order to make the war seem worth its cost in blood and treasure.⁹⁷ Additionally, there is often a great deal of domestic tension over the aims of war, and public debate on these is often discouraged, which in turn dampens potential partners for peace in opposing governments.⁹⁸ Iklé is also careful to raise a point about how and when peace negotiations take place. Should they occur after an armistice, when fighting has ceased, as in the case of World War I? Should they occur only after an unconditional surrender is attained by one side or the other, as in the instance of World War II? Or is there a rationale for engaging in peace talks even while violence continues, something akin to the events surrounding the end of the Korean War? His analysis suggests that governments are generally loath to engage in such discussions while the enemy fights because it may signal weakness, sap morale, or create

⁹⁶ Iklé, *Must End*, xiii.

⁹⁷ Iklé, *Must End*, 107.

⁹⁸ Iklé, *Must End*, 79-80.

conflicts with allies.⁹⁹ Still, as the experience of World War I suggests, all of these problems may exist after the guns are silenced too.

One of the most ardent proponents of an alternative interpretation of Keynes, the Treaty of Versailles, and the interwar years comes from famed Canadian historian Margaret MacMillan. She begins her treatment in part by suggesting the Allied victory lacked the decisiveness to engage in the most productive peace talks – Germany simply remained too strong.¹⁰⁰ From this point of departure she calls into question the conventional wisdom, promulgated in part by Keynes, that the Treaty was to blame for the turbulent interwar years in Germany and Europe more widely.¹⁰¹ According to her work and that of some other historians, the reparations demanded from Germany were hardly as destructive as the British economist predicted.¹⁰² Additionally, Adolf Hitler did not engage in the bloodiest war in the history of Europe because of the Treaty, its reparations, or its other terms; rather, he would have fought to maximize Germany power and destroy his perceived enemies, foreign or domestic, regardless of the terms of the peace settlement.¹⁰³ Perhaps most importantly, MacMillan argues the calamitous political and economic events of mid-20th century cannot be removed from the many decisions of “political leaders, diplomats, soldiers, ordinary voters” during the interwar period.¹⁰⁴ Finally, she highlights potentially positive aspects of the peace secured in Paris:

The Treaty of Versailles... contained provisions about territory and reparations that could have been written in earlier centuries, but they were also imbued with a new

⁹⁹ Iklé, *Must End*, 85 – 86.

¹⁰⁰ MacMillan, *Six Months*, 486.

¹⁰¹ MacMillan, *Six Months*, 493.

¹⁰² MacMillan, *Six Months*, 181.

¹⁰³ MacMillan, *Six Months*, 493.

¹⁰⁴ MacMillan, *Six Months*, 493.

*spirit. The covenant of the League came at the start, not as an afterthought, and the League itself was woven into the later clauses...*¹⁰⁵

Of course MacMillan does not absolve the peacemakers of all sins and admits that the Treaty of Versailles had several shortcomings that yielded long-lasting ramifications, especially the treatment of non-European territorial and nationalist claims.¹⁰⁶ Still, she maintains that if the negotiators could have made a better treaty, they could also have truly bungled things; given their domestic political constraints and lack of clairvoyance, they did well in a difficult situation.¹⁰⁷

UCLA political scientist Marc Trachtenberg also questions aspects of the conventional wisdom associated with Paris in 1919 but from a different perspective. He argues that Wilson himself viewed the Treaty as punitive and necessarily so.¹⁰⁸ He goes on to suggest that a punitive peace was actually deeply embedded in liberal ideas about justice and how to maintain order.¹⁰⁹ For Trachtenberg, Wilson was never the champion for a moderate peace that Keynes makes him out to be for a host of ideological reasons. Rather, he was merely a man naively hoping that the Germans would agree with his concept of justice and legitimacy and in doing so lay the groundwork for a lasting peace.¹¹⁰ Trachtenberg's most compelling point, however, is that the black and white characterization of the negotiations, between a vindictive France and a moderate United States, suppresses much of the rich nuance of the proceedings and prevents an

¹⁰⁵ MacMillan, *Six Months*, 492 – 493.

¹⁰⁶ MacMillan, *Six Months*, 493.

¹⁰⁷ MacMillan, *Six Months*, 493.

¹⁰⁸ Marc Trachtenberg, "Versailles After Sixty Years," *Journal of Contemporary History* 17, no. 3 (1982): 491.

¹⁰⁹ Trachtenberg, "Versailles," 494.

¹¹⁰ Trachtenberg, "Versailles," 497.

appreciation for the complexity of the times, an understanding of the sometimes incoherent policies, and an accurate picture of interwar years.¹¹¹

Closing Thoughts

The Economic Consequences of the Peace raises the fundamental question whether a “Carthaginian Peace” can best achieve the objective of removing long-term threats to the victor’s security or whether efforts should be made to reconcile the defeated party and thus dampen incentives for revenge. The latter could be achieved, among other ways, through a new balance of power or spheres of influence arrangement, through regime change, or through some sort of fundamental reformation of the international system, including economic relationships. There is considerable disagreement among experts whether Keynes’ characterization of Versailles as unwisely “Carthaginian” was accurate, but his analysis and argument proved highly influential at the time, and remain so. Keynes feared that that the leaders in Paris were so concerned with military and territorial issues – the currency of the old ways of thinking about security – that they failed to see the dangers of political dislocation and social revolution likely wrought by their unwise economic decisions. That is to say, from the British economist’s perspective, the victors had to go beyond the question of dealing with their particular enemy and the military balance of power to address the underlying systemic causes of war and peace.

What then should we ultimately make of Keynes, his book, and the debates surrounding it? Was he a prescient analyst of political and economic events who rightly cast the Treaty of Versailles as a poorly-constructed Carthaginian Peace, the product of vindictive Clemenceau, self-

¹¹¹ Trachtenberg, “Versailles,” 502 - 503.

centered Lloyd George, and feckless Wilson? Or, is there more to the story, more complexity in the Treaty, more error in Keynes' judgments, and more contingency in the interwar years? In the end, perhaps the best way to view Keynes and his work is as a prime example of the application of political economy to the study of war termination with all the robustness, foibles, and strengths that come with it. Students of strategy and diplomacy should read Keynes for years to come because he raises considerations relevant to the settlement of wars today. Still, this essay does not attempt to settle the debate over Keynes' legacy and that of Paris 1919. If it helps highlight the major issues at stake, the complexity of the times, and potential sources for additional inquiry, it is a success.

Bibliography

John Maynard Keynes

"John Maynard Keynes." The Concise Encyclopedia of Economics. David R. Henderson, ed. Liberty Fund, Inc. 2008. Library of Economics and Liberty [Online] available from <http://www.econlib.org/library/Enc/bios/Keynes.html>; accessed 3 July 2015; Internet.

For a quick but informative overview of Keynes' life and a convenient mechanism for linking to his major works, this online resource is often valuable to those just beginning their research.

Keynes, John Maynard. *The Economic Consequences of the Peace*. Lanham: Start Classics, 2014.

There is no substitute for spending time with an original work of scholarship. While this particular edition of *Economic Consequences* was cited for its accessibility online via many university libraries, other editions and reprintings are available.

Skidelsky, Robert. *John Maynard Keynes: A Biography*. London: Macmillan, 1983.

Skidelsky offers the definitive three-volume biography of Keynes that today is the scholar's authority on the British economist. The first volume of this work is most relevant for understanding Keynes as he entered into his work at the Paris Peace Conference and as he came to the conclusions that he did in the *Economic Consequences of the Peace*.

Skidelsky, Robert, *John Maynard Keynes, 1883-1946: Economist, Philosopher, Statesman*. Compiled and abridged one-volume ed. London: Macmillan, 2003.

For a more relaxed introduction to the life of Keynes, Skidelsky has boiled down the essential elements of his three volume work into this single book.

The Peace of 1919

Andelman, David. *A Shattered Peace: Versailles 1919 and the Price We Pay Today*. Hoboken, N.J.: J. Wiley, 2008.

This is an interesting, if incomplete, treatment of the follow-on consequences from the 1919 Treaty of Versailles for non-Western states. Students especially interested in the politics of self-determination, those small powers marginalized during negotiations, and the Treaty's lasting effects outside of Western Europe will find Andelman's book most useful.

MacMillan, Margaret Olwen. *Paris 1919: Six Months That Changed the World*. 1st U.S. ed. New York: Random House, 2002.

One of the best known treatments of the Paris Peace Conference and the negotiations that led to the 1919 Treaty of Versailles, Macmillan's expansive book reviews the effects of the peace not just on Germany, but

on the entire world. By focusing on many issues other than reparations that the Treaty addressed, exploring what the Treaty did successfully accomplish, and suggesting blame for the subsequent problems of the 1920s and 1930s on the political leadership of those years, Macmillan offers an important counterpoint to some of Keynes' critiques of the peace. Still, she does little to address issues of path dependency in Europe that were set up by the settlement.

Nicolson, Harold, *Peacemaking, 1919*. Reprint. London: Faber & Faber, 2013.

Another book produced by a British delegate to the Paris Peace Conference, Nicolson writes with the eye of a diplomat trying to understand the lessons of 1919 and their relevance to future peace, especially that following World War II. His blow by blow account of the events in Paris is supplemented with excerpts from his own diary, which provide the valuable perspective of a young and hopeful junior official. While critical of particular portions of the Treaty, his work suggests that there was indeed a great deal of good in it, and its poor implementation was an important part of the later troubles in Europe.

Sharp, Alan. *The Versailles Settlement: Peacemaking After the First World War, 1919-1923*. Palgrave Macmillan, 2008.

Students aiming to dig a bit deeper into the breadth of issues addressed by the 1919 Treaty of Paris will find a balanced account in Sharp's book. Well-researched and accessibly written, his treatment of the reparations articles is especially good at outlining the competing views surrounding this divisive topic.

Trachtenberg, Marc. "Versailles after Sixty Years." *Journal of Contemporary History* 17, no. 3 (1982): 487-506.

Just one of several works by Trachtenberg on the subject of World War I's conclusion, this article questions the conventional wisdom that the Paris Peace Conference centrally featured a debate between France bent on a Carthaginian Peace and the United States set on a moderate treatment of Germany. Instead, he highlights the complex, often muddled intellectual frameworks employed by all of the Great Powers during the conference to conclude that the eventual peace reflected a confused convergence of ideas. Indeed, he suggests that any vengeance it embodied in fact reflected the general sentiments of all the Allied powers involved.

War Termination

Goemans, H.E. *War and Punishment: The Causes of War Termination and the First World War*. Princeton: Princeton University Press, 2000.

Through examining the war termination process of World War I, Goemans begins to develop an argument about how the nature of belligerent regimes will affect their war termination behavior, specifically with regards to war aims. He contends that semi-repressive regimes are those most likely to sustain or expand their war aims as a fight wears on because they have the most to lose should the war end badly for them. For students of political science, this is important reading in the war termination literature.

Ikenberry, G. John. *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars: Institutions, Strategic Restraint, and the Rebuilding of Order after Major Wars*. Princeton University Press, 2009.

Ikenberry offers a neo-liberal institutionalist framework for understanding how the most powerful states following major wars arranged the international system to meet their own needs while concurrently exercising restraint. In short, he argues that by constructing institutions in which states throughout the international system have a stake, the power of the leading post-war states may be tamed and made less frightening to others while still meeting the needs of the Great Powers or Power. Students of political science will find Ikenberry's book to be required reading.

Iklé, Fred Charles. *Every War Must End*. New York: Columbia University Press, 2005.

If there is such thing as required reading in the study of war termination, Fred Iklé's book is it. First published in the waning years of the Vietnam War and subsequently updated several times, it carefully examines many of the individual and domestic-level political and bureaucratic processes that come to the fore at the close of conflicts and in making the peace. In short, wars are difficult to end for a myriad of reasons that often have little necessarily to do with international politics or strategy and everything to do with the dynamics between people and institutions at home.

Pillar, Paul. *Negotiating Peace*. Princeton: Princeton University Press, 1983.

Paul Pillar applies a game theoretic model to examine the bargaining process of war termination and the role of information asymmetry between the belligerents. While his is not the first effort in this regard, his work remains one of the most complete and is necessary reading for any student interested in the present state of the war termination scholarship.

Reiter, Dan. *How Wars End*. Princeton: Princeton University Press, 2009.

Building on the war-termination-as-bargaining model, Reiter suggests that information asymmetries alone are not enough to understand how and when wars will come to an end. He amends this view by suggesting the credibility of the post-war structure in preventing future conflict is central to understanding how and when wars will end.

Rose, Gideon. *How Wars End: Why We Always Fight the Last Battle*. New York: Simon and Schuster, 2011.

One of the latest additions to the war termination literature, Rose examines each of the major American wars of the 20th century, in an effort to draw some trends from the war termination experiences in those conflicts that might be applied to future policy. His central thesis revolves around political and military leadership applying the presumed lessons of the previous war to the one at hand. He argues that this mentality has led to often suboptimal war termination results for the United States.