

THE ECONOMIC CONSEQUENCES OF THE PEACE

by

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PREFACE

The writer of this book was temporarily attached to the British Treasury during the war and was their official representative at the Paris Peace Conference up to June 7, 1919; he also sat as deputy for the Chancellor of the Exchequer on the Supreme Economic Council. He resigned from these positions when it became evident that hope could no longer be entertained of substantial modification in the draft Terms of Peace. The grounds of his objection to the Treaty, or rather to the whole policy of the Conference towards the economic problems of Europe, will appear in the following chapters. They are entirely of a public character, and are based on facts known to the whole world.

J.M. Keynes, King's College, Cambridge, November, 1919.

CHAPTER I

INTRODUCTORY

The power to become habituated to his surroundings is a marked characteristic of mankind. Very few of us realize with conviction the intensely unusual, unstable, complicated, unreliable, temporary nature of the economic organization by which Western Europe has lived for the last half century. We assume some of the most peculiar and temporary of our late advantages as natural, permanent, and to be depended on, and we lay our plans accordingly. On this sandy and false foundation we scheme for social improvement and dress our political platforms, pursue our animosities and particular ambitions, and feel ourselves with enough margin in hand to foster, not assuage, civil conflict in the European family. Moved by insane delusion and reckless self-regard, the German people overturned the foundations on which we all lived and built. But the spokesmen of the French and British peoples 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, when it might have restored, the delicate, complicated organization, already shaken and broken by war, through which alone the European peoples can employ themselves and live.

In England the outward aspect of life does not yet teach us to feel or realize in the least that an age is over. We are busy picking up the threads of our life where we dropped them, with this difference only, that many of us seem a good deal richer than we were before. Where we spent millions before the war, we have now learnt that we can spend hundreds of millions and

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<sup>1</sup> Emphasis in **bold** added.

apparently not suffer for it. Evidently we did not exploit to the utmost the possibilities of our economic life. We look, therefore, not only to a return to the comforts of 1914, but to an immense broadening and intensification of them. All classes alike thus build their plans, the rich to spend more and save less, the poor to spend more and work less.

But perhaps it is only in England (and America) that it is possible to be so unconscious. In continental Europe the earth heaves and no one but is aware of the rumblings. There it is not just a matter of extravagance or "labor troubles"; but of life and death, of starvation and existence, and of the fearful convulsions of a dying civilization.

[...]

## CHAPTER II

### EUROPE BEFORE THE WAR

[...] The war had so shaken this system as to endanger the life of Europe altogether. A great part of the Continent was sick and dying; its population was greatly in excess of the numbers for which a livelihood was available; its organization was destroyed, its transport system ruptured, and its food supplies terribly impaired.

It was the task of the Peace Conference to honor engagements and to satisfy justice; but not less to re-establish life and to heal wounds. These tasks were dictated as much by prudence as by the magnanimity which the wisdom of antiquity approved in victors. We will examine in the following chapters the actual character of the Peace.

## CHAPTER III

### THE CONFERENCE

In Chapters IV and V I shall study in some detail the economic and financial provisions of the Treaty of Peace with Germany. But it will be easier to appreciate the true origin of many of these terms if we examine here some of the personal factors which influenced their preparation. In attempting this task, I touch, inevitably, questions of motive, on which spectators are liable to error and are not entitled to take on themselves the responsibilities of final judgment. Yet, if I seem in this chapter to assume sometimes the liberties which are habitual to historians, but which, in spite of the greater knowledge with which we speak, we generally hesitate to assume towards contemporaries, let the reader excuse me when he remembers how greatly, if it is to understand its destiny, the world needs light, even if it is partial and uncertain, on the complex struggle of human will and purpose, not yet finished, which, concentrated in the persons of four individuals in a manner never paralleled, made them, in the first months of 1919, **the microcosm of mankind.**

[...]

## CHAPTER IV

### THE TREATY

[...] The German economic system as it existed before the war depended on three main factors: I. Overseas commerce as represented by her mercantile marine, her colonies, her foreign investments, her exports, and the overseas connections of her merchants; II. The exploitation of her coal and iron and the industries built upon them; III. Her transport and tariff system. Of

these the first, while not the least important, was certainly the most vulnerable. The Treaty aims at the **systematic destruction** of all three, but principally of the first two.[...]

But these terms are unimportant compared with the more comprehensive provision by which „the Allied and Associated Powers reserve the right to retain and liquidate *all* property, rights, and interests belonging at the date of the coming into force of the present Treaty to German nationals, or companies controlled by them,“ within the former German colonies. This **wholesale expropriation of private property** is to take place without the Allies affording any compensation to the individuals expropriated, and the proceeds will be employed, first, to meet private debts due to Allied nationals from any German nationals, and second, to meet claims due from Austrian, Hungarian, Bulgarian, or Turkish nationals. Any balance may either be returned by the liquidating Power direct to Germany, or retained by them. If retained, the proceeds must be transferred to the Reparation Commission for Germany's credit in the Reparation account.

In short, not only are German sovereignty and German influence extirpated from the whole of her former oversea possessions, but the persons and property of her nationals resident or owning property in those parts are deprived of legal status and legal security.[...]

The provisions relating to coal and iron are more important in respect of their ultimate consequences on Germany's internal industrial economy than for the money value immediately involved. The German Empire has been built more truly on coal and iron than on blood and iron. The skilled exploitation of the great coalfields of the Ruhr, Upper Silesia, and the Saar, alone made possible the development of the steel, chemical, and electrical industries which established her as the first industrial nation of continental Europe. One-third of Germany's population lives in towns of more than 20,000 inhabitants, an industrial concentration which is only possible on a foundation of coal and iron. In striking, therefore, at her coal supply, the French politicians were not mistaking their target. It is only the extreme immoderation, and indeed technical impossibility, of the Treaty's demands which may save the situation in the long-run.[...]

Rivers which, in the words of the Treaty, „naturally provide more than one State with access to the sea,“ properly require some measure of international regulation and adequate guarantees against discrimination. This principle has long been recognized in the International Commissions which regulate the Rhine and the Danube. But on such Commissions the States concerned should be represented more or less in proportion to their interests. The Treaty, however, has made the international character of these rivers a pretext for taking the river system of Germany out of German control. [...]

Thus the Economic Clauses of the Treaty are comprehensive, and **little has been overlooked which might impoverish Germany now or obstruct her development in future**. So situated, Germany is to make payments of money, on a scale and in a manner to be examined in the next chapter.

## CHAPTER V

### REPARATION

[...] There are few episodes in history which posterity will have less reason to condone, – a war ostensibly waged in defense of the sanctity of international engagements ending in a **definite breach of one of the most sacred possible of such engagements** on the part of victorious champions of these ideals.

Apart from other aspects of the transaction, 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 unwise-**

**dom** for which our statesmen have ever been responsible. To what a different future Europe might have looked forward if either Mr. Lloyd George or Mr. Wilson had apprehended that **the most serious of the problems which claimed their attention were not political or territorial but financial and economic, and that the perils of the future lay not in frontiers or sovereignties but in food, coal, and transport.** Neither of them paid adequate attention to these problems at any stage of the Conference. [...]

Thus a scientific consideration of Germany's capacity to pay was from the outset out of court. The expectations which the exigencies of politics had made it necessary to raise were so very remote from the truth that a slight distortion of figures was no use, and it was necessary to ignore the facts entirely. The resulting unverity was fundamental. On a basis of so much falsehood it became impossible to erect any constructive financial policy which was workable. For this reason amongst others, a magnanimous financial policy was essential. The financial position of France and Italy was so bad that it was impossible to make them listen to reason on the subject of the German Indemnity, unless one could at the same time point out to them some alternative mode of escape from their troubles. The representatives of the United States were greatly at fault, in my judgment, for having **no constructive proposals whatever to offer to a suffering and distracted Europe.**[...]

## CHAPTER VI

### EUROPE AFTER THE TREATY

This chapter must be one of pessimism. 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.

[...] It is an extraordinary fact that **the fundamental economic problems of a Europe starving and disintegrating before their eyes,** was the one question in which it was impossible to arouse the interest of the Four. Reparation was their main excursion into the economic field, and they settled it as a problem of theology, of politics, of electoral chicane, from every point of view except that of the economic future of the States whose destiny they were handling.[...]

The essential facts of the situation, as I see them, are expressed simply. Europe consists of the densest aggregation of population in the history of the world. This population is accustomed to a relatively high standard of life, in which, even now, some sections of it anticipate improvement rather than deterioration. In relation to other continents Europe is not self-sufficient; in particular it cannot feed itself. Internally the population is not evenly distributed, but much of it is crowded into a relatively small number of dense industrial centers. This population secured for itself a livelihood before the war, without much margin of surplus, by means of a delicate and immensely complicated organization, of which the foundations were supported by coal, iron, transport, and an unbroken supply of imported food and raw materials from other continents. By the destruction of this organization and the interruption of the stream of supplies, a part of this population is deprived of its means of livelihood. Emigration is not open to the redundant surplus. For it would take years to transport them overseas, even, which is not the case, if countries could be found which were ready to receive them. The danger confronting us, therefore, is the **rapid depression of the standard of life of the European populations** to a point which will mean actual starvation for some (a point already reached in Russia and approximately reached in Austria). **Men will not always die quietly.** For starvation, which brings to some lethargy and a helpless despair, drives other tempera-

ments to the nervous instability of hysteria and to a mad despair. And these in their distress may overturn the remnants of organization, and **submerge civilization itself** in their attempts to satisfy desperately the overwhelming needs of the individual. This is the danger against which all our resources and courage and idealism must now co-operate. [...]

## CHAPTER VII

### REMEDIES

[...]