

THE ECONOMIC CONSEQUENCES OF THE PEACE

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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.

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**THE ECONOMIC CONSEQUENCES OF
THE PEACE**

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 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.

For one who spent in Paris the greater part of the six months which succeeded the Armistice an

occasional visit to London was a strange experience. England still stands outside Europe. Europe's voiceless tremors do not reach her. Europe is apart and England is not of her flesh and body. But Europe is solid with herself. France, Germany, Italy, Austria and Holland, Russia and Roumania and Poland, throb together, and their structure and civilization are essentially one. They flourished together, they have rocked together in a war, which we, in spite of our enormous contributions and sacrifices (like though in a less degree than America), economically stood outside, and they may fall together. In this lies the destructive significance of the Peace of Paris. If the European Civil War is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also, being so deeply and inextricably intertwined with their victims by hidden psychic and economic bonds. At any rate an Englishman who took part in the Conference of Paris and was during those months a member of the Supreme Economic Council of the Allied Powers, was bound to become, for him a new experience, a European in his cares and outlook. There, at the nerve center of the European system, his British preoccupations must largely fall away and he must be haunted by other and more dreadful specters. Paris was a night-

mare, and every one there was morbid. A sense of impending catastrophe overhung the frivolous scene; the futility and smallness of man before the great events confronting him; the mingled significance and unreality of the decisions; levity, blindness, insolence, confused cries from without, —all the elements of ancient tragedy were there. Seated indeed amid the theatrical trappings of the French Saloons of State, one could wonder if the extraordinary visages of Wilson and of Clemenceau, with their fixed hue and unchanging characterization, were really faces at all and not the tragi-comic masks of some strange drama or puppet-show.

The proceedings of Paris all had this air of extraordinary importance and unimportance at the same time. The decisions seemed charged with consequences to the future of human society; yet the air whispered that the word was not flesh, that it was futile, insignificant, of no effect, dissociated from events; and one felt most strongly the impression, described by Tolstoy in *War and Peace* or by Hardy in *The Dynasts*, of events marching on to their fated conclusion uninfluenced and unaffected by the cerebations of Statesmen in Council:

Spirit of the Years

Observe that all wide sight and self-command
Deserts these throngs now driven to demonry

By the Immanent Unrecking. Nought remains
But vindictiveness here amid the strong,
And there amid the weak an impotent rage.

Spirit of the Pities

Why prompts the Will so senseless-shaped a doing?

Spirit of the Years

I have told thee that It works unwittingly,
As one possessed not judging.

In Paris, where those connected with the Supreme Economic Council received almost hourly the reports of the misery, disorder, and decaying organization of all Central and Eastern Europe, allied and enemy alike, and learnt from the lips of the financial representatives of Germany and Austria unanswerable evidence of the terrible exhaustion of their countries, an occasional visit to the hot, dry room in the President's house, where the Four fulfilled their destinies in empty and arid intrigue, only added to the sense of nightmare. Yet there in Paris the problems of Europe were terrible and clamant, and an occasional return to the vast unconcern of London a little disconcerting. For in London these questions were very far away, and our own lesser problems alone troubling. London believed that Paris was making a great confusion of its business, but remained uninterested. In this spirit the British people re-

ceived the Treaty without reading it. But it is under the influence of Paris, not London, that this book has been written by one who, though an Englishman, feels himself a European also, and, because of too vivid recent experience, cannot disinterest himself from the further unfolding of the great historic drama of these days which will destroy great institutions, but may also create a new world.

CHAPTER II

EUROPE BEFORE THE WAR

BEFORE 1870 different parts of the small continent of Europe had specialized in their own products; but, taken as a whole, it was substantially self-subsistent. And its population was adjusted to this state of affairs.

After 1870 there was developed on a large scale an unprecedented situation, and the economic condition of Europe became during the next fifty years unstable and peculiar. The pressure of population on food, which had already been balanced by the accessibility of supplies from America, became for the first time in recorded history definitely reversed. As numbers increased, food was actually easier to secure. Larger proportional returns from an increasing scale of production became true of agriculture as well as industry. With the growth of the European population there were more emigrants on the one hand to till the soil of the new countries, and, on the other, more workmen were available in Europe to prepare the industrial products and capital goods which were to maintain the emigrant populations in their new homes, and to build the railways and ships which

were to make accessible to Europe food and raw products from distant sources. Up to about 1900 a unit of labor applied to industry yielded year by year a purchasing power over an increasing quantity of food. It is possible that about the year 1900 this process began to be reversed, and a diminishing yield of Nature to man's effort was beginning to reassert itself. But the tendency of cereals to rise in real cost was balanced by other improvements; and—one of many novelties—the resources of tropical Africa then for the first time came into large employ, and a great traffic in oil-seeds began to bring to the table of Europe in a new and cheaper form one of the essential foodstuffs of mankind. In this economic Eldorado, in this economic Utopia, as the earlier economists would have deemed it, most of us were brought up.

That happy age lost sight of a view of the world which filled with deep-seated melancholy the founders of our Political Economy. Before the eighteenth century mankind entertained no false hopes. To lay the illusions which grew popular at that age's latter end, Malthus disclosed a Devil. For half a century all serious economical writings held that Devil in clear prospect. For the next half century he was chained up and out of sight. Now perhaps we have loosed him again.

What an extraordinary episode in the economic

progress of man that age was which came to an end in August, 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighboring office of a bank

for such supply of the precious metals as might seem convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalization of which was nearly complete in practice.

It will assist us to appreciate the character and consequences of the Peace which we have imposed on our enemies, if I elucidate a little further some of the chief unstable elements, already present when war broke out, in the economic life of Europe.

I. Population

In 1870 Germany had a population of about 40,000,000. By 1892 this figure had risen to 50,-

000,000, and by June 30, 1914, to about 68,000,000. In the years immediately preceding the war the annual increase was about 850,000, of whom an insignificant proportion emigrated.¹ This great increase was only rendered possible by a far-reaching transformation of the economic structure of the country. From being agricultural and mainly self-supporting, Germany transformed herself into a vast and complicated industrial machine, dependent for its working on the equipoise of many factors outside Germany as well as within. Only by operating this machine, continuously and at full blast, could she find occupation at home for her increasing population and the means of purchasing their subsistence from abroad. The German machine was like a top which to maintain its equilibrium must spin ever faster and faster.

In the Austro-Hungarian Empire, which grew from about 40,000,000 in 1890 to at least 50,000,000 at the outbreak of war, the same tendency was present in a less degree, the annual excess of births over deaths being about half a million, out of which, however, there was an annual emigration of some quarter of a million persons.

To understand the present situation, we must apprehend with vividness what an extraordinary

¹ In 1913 there were 25,843 emigrants from Germany, of whom 19,124 went to the United States.