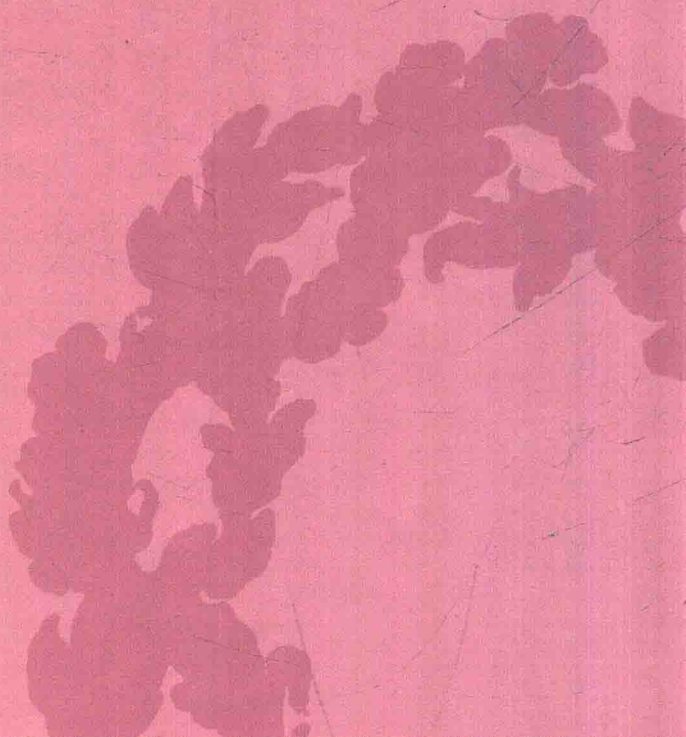


Keynes's *Economic  
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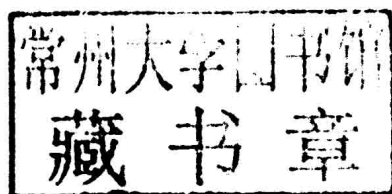
*Edited by Jens Hölscher  
and Matthias Klaes*



KEYNES'S *ECONOMIC CONSEQUENCES OF  
THE PEACE*: A REAPPRAISAL

EDITED BY

Jens Hölscher and Matthias Klaes



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## LIST OF CONTRIBUTORS

**Seven Ağır** recently completed a post-doc at Yale's Economic History Programme before joining the Economics faculty of Middle East Technical University. Her research interests lie in the historical development of economic institutions in the Middle East, with special focus on the late Ottoman Empire. Ağır holds a PhD in Near Eastern Studies from Princeton University and an MS in Economics from Middle East Technical University. She has published articles on Ottoman economic history and economic thought with a comparative focus on the Spanish case, and on contemporary political economy.

**Anna M. Carabelli** is Professor of Economics at the Università del Piemonte Orientale (Alessandra-Novara-Vercelli, Italy), where she teaches International Economics and Economic and Monetary Policy. She is the author of *On Keynes's Method* (Macmillan, 1988) and of articles on Keynes's views about probability and uncertainty, on the comparison between Keynes's and Hayek's views on expectations, and on Keynes's international economics.

**Mario A. Cedrini** is Assistant Professor of Economics at the Università di Torino (Italy), where he teaches Macroeconomics and International Economics. He has published articles in several academic journals in economics, exploring John Maynard Keynes's thought, his international economics and the legacy of his reform proposal of the international economic order. His research interests also include economic methodology and economic anthropology.

**Douglas Coe** writes about monetary reform, especially the work of J. M. Keynes. He works closely with Ann Pettifor's Policy Research in Macroeconomics (PRIME): [www.primeeconomics.org](http://www.primeeconomics.org).

**Arturo Hermann** is a senior research fellow at the Italian National Institute of Statistics (ISTAT) Rome, Italy. In his main research fields — institutional and Keynesian economics, theories of social justice, political economy, sustainable development, also considered in their relations with psychology and psychoanalysis — he has authored four books and numerous articles in scholarly journals.

**Greg Hill** is an independent scholar who writes about philosophy, politics and economics. He is the author of *Rousseau's Theory of Human Association: Transparent and Opaque Communities* (Palgrave Macmillan, 2006), as well as articles in the *Cambridge Journal of Economics*, the *Journal of Post Keynesian Economics*, *Critical Review*, *Rationality & Society* and the *Journal of Social Philosophy*. His most recent essay, 'Neuroscience at the Playhouse', appeared in *Philosophy and Literature*.

**Jens Hölscher** is Professor of Economics at Bournemouth University and Head of the Department of Accounting, Finance & Economics. Previously he taught at the Universities of Berlin, Swansea, Birmingham, Chemnitz and Brighton. He held Visiting Professorships at the Universities of Halle (Institute of Economic Research IWH), East Europe Institute Regensburg, Bonn (ZEI), Bolzano-Bozen, Perugia, Frankfurt (Viadrina), New Brunswick in Cairo, Almaty (KIMEP and KBTU) and the Centre of Economic Research at the Deutsche Bundesbank. He is interested in monetary and transition economics, both areas in which he published widely. He is the co-editor of Palgrave Macmillan's book series *Studies in Economic Transition*.

**Jesper Jespersen** is Professor of Economics at Roskilde University. A member of the EMU Committee appointed by the Council for European Policy, in 2000 he submitted a minority opinion concerning the Danish membership of the EMU. He has, in particular, undertaken research into Danish exchange rate policy in relation to the EMU, and has contributed at several Parliamentary hearings on EMU respectively in January 2009 and February 2012. Together with Dr. Bruno Amoroso he published *L'Europa oltre l'Europa* (RX-Castelvecchi, 2012).

**Matthias Klaes** is Professor of History and Philosophy of Economics and Dean of the School of Business at the University of Dundee. His research spans economics, management studies and research methodology. He has published widely in new institutional and behavioural economics, and economic and management methodology, with a particular focus on transaction costs and institutional governance, bounded rationality and uncertainty, and the history of economic doctrine. Current research interests include the social framing of decisions, and behavioural approaches to finance as they relate to online financial intermediation and crowdfunding.

**Larry Lepper** is Adjunct Researcher with Victoria University of Wellington, New Zealand. He is also the Co-ordinator for the Business, Economic, and Accounting Network at VUW. His publications include 'Assessing Information Quality Theories: The USS Joint Venture with William Holyman & Sons and Huddart Parker Ltd, 1904–35' (*Business History*, 2002, with G. Boyce) and

'Rhetoric and Keynes' use of Statistics in Economic Consequences of the Peace' (*Cambridge Journal of Economics*, 2013).

**Eyüp Özveren** is currently Dean of the Faculty of Economics and Administrative Sciences of Middle East Technical University, Ankara, where he is also Full Professor at the Department of Economics. He received his PhD in sociology from the State University of New York at Binghamton and was also a Research Associate of the Fernand Braudel Center for the Study of Economics, Historical Systems, and Civilizations. He has published extensively in both the history of economic thought, and economic history. He specializes in institutional political economy and Mediterranean studies, and has played a leading role in the formation of Black Sea studies. His works focus on the historical analysis of nineteenth-century Ottoman Empire and twentieth-century Turkey.

**Horst Tomann** is Professor Emeritus at the Freie University Berlin, where he held the Jean-Monnet-Chair for European Economic Policy. He had several appointments as Visiting Professor, among others at the University of Pennsylvania (Wharton School) and the University of Birmingham. He is the co-editor of Palgrave Macmillan's book series *Studies in Economic Transition*.

**Ivan Vujačić** is an associate professor at the Department of Economics as well as at the Department of Political Science, University of Beograd, Serbia. He teaches Comparative Economic Systems, the Economics of European Integration, International Economics and the American Economic System. His recent work is on privatization in Serbia, and the current crisis of the European Union. He has held public office as faction leader in Parliament and has served as the Ambassador to the United States between 2002 and 2009.

KEYNES'S *ECONOMIC CONSEQUENCES OF  
THE PEACE*: A REAPPRAISAL



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# INTRODUCTION: STANDING THE TEST OF TIME: MAYNARD KEYNES'S *ECONOMIC CONSEQUENCES OF THE PEACE*, A CENTURY ON

Jens Hölscher and Matthias Klaes

Keynes wrote *The Economic Consequences of the Peace* as an immediate consequence of his direct involvement in the Paris Peace Conference of 1919 leading up to the Treaty of Versailles.<sup>1</sup> He had participated in Treaty negotiations as the most senior Treasury representative,<sup>2</sup> a role from which he resigned shortly before the Treaty was signed, in protest at the level and extent of war reparations imposed on Germany, which he regarded as unsustainable and detrimental, not only to British interests, but to prosperity and peace in Europe overall.

Almost immediately upon his return from Paris on 7 June 1919, Keynes set out to write a blistering attack of the financial and economic settlements of the Treaty. He did so from Charleston Farmhouse, which already during the war years had become a regular haven to him from the demands of the Treasury post, allowing him to immerse himself in the artistic and intellectual life of this countryside retreat of the Bloomsbury Circle around Virginia Woolf, Clive and Vanessa Bell, and Duncan Grant. Arriving in Charleston on 13 June, he started work on the manuscript ten days later and delivered it to Macmillan Publishers in October 1919.

Written thus over a period of scarcely three months, *Economic Consequences* is a vivid testament to Keynes's qualities, not just as an economist, but as a writer too, steeped in the psychologizing metaphors and unerring eye for the inner life that one finds among the protagonists of Bloomsbury high modernism more generally.<sup>3</sup> At the same time, it offers economic analysis and commentary taken at occasion even verbatim and at length from Treasury briefings that Keynes had written to inform the Treaty negotiations.<sup>4</sup> Such combination of both rhetorical and analytical *tour de force*, completed only months after the Versailles Treaty itself, ensured *Economic Consequences* widespread attention and rapidly turned it into a bestseller on both sides of the Atlantic: 'It has been the text of discussion

in the House of Commons and in the [US] Senate, has been the subject of unofficial protests by French officials, has been debated on the platform, reviewed widely, and discussed everywhere'.<sup>5</sup>

Reading Keynes's *Economic Consequences* in 2014, a year where the world commemorates the centenary of the outbreak of World War I, one cannot help but be struck by the extent to which his words resonate to the present day. When he wrote of a Europe 'starving and disintegrating' before his eyes, parts of Europe were indeed experiencing large scale starvation and widespread political instability. While the situation today is not comparable in a literal sense, a hundred years on Europe has again been pondering its fate of late, triggered by a recent crisis in the financial sectors of the main Western economies that soon gave rise to a European sovereign debt crisis during which the previous anathema of a conceivable breakup of the European Monetary Union (EMU) made headlines virtually overnight. Keynes's concern during the Treaty negotiations was multi-lateral. In fact, it is not at all farfetched to regard him as one of the progenitors of the twentieth-century European movement. It is this motivation of his that continues to reach us in the twenty-first century, combined with an economic analysis that had fallen out of fashion until those crises rekindled our interest.

It was considerations such as those which prompted us, through the Scottish Centre of Economic Methodology (SCEME) and with support of Brighton Business School, the European Association for Comparative Economic Studies and the Post Keynesian Economic Studies Group, to convene the 16th SCEME Seminar in Economic Methodology in Sussex at Tilton House, the later country residence of Maynard-Keynes, close to Charleston Farmhouse itself, where the opening of the conference took place. On 12 and 13 September 2012, an international group of twenty scholars convened for intense and stimulating discussion and debate of the relevance of *Economic Consequences* for today, embedded in a programme of excursions of the local landscape, landmarks and venues held dear by Keynes and his Bloomsbury friends, and with the spirit of the Paris negotiations coming to life in an impromptu reading of the first act of Greg Hill's play.

The present volume draws together selected papers presented at the SCEME seminar in Tilton. In doing so, our aim has been to offer the reader a cross-section of current work in the history and methodology of economics that seeks to assess *Economic Consequences* in its historical context and to appraise its potential contribution to today's debates on the future of Europe in its many dimensions. This dual motivation is reflected in the structure of the volume. While most chapters touch on both aspects, contributions in the first part primarily focus on contemporary aspects of *Economic Consequences*, while in the second part attention shifts to the continued policy relevance of Keynes's book.

Douglas Coe offers us a broadly based insight into the historical, political and economic context of the early decades of twentieth-century Europe. One

of the hotly debated dimensions of Keynes's analysis in *Economic Consequences* has been the accuracy of his assessment of the German ability to shoulder the war reparations imposed on her by the Versailles Treaty, and the more general question of whether the level of those reparations played a role in the precipitation of the rise to power in Germany of Adolf Hitler's National Socialism. Coe argues that rather than the reparations, it was a misguided economic austerity programme, conceived on the basis of a misguided economic orthodoxy, that led to widespread economic crisis in the 1920s and 1930s. He provocatively asks whether Keynes's third way, distorted beyond recognition by that orthodoxy, also in regard to its influence on the rise of fascism, continues to be obscured by policies and financial interests already influential under national socialist rule.

Larry Lepper turns from this exploration of historical context in its widest sense to its cultural and intellectual dimensions by studying the idiosyncratic style in which *Economic Consequences* has been written. Bloomsbury modernism in its literary form sought to provoke the settled middle classes of the Victorian era by incisive use of satire and rousing metaphors, so masterly on display in Lytton Strachey's *Eminent Victorians* (1918).<sup>6</sup> As John Sutherland aptly observed, Strachey's work is among the select few in literature that have managed to overturn the genre to which they belong.<sup>7</sup> The same is true for Keynes's *Economic Consequences*, which established him as a Bloomsbury modernist. He would have listened to readings of Strachey's manuscript at Charleston from 1916, and in London before that, a practice which accounts for remarkable coherence of style across the various literary contributions of those years by members of the group, and which he conceivably reciprocated with extracts from the rapidly developing draft of *Economic Consequences*.<sup>8</sup> Likewise, the other members of the Bloomsbury inner circle would likely have been treated to readings of his own manuscript.

Lepper adds to our understanding of those well-known aspects of Keynes's work through an in-depth investigation of the rhetorical and literary context of *Economic Consequences*. His key question is whether the style of *Economic Consequences* undermines it in its contribution to economic analysis. With reference to the rhetorical nature of all scientific reasoning, his answer is a resounding 'no'. What *Economic Consequences* achieves is to embed statistical material that Keynes had already gathered on the question of German reparations while working for the British Treasury during the war, in a perceptive and stirring call for a change in approach, based on psychological insight into the motivations behind the Treaty negotiations in Paris, and on moral outrage at the implications of the decisions taken there. Lepper's detailed literary look at the composition of *Economic Consequences* and their embeddedness in Keynes's full command of the cultural repertoire of the canon of classical education also helps us better appreciate the book as a contribution to the genre of apocalyptic writing, which stylistically accounts for much of its emotive charge.

While the specific literary style of *Economic Consequences* is therefore a significant factor in any account of its contemporary success, one should not overlook that as an insider account of the Paris negotiations, arguably the most significant geo-political event at the time, *Economic Consequences* is of immediate relevance and concern to a sizeable international readership, including some of the political actors themselves. This aspect finds particular attention in Eyüp Özveren and Seven Ağır's chapter, which studies the reception of Keynes's book in Turkey during the final days of the Ottoman Empire as the Sultanate gave way to what was to become the Turkish Republic under Mustafa Kemal Atatürk's leadership. The Paris negotiations were of particular relevance to Turkish interests since they preceded the Turkish negotiations and, as Özveren and Ağır demonstrate, presented thus valuable strategic insight to the Turkish side of the ongoing negotiations that would lead to the 1920 Treaty of Sèvres and ultimately the Lausanne Treaty of 1923. The authors proceed to draw out the longer-term impact of *Economic Consequences* on the emerging European vision in Turkey regarding its international outlook and place.

Arturo Hermann finally looks in more detail at the broader context of *Economic Consequences* in Keynes's work by reading it as part of his *Essays in Persuasion*.<sup>9</sup> Keynes's *Essays*, which he published in 1931, represent a collection of pamphlets that he gathered together with a popular audience in mind, typically abridged in one way or the other compared to their first appearance in print. Like the earlier *Economic Consequences*, this collection too proved successful in terms of sales and went through many printings in the following years. Extracts from *Economic Consequences* make up the first thirty-odd pages of the *Essays*, followed by later pamphlets on a range of topics. In his review of those, Hermann's main intention is to draw out a common thread of themes and concepts that were to lead up to an intellectual development of Keynes's economic thought that found its most lasting and influential formulation in the *General Theory* of 1936.<sup>10</sup> A particular interest here is to underline Keynes's emphasis on the longer-term prospects of economic development, informed by a moral outlook on 'the good life' as one would wish it supported by a soundly run economy.

Part II of the present volume starts out with a more detailed inquiry into the moral dimensions of *Economic Consequences* as they relate in particular to Keynes's proposals regarding a moratorium on international debt. Anna Carabelli and Mario Cedrini's probing chapter strikes new ground in its analysis of Keynes's proposals in terms of sociological and anthropological notions of gift giving, the significance of which only becomes fully apparent within the more general methodological analysis by the authors of what they identify as Keynes's complexity approach to the economic challenges of uncertainty. This approach proceeds on the basis of a financialized understanding of advanced economies, where the key dynamic tensions arise out of the interaction between creditors

and debtors rather than consumers and producers. As Carabelli and Cedrini argue, this perspective is highly relevant to the understanding of the economic challenges that Europe faces today.

Horst Tomann further pursues the present-day implications of policy proposals that find their origins in *Economic Consequences* and, on the face of it, in an economic policy context far removed from the challenges faced by European economies as a result of the 2007–8 financial crisis. However, the suggestion of a debt moratorium, as Tomann shows, directly relates to the circumstances faced by the European Union, in particular in its monetary dimension, vis-à-vis countries that found themselves at the sharp end of the European sovereign debt crisis, as do Keynes's proposals regarding international loan facilities. In his analysis of the solvency conditions of embattled economies in the eurozone, Tomann points to ways forward that bear close resemblance to Keynes's proposals for the rekindling of the war-torn economies that characterized the economic landscape at the time of the Paris negotiations.

Keynes's lessons for dealing with the aftermath of the debt crisis also figure prominently in Jesper Jespersen's analysis of the European economies. Unlike Tomann, who arrives from his reading of *Economic Consequences* with a number of insights as to how some of the most significant challenges and imbalances arising out of the financial crisis may be mastered in Europe, Jespersen strikes a more sceptical tone, drawing parallels between the challenges faced by the eurozone and the ultimate retreat from the gold standard in the decades following the end of World War II, fully consonant with Keynes's views as one of its fiercest critics. Jespersen reminds the reader of the true dimensions of Keynes's commitment to a European rather than a partisan national economy perspective, which were relating to the economics and political foundations of European economies around lasting peace and democracy, rather than particular economic institutions such as a common currency.

Ivan Vujčić's chapter concludes the set of analyses in Part II of the current economic situation in Europe as seen from, or informed by, the perspective of *Economic Consequences*. He argues that what we find in Keynes's work amounts to an international political economy perspective that differs sharply from the mainline neoclassical approach that has informed the austerity measures adopted in Europe in response to the crisis. What would be necessary, according to Vujčić, is an urgent move towards fiscal federalism in Europe and hence to closer integration as a means of stabilizing the eurozone.

Greg Hill's play, finally, reminds us again of the multi-faceted nature of the pressing economic issues occupying the minds of those attending the Paris peace conference, including Keynes himself. What was called for was not a technocratic approach to low level administrative details of the economic system, but bold moves of international leadership. Keynes brought with him the vision to

map out the ingredients of such leadership on the economic level, but failed to sway the political interests that came to dominate negotiations in Paris, a dilemma Hill's play admirably succeeds in capturing, as further context of the conditions that led Keynes to the writing of *Economic Consequences* immediately after his resignation from the British delegation.



# 1 REPARATIONS, ORTHODOXY AND FASCISM

Douglas Coe

For although it is scientifically true that the situation thus delineated was created by a complex of events of which reparations and war debts have been only one, the common man cannot be expected to see it this way.

J. M. Keynes, 16 January 1932<sup>1</sup>

## Introduction

The purpose of this chapter is to contest the conventional wisdom that reparations were responsible for the rise of Hitler. As with the subject of this symposium, this wisdom is owed in part to Keynes's writings, or rather to a very literal interpretation of *Economic Consequences of the Peace*. Instead I argue that the economic chaos and severe social hardship of Germany through the 1920s and at the start of the 1930s were primarily the result of a hardline imposition of orthodox monetary and fiscal policies.

At face value reparations were severely punitive, but in terms of actual economic impact, cash payments were of far less importance than usually imagined. They were instead important politically, first as a means to the imposition of the orthodox policies, and, subsequently, as a device for right wing, nationalist forces.

The assessment is underpinned by a broader view of global and national economic policy that follows G. L. J. Tily's *Keynes Betrayed* (2007),<sup>2</sup> in particular drawing a sharp distinction between liberal financial arrangements under private authority and managed systems under public authority. On this view, the conventional narrative is supported by a historical and economic analysis that has been unable clearly to see:

- the scale of the orthodox initiative and the vigour with which it was pursued in the 1920s;
- the catastrophe of the Great Depression as a direct result of that orthodox approach; and
- the extent of the monetary and fiscal reform in the 1930s, which amounted to a genuinely revolutionary political and economic policy reaction.