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REVIEW

KEYNES, THE ECONOMIC CONSEQUENCES OF THE PEACE¹

MR. KEYNES needs no introduction to economists. The high quality of his work is known. This book shows the sure touch, the wide interests, the independent judgment, which we expect. It shows, also, fine spirit and literary skill. On one point I note a lack of craftsmanship, or at least a lack of consideration for the reader; the table of contents is quite inadequate and there is no index.

Mr. Keynes's relation to the British Treasury and to the treaty situation is not unfamiliar. He was in the inner councils of the Treasury during the war, and went to Paris with Lloyd George and the rest as one of a group of financial and economic advisers. His view of the situation was more aloof from the passions and prejudices of the moment than was the case with the responsible leaders. Toward the close of the Paris negotiations, he found himself much at odds with the others and withdrew from public position; and he has now returned to academic life. What he says in this book, however, is based almost entirely on information and material at the disposal of all the world. No official or quasi-official confidences are violated. Yet his intimate knowledge gives life to his treatment of familiar facts; and occasionally there is a slight lifting of the official veil. Thus on page 273 we read: "The financial history of the six months from the end of the summer of 1916 up to the entry of the United States into the war in April, 1917, remains to be written. Very few persons, outside the half-dozen officials of the British Treasury who lived in daily contact with the immense anxieties and impossible financial requirements of those days, can fully realize what steadfastness and courage were needed, and how entirely hopeless the task would soon have become without the assistance of the United States Treasury."

¹ *The Economic Consequences of the Peace* By John Maynard Keynes, C.B., Fellow of King's College, Cambridge. New York, Harcourt, Brace & Howe, 1920

Mr. Keynes's general position on the treaty is that of the searching critic — the advanced left. He believes that the treaty concedes too much to the vengeful and subjugating spirit of France. It imposes impossible terms on Germany and ignores the essential conditions of restoration and rehabilitation; it tries to create an impossible Europe. In its social aspects it is a capitalistic peace, dictated by bourgeois France and imperialistic Britain. The reparation burdens are beyond what Germany can fulfill. And the general policy of the treaty is not in accord with the pledges which the Allies gave to Germany in the communications which preceded the armistice. Speaking of Lloyd George's utterances during the British electoral campaign of late 1918, Mr. Keynes says: "This was the atmosphere in which the Prime Minister left for Paris, and these the entanglements he had made for himself. He had pledged himself and his Government to make demands of a helpless enemy inconsistent with solemn engagements on our part, on the faith of which this enemy had laid down his arms. There are few episodes in history which posterity will have less 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 the victorious champions of these ideals."

On President Wilson's part in the treaty the judgment is not less severe. Moreover, it is given with so much emphasis and at so great length that the responsibility seems to be laid chiefly on President Wilson. Mr. Keynes's disappointment with the treaty finds its counterpart in his disappointment with the President. The high hopes inspired in 1918 are contrasted with the distress and heartsinking of 1919. The characterization of President Wilson can best be stated in Mr. Keynes's own words: "Seldom a statesman of the first rank more incompetent than the President in the agilities of the council chamber . . . his mind slow and unadaptable . . . a blind and deaf Don Quixote." The final judgment is given in this passage: "The clue once found was illuminating. The President was like a Nonconformist minister, perhaps a

Presbyterian. His thought and his temperament were essentially theological, not intellectual, with all the strength and the weakness of that manner of thought, feeling, and expression. It is a type of which there are not now in England and Scotland such magnificent specimens as formerly; but this description, nevertheless, will give the ordinary Englishman the distinctest impression of the President."

In all this there is just enough of truth to make it impossible to enter an unqualified denial. The President does sometimes use large phrases without having clearly in mind the exact content. He is not as agile in the council chamber as the astonishingly nimble Lloyd George. Once set on a policy, he moves from it slowly, if at all. But he is far from slow-witted; on the contrary, he takes in the meaning and details of a situation with extraordinary quickness. He is not easily "bamboozled"; but after a policy has once been agreed on after long discussion and much insistence from all sides, he is not ready to throw it over at short notice. It is quite true, as Mr. Keynes says, that the American advisers at Paris protested emphatically against the reparation policy advocated by the other Allies and finally embodied in the treaty. It is also true that "to his horror, Mr. Lloyd George, desiring at the last moment all the moderation he dared, discovered that he could not in five days persuade the President of error in what it had taken five months to prove to him to be just and right." But this outcome was the inevitable consequence of the agility and vagaries of Lloyd George himself. No one could tell whether the mood of that person during any five days would hold into the next five days. The key which Mr. Keynes finds in the theological and Presbyterian temperament of the President does not seem to me to fit. And I am puzzled by passages like the following: "In the sweat of solitary contemplation and with prayers to God he [the President] had done *nothing* that was not just and right; for the President to admit that the German reply had force in it was to destroy his self-respect and to disrupt the inner equipoise of his soul; and every instinct of his stubborn nature rose in self-protection." This degree of intimacy with

the characters of the actors is vouchsafed only to writers of fiction.

Coming now to the substance of the economic provisions of the treaty, I find myself in general accord with what Mr. Keynes says. He makes out an estimate of what Germany can do in the way of reparation which is based on an analysis of her imports and exports and the possible annual remittance to foreign countries. The maximum amount of annual excess of exports, even having regard to the advance over pre-war prices, he puts at \$500,000,000. This figure, allowing 5 per cent for interest and 1 per cent for repayment of principal, represents a present value of \$8,500,000,000. The maximum at the greatest stretch cannot, in his judgment, exceed ten billions. Some such figure, it is not improper to say, was reached independently by Professor A. A. Young in his estimates for the American financial advisers.

Against this is to be set the sum of at least ten billions, plus at least two and one-half billions more, which the treaty requires from Germany once for all. The contingent liability of Germany for ten billions more, which the reparation commission is given authority to impose if within her capacity, can then be dismissed as mere bluff — a sop to the bamboozled public of Great Britain and France. Certain it is that uncertainty is an evil of the gravest kind. The American advisers urged throughout that a specific sum should be set and the future thus left unclouded. The conditional and uncertain form in which the obligation for reparation has been left in the treaty cannot be long maintained.

I cannot agree with Mr. Keynes in all his conclusions concerning the weakening of German industries through the loss of territory. The coal of Silesia remains available as before, since it will not fail to enter Germany free of duty and since it can find no other outlet. The loss of Lorraine ore is a more serious matter. Mr. Keynes admits, as all must, that Lorraine had to go back to France. With France in control of Lorraine ore and Germany in possession of Ruhr coal, there is a political dislocation of the natural industrial connection. To speak in teleological terms, nature meant that the ore of

Lorraine should be smelted with the coal of Westphalia. Sooner or later I cannot but believe that a *modus vivendi* will be reached between France and Germany under which each will supply the materials indispensable to the other. But it is true that if the extreme policy of industrial imperialism dominates France, an unstable situation will remain and the economic and political future of all Europe will be gravely imperiled.

It is true also, as Mr. Keynes points out, that an immense deal depends on the commercial relations which will be reached under the treaty for central and western Europe. He advocates a Free Trade Union for the congeries of countries into which central Europe has been split up. This seems to me utopian. True, an endeavor by all the small states to establish each for itself a crude protectionist policy would be fatal. Schmoller himself, the apostle of Neo-Mercantilism, protested that no small state could carry out a sensible protectionist policy. The only safeguard against a disintegrating and impotent struggle is some sort of united action. Complete free trade, as suggested by Mr. Keynes, is quite beyond the possibilities. Even a Customs Union for central Europe would incontestably be vetoed by the Allies, most of all by Britain herself. The only promising policy is that of a series of commercial treaties permitting free movement of food and materials, with moderate and uniform duties on manufactures. Even to this the French would make objections. They want a number of independent and more or less hostile states, with whom France can bargain one by one in such way as to bring each of them through skillful discrimination into special trade relations of supposed advantage to France. All that can now be said is that after the five-year period of transitional arrangements which the treaty prescribes there will necessarily be a readjustment in the commercial field, and that this readjustment will be of cardinal importance for all Europe. Here is one of the most promising fields for the League of Nations, not as dictator, but as sponsor and arbitrator.

In regard to international loans, Mr. Keynes's proposals again are utopian. He puts forth a plan which he believes to

have been feasible in 1919, and which he still favors now that the smoke of the treaty struggle has cleared away. Its cardinal feature is that all inter-ally indebtedness shall be canceled. Great Britain, France, and the United States (the only lenders) should cancel all loans made by them to other allies. This would mean that Great Britain would come out roughly even, and that France and Italy would be greatly relieved; while the United States, being a lender only, would be the one country to make substantial concessions and sacrifices. "Such proposals involved an appeal to the generosity of the United States. But that was inevitable; and in view of her far less financial sacrifices, it was an appeal which could fairly have been made to her. Such proposals would have been practicable. There is nothing in them quixotic or utopian." Unfortunately I cannot but believe that the proposals were quite impracticable in 1919, and they seem to me to be so still. The American representatives at Paris could not possibly have consented to them then, nor would it be possible to secure the consent of the United States now. In view of what has happened in the United States since June, 1919, imagine what would have been the attitude of the American Senate on a treaty provision for forgiving all debts of the United States to the Allies! Whether eventually something of the kind may be brought about, I will not undertake to say. For myself, I hope it may. But it would be quite useless to propose such a course until the process of financial rehabilitation has been set going in earnest throughout Europe.

Mr. Keynes is right in urging that the treaty must be modified and the constitution of the League of Nations must be amended. No sensible man at Paris believed that the provisions could be carried out in detail to the bitter end. Whether it was wise on the part of the Americans to accede to them as they stand is one of those questions on which historians will probably differ forever. Mr. Keynes has indicated the difficulties of the situation in a passage which describes the influences that swayed the President better than any reference to his "Presbyterian" bias. "There were

certain very important points in the program of his French, British, or Italian colleagues, as the case might be, of which he was incapable of securing the surrender by the methods of secret diplomacy. What then was he to do in the last resort? He could let the Conference drag on an endless length by the exercise of sheer obstinacy. He could break it up and return to America in a rage with nothing settled. Or he could attempt an appeal to the world over the heads of the Conference. These were wretched alternatives, against each of which a great deal could be said. They were also very risky — especially for a politician. The President's mistaken policy over the Congressional election had weakened his personal position in his own country, and it was by no means certain that the American public would support him in a position of intransigency. . . . Besides, any open rupture with his colleagues would certainly bring upon his head the blind passions of 'anti-German' resentment with which the public of all allied countries were still inspired. . . . The cry would simply be that, for various sinister and selfish reasons, the President wished 'to let the Hun off.' The almost unanimous voice of the French and British press could be anticipated. Thus, if he threw down the gage publicly he might be defeated. And if he were defeated, would not the final Peace be far worse than if he were to retain his prestige and endeavor to make it as good as the limiting conditions of European politics would allow him?"

Mr. Keynes quotes at the end of his volume some noble verse, the authorship of which unfortunately I cannot place, expressing the sadness and the forebodings of the time. For myself I would conclude by quoting an adage from a familiar source:

Take up this mangled matter at the best;
Men do their broken weapons rather use
Than their bare hands.

F. W. TAUSSIG.

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