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Reviewing John Maynard Keynes: The Economic Consequences of the Peace

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Introduction

In his work, *The Economic Consequences of the Peace*, John Maynard Keynes provides an excellent analysis of the Treaty of Versailles from his first-hand accounts of the treaty's formation. Keynes, a member of the British Treasury during World War I, represented the United Kingdom at the Paris Peace Conference until June 7th, 1919.¹ Repulsed by the proposed treaty terms, Keynes resigned from his post, returned to England, and set about raising awareness about the Treaty's flaws. Keynes believed that the Allied Powers led by American President Woodrow Wilson, English Prime Minister David Lloyd George, and French Prime Minister Georges Clemenceau were acting dishonorably toward the German government that had agreed to an armistice. The allied leaders implemented what he called a "Carthaginian Peace."² From his observations, Keynes described the actions and personalities of the different leaders and offered critical insight into their intentions. According to Keynes, the French generated the fundamental motivation behind the strategy: "In so far as the main economic lines of the treaty represent an intellectual idea, it is the idea of France and Clemenceau...He alone both has an idea and considered its consequences."³ The book focuses on Keynes's calculation that Germany was vastly overcharged through reparations.

From 1870 onwards, Germany had begun to surpass France as the dominant power on the continent, and France was determined to reverse this trend.⁴ The English only wished to end the war, and Prime Minister Lloyd George hoped to use the treaty to get reelected. President Wilson had come to Europe welcomed as a hero but soon was outwitted by the French and British. Wilson, being an idealist and seeking to promote his "14 points,"⁵ placed his political idealism above the necessary restitution of Europe. Knowing that Wilson was vulnerable, Clemenceau manipulated him into stripping Germany of its wealth and production ability. Keynes was disgusted and left the conference to inform the world, "My purpose in this book is to show that the Carthaginian Peace is not *practically* right or possible."⁶ Although the Allied powers were entitled to monetary restitution, they unjustly took most of Germany's wealth and indirectly starved the German population, as well as planted the seeds for revenge.

While offering various meaningful and accurate assessments about the failure of the Treaty of Versailles, in his conclusion Keynes does not assign enough blame to Germany for its wartime actions. Additionally, it must be noted that the alternative actions listed in the book are weak because of their inevitable shift of cost from the German population to the American population, due to the United States of America being the chief loan provider for the Allies.⁷ For all the aforementioned reasons summarized above and to be further explored below Keynes' work should be read today. Although *The Economic Consequences of the Peace* was written in light of specific historical circumstances of the 20th century it remains relevant in the 21st century because the book provided evidence that a dictated peace leads to short term cease-fires, but only proper restitution can provide lasting peace.

¹ John Maynard Keynes, *The Economic Consequences of the Peace* (1919; Heritage Illustrated Publishing, 2014), 3.

² Keynes, *The Economic Consequences of the Peace*, 19.

³ *Ibid.*, 17.

⁴ *Ibid.*, 19.

⁵ Woodrow Wilson, "Fourteen Points," (January 1918): <https://www.archives.gov/milestone-documents/president-woodrow-wilsons-14-points>.

⁶ Keynes, *The Economic Consequences of the Peace*, 19.

⁷ *Ibid.*, 115.

Summary

Keynes displays his arguments plainly and pedagogically with the chapter titles “Introductory,” “Europe Before the War,” “The Conference,” “The Treaty,” “Reparation,” “Europe after the Treaty,” and “Remedies.” The introduction is simple and explains the need for restitution after the war rather than continued tension since the fighting has ended. Chapter two, “Europe Before the War,” outlines the massive population growth, centralization, and the infrastructure created in Europe to support the explosion in population. In the paragraph “The Psychology of Society,” Keynes reveals that the key to building wealth and prosperity in Europe during the 19th century was, to a significant extent, wealth inequality.⁸ The wealthy did not spend frivolously but instead invested and accumulated capital that ultimately led to societal investment. Chapter three, “The Conference,” exposes Keynes’s evaluation of the treaty in generalities and his description of Wilson, Clemenceau, and Lloyd. His characterization of each leader reveals their roles in crafting the treaty and its reparations clause. The chapter titled “The Treaty” details the underlying motivations and nature of the Treaty of Versailles reparations clauses. Here Keynes states:

The future life of Europe was not their concern; its means of livelihood was not their anxiety. Their preoccupations, good and bad alike, related to frontiers and nationalities, to the balance of power, to imperial aggrandizements, to the future enfeeblement of a strong and dangerous enemy, to revenge, and to the shifting by the victors of their unbearable financial burdens on to the shoulders of the defeated.⁹

To Keynes, the Allied Powers operated with a philosophy of vengeance, thereby pillaging Germany as their means to gain relief from mounting debt. The book portrays a betrayal that developed unbeknownst to the German leadership because of their faith in Wilson’s promise that “The impartial justice meted out must involve no discrimination between those to whom we wish to be just and those to whom we do not wish to be just.”¹⁰ However, in Keynes’s view there would be no impartial justice as France and Poland annexed German land and seized the German merchant marine fleet. In the longest chapter, “Reparations,” Keynes details the gross amount of money Germany was billed. By his calculations, the Allied Powers property damages ranged between 8 billion to 15 billion American dollars. Therefore, he believed it would have been reasonable to demand 10 billion from Germany.¹¹ The treaty required Germany to pay a total amount of 40 billion.¹² Keynes did not trust Germany could come anywhere close to these to that amount. He understood that the allies would not receive their payments and, more significantly, the German people would suffer horrendously. In both respects, the treaty would be a disaster. The post-war chapter provides a warning of imminent starvation and death in central Europe because of the treaty and its future affects.

⁸ Keynes, *The Economic Consequences of the Peace*, 12.

⁹ *Ibid.*, 27.

¹⁰ *Ibid.*, 29.

¹¹ *Ibid.*, 61.

¹² *Ibid.*, 65.

Keynes Alternative Solution

Almost prophetic of the Second World War, Keynes wrote about the danger of ideas fostered when men have little hope. In desperation, they will turn to extremes to restore themselves. Keynes did offer counterproposals to the Treaty of Versailles. In his Remedies section, Keynes expressed that the United States and the United Kingdom would be critical to his plan. He called for Germany to only pay 10 billion dollars in reparations and for the allies to forgive their interally indebtedness.¹³ The United States would forgive 10 billion that it was owed from other allies and the United Kingdom forgive 4 billion 500 thousand. Conversely, France and Italy would be forgiven 3 billion 500 thousand and 4 billion respectively, and lesser allies also be forgiven their war debts.¹⁴ Every nation owed each other, with Germany owing the allies, the allies owing the United Kingdom, and the United Kingdom owing to the United States, who was a lender only. By easing the financial burdens of the world and focusing on recovery, Keynes thought that suffering could be relieved, and peace maintained.

Critique

This book provides a unique insight into history post-World War I, as the author was a citizen of an Allied nation yet opposed the Allies' peace efforts in the Treaty of Versailles. Regardless, the primary consequence of the Treaty of Versailles was economic despair spearheaded by hyperinflation. From 1914 to 1923, Germany printed 496.5 quintillion marks which caused the currency to fall to one-trillionth of its 1914 gold value.¹⁵ The resulting economic tailspin created a population amenable to anything they believed could save them. It must be noted that Hitler's rise to power is not the fault of the Allies. Students of history and international relations should use this book as a reflection of the necessity for peace solutions containing a moral component in addition to economic restitution. The election of Hitler to political office might have been avoided by a true armistice, but the responsibility of electing the dictator lies with Germans. The Allied Powers were justified in punishing Germany, but their lack of foresight created an unstable environment.

Keynes alludes to a firm but forgiving response indicative of a moral argument more than a pragmatic or geopolitical one. Interestingly, Keynes never invokes a moral agent to substantiate his ideas leaving his alternatives lacking. It would have benefitted Keynes to directly express some form of worldview to support his claims like a religion, humanism, or utilitarianism. However, the groundwork that Keynes does lay can be useful for modern day students and scholars. For example, Christians operating in the geopolitical arena should take care to notice how a biblical worldview can be utilized in international relations. 1 Thessalonians 5:15 states, "See that no one repays evil for evil, but always seek what is good for one another and for all people."¹⁶ Keynes inadvertently embodies a similar approach with his desire for Germany to pay what is fair and then for all of Europe to move forward and begin rebuilding the continent and creating prosperity. Future catastrophe can be avoided by using moral arguments adapted to the individuals and context of the time.

¹³ Keynes, *The Economic Consequences of the Peace*, 109.

¹⁴ *Ibid.*, 113.

¹⁵ Costantino Bresciani-Turroni and Lionel Robbins, *The Economics of Inflation: A Study of Currency Depreciation in Post War Germany*, (1968; vol. three, New York: Augustus M. Kelley, 2006), 440.

¹⁶ 1 Thessalonians 5:15, NASB.

Whether in government or the private sector, it is imperative to respect the value of human life. The respect for human life was lost at the Paris Peace Conference due to the resulting hyperinflation absorbed by the civilian population¹⁷. As Keynes pointed out, the driving force of the men crafting the dictated peace was geopolitical and hegemonic. Hopefully, those who read his work will understand the importance of creating economic stability where citizens feel safe spending, saving, and investing in the market, which thereby, enhances social stability and reduces drastic political change. To create this type of environment, nations must not repay evil for evil.

Reader Response

John Maynard Keynes's treatise shows that the Allies' self-interest drove them to devastate the German economy. The acts signed at the Paris Peace Conference led to incalculable consequences:

The policy reducing Germany to servitude for a generation, of degrading the lives of millions of human beings, and of depriving a whole nation of happiness should be abhorrent and detestable, - abhorrent and detestable, even if it were possible, even if it enriched ourselves, even if it did not sow the decay of the whole civilized life in Europe. Some preach it in the name of Justice. In the great events of man's history, in the unwinding of the complex fates of nations Justice is not so simple. And if it were, nations are not authorized, by religion or natural morals, to visit on the children of their enemies the misdoings of parents or of rulers.¹⁸

Keynes blamed long-term German despair not on the German government but on the victorious Americans, English, and French. Keynes clearly articulated how the allies took away too many of Germany's resources. However, Keynes exhibits a prevailing flaw in his argument as he does not ascribe enough blame to Germany. There must be consequences for atrocities. He also expects the United States to ultimately pay for the First World war in every alternative solution he presents. It is paradoxical that he argues against exorbitant charges against Germany but would then charge the United States an unjust 10 billion in loan forgiveness.¹⁹ Keynes's argument against the Treaty of Versailles is strong, but his alternative suggestions are weak and contradictory to his argument. Inevitably, the costs for the war would be taken up by the United States. Keynes cannot and does not provide any reasoning for his proposal except for the claim that America suffered less than the European nations and should be generous.²⁰ Keynes alternatives become more of moral treatise than a practical guide in his conclusion.

Conclusion

The Economic Consequences of the Peace criticized the Treaty of Versailles and, in doing so, taught that international relations policy must encompass all realms of life including a moral aspect. The actions taken at the Peace Conference in Paris in 1919 were done to the strategic benefit of France, England, the United States, and the men who led them, at the expense of the German

¹⁷ Costantino Bresciani-Turroni and Lionel Robbins, *The Economics of Inflation: A Study of Currency Depreciation in Post War Germany*, 440.

¹⁸ Keynes, *The Economic Consequences of the Peace*, 86.

¹⁹ *Ibid.*, 113.

²⁰ *Ibid.*, 113.

civilian population. The adopted economic policies created the environment for evil ideologies like Nazism to arise and eventually plunge Europe into another World War. Overall, the book is a fascinating analysis of a crucial time in history that is often neglected due to the larger scale of World War II. John Maynard Keynes correctly identified the shortcomings and blatant offenses in the Treaty of Versailles but failed to offer an acceptable alternative.

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