

# **Modern History Sourcebook:**

## **John Maynard Keynes:**

### **The Economic Consequences of the Peace, 1920**

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*John Maynard Keynes (1883-1946) was an important English economist. In his The Economic Consequences of the Peace he attacked the effects of Versailles Settlement for its effects on Germany. He discussed the settlement in terms of numbers, and criticized the four allies for being obsessed with revenge upon Germany, to the point of driving it to ruin. The four most powerful allies (Britain, France, the United States, and Italy) dictated the Treaty of Versailles to a Germany that was still under blockade, even though an armistice had already been signed.*

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.

The Council of Four paid no attention to these issues, being preoccupied with others, - Clemenceau [French Prime Minister] to crush the economic life of his enemy [Germany], Lloyd George [British Prime Minister] to do a deal and bring home something which would pass muster for a week, the President [Wilson] to do nothing that was not just and right. 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 temperaments 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.

On the 13th May, 1919, Count Brockdorff-Rantzau addressed to the Peace Conference of the Allied and Associated Powers the Report of the German Economic Commission charged with the study of the effect of the conditions of Peace on the situation of the German population. "In the course of the last two generations," they reported, "Germany has become transformed from an agricultural State to an industrial State. So long as she was an agricultural State, Germany could feed forty million inhabitants. As an industrial State she could insure the means of subsistence for a population of sixty-seven millions; and in 1913 the importation of foodstuffs amounted, in round figures, to twelve million tons. Before the war a total of fifteen million persons in Germany provided for their existence by foreign trade, navigation, and the use, directly or indirectly, of foreign raw material." After rehearsing the main relevant provisions of the Peace Treaty the report continues: "After this diminution of her products, after the economic depression resulting from the loss of her colonies, her merchant fleet and her foreign investments, Germany will not be in a position to import from abroad an adequate quantity of raw material. An enormous part of German industry will, therefore, be condemned inevitably to destruction. The need of importing foodstuffs will increase considerably at the same time that the possibility of satisfying this demand is as greatly diminished. In a very short time, therefore, Germany will not be in a position to give bread and work to her numerous millions of inhabitants, who are prevented from earning their livelihood by navigation and trade. These persons should emigrate, but this is a material impossibility, all the more because many countries and the most important ones will oppose any German immigration. To put the Peace conditions into execution would logically involve, therefore, the loss of several millions of persons in Germany. This catastrophe would not be long in coming about, seeing that the health of the population has been broken down during the War by the Blockade, and during the Armistice by the aggravation of the Blockade of famine. No help however great, or over however long a period it were continued, could prevent these deaths *en masse*."

From John Maynard Keynes, *The Economic Consequences of the Peace* (New York: Harcourt Brace Jovanovich, 1920), pp.211-216.

Excerpt taken from (c)Paul Halsall Aug 1997; introductory remarks were modified by Paul Rittman.