

ETIENNE MANTOUX

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The  
CARTHAGINIAN  
PEACE

*or The Economic  
Consequences of  
Mr. Keynes*

*With an Introduction by*  
R. C. K. ENSOR

*and a Foreword by*  
PAUL MANTOUX

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## INTRODUCTION

THIS is not a memorial volume. Its publication had been undertaken on its merits some time before its author was killed; and but for the very long delays incidental to book-production in wartime, he would have had the satisfaction of seeing it in print. No one who knew Étienne Mantoux can be other than glad that an 'inheritor of unfulfilled renown' should have left behind at least this one book for remembrance. But its value is in itself, in the written word, and does not depend upon anything that we, his friends, may recall of a wonderful promise cut short on the threshold of performance.

This much, however, should be premised on the personal side. In undertaking his ruthless dissection of the book published twenty-six years ago by the then Mr. J. M. Keynes, Mantoux was not actuated by any indiscriminating prejudice against Lord Keynes's subsequent work. On the contrary, he fully shared the interest which most living economists have taken in it. A long critique of *The General Theory of Employment, Interest and Money*, published in 1937 in the *Revue d'Économie Politique*, survives to show his attitude towards the maturer speculations of the great Cambridge teacher.

The target of his attack, then, is not Keynesianism in general, but simply *The Economic Consequences of the Peace*—the rather youthful, over-clever, but prodigiously successful book, which from 1919 down to the present day has done more than any other writing to discredit the Treaty of Versailles. It is a book whose main dogmas have too long ceased to be argued about. They are taken for granted; they have passed into a legend. As such, they constitute, at least in the English-speaking countries, an influence to which no would-be framer of peace treaties can afford to be indifferent. And yet it has become the influence, not of living thought, but of a dead hand. It was high time that somebody brought its dogmas once more to the test of facts and recorded realities.

Étienne Mantoux's attempt to do this was not belated; for in truth, along its present lines, it hardly could have been made earlier than it was. Its strong feature is its confrontation of Keynes's dogmas with subsequent, including quite recent, events. So late as 1939 some of these events had not happened,

and others had happened behind screens which did much to conceal their proportions. Keynes had denounced the 1919 Treaty with Germany as over-harsh to the vanquished and impossible of execution. The sums demanded for reparations, he argued, were far in excess of what Germany could afford to set aside year by year; and even if by inhuman pressure on her people's standard of life she went some way towards doing so, it would be impracticable for her to transfer such large sums to the Allied countries across the obstacle of currency frontiers. Étienne Mantoux replies that under Hitler's pre-war rearmament policy Germany proved able year by year to set aside for war preparation sums actually greater than those which *The Economic Consequences of the Peace* had declared impossible; and was moreover able to do so, while maintaining the health and physical efficiency of her people at a notably high level. Again, in and from 1940, when the reparations boot was on the other leg, and Germany after conquering Western Europe was determined to wring huge ransoms from her prostrate opponents, she did not find the problem of currency frontiers at all insoluble. Where there was a will, there was a way; and once more the Keynesian difficulties went up in smoke.

But it is not merely with such central hammer-blows that Étienne Mantoux attacks the legendary idol. He goes all over it limb by limb, challenging the whole range of his adversary's conclusions, political as well as economic. Though *The Economic Consequences of the Peace* professes economics in its very title, it was in fact largely a politician's tractate; and it contributed most powerfully in the political sphere to some consequences—e.g. the defeat of President Wilson and the secession of the United States from the peace treaties and the League of Nations—which probably its author did not desire. It presumably has not gone for nothing on this side that Étienne Mantoux could consult, in his own father, a person whose inside confidential knowledge of the negotiations and negotiators of 1919 happens to be unsurpassed. But of course he observed the rules of the game, and his book relies on none but publicly verifiable evidence. On the economic side he had the advantage of working in America, while America was still neutral and economic information about the belligerents was not entirely confined within war's straitjacket. His economic data are well marshalled and very informative.

The book's value lies in prospect no less than in retrospect.

INTRODUCTION

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It makes popularly accessible a mass of facts, figures, and considerations which are topically relevant for our coming peace problems. Most of them, so far as I know, have never before been so conveniently exhibited together.

R. C. K. ENSOR

*Oxford*  
*October 1945*

find one so young as interested as he was in world affairs—of which, as a matter of fact, he had heard something at home. There it was that suddenly, at the age of seventeen, he became aware of the difficulties and dangers of the times we lived in, having first been brought up in the atmosphere of hope which had surrounded the beginnings of the League of Nations. My lifelong friend, Mackenzie King, whose guests we were at Laurier House, was so pleased with the young fellow's budding personality that he asked him half-jokingly why he should not come again later and work under him. A couple of years later he entered a competition on the following subject, proposed by the New History Society: 'How can University students help in the creation of the United States of the World?' His answer showed how well he realized the remoteness of the goal, if at all attainable, and the resolute, patient effort needed to build up a future world-opinion. In the 'thirties he visited Germany and Soviet Russia: he knew German fairly well, and had started learning the Russian language. He was prone to observe as much as to read, fully realizing the limitations of book-learning and the value of human contact and experience.

He had shown an early interest in political as well as in economic problems, but he was not party-minded. Had not the word 'liberal' lost much of its original significance, owing to its association with a party whose great days are over, it should be said of him that he was essentially a Liberal, in the full sense of the word. He loved freedom, but freedom for all, not for the benefit of a privileged few. Privilege he hated as much as arbitrary rule or State omnipotence. It was in that spirit that shortly before the war he was a party to conversations which took place between Walter Lippmann, who had just published his *Good Society*, and a small number of French scholars and writers, the question being how to shape a programme for a new, enlarged liberalism. He was both a son of the French Revolution and an adept of English political wisdom. Although he always remained faithful to the Declaration of the Rights of Man, he was a great reader and admirer of Edmund Burke, whose writings and speeches he often remembered and quoted.

As the war was drawing nearer, he was among those who did not believe that the danger could be averted unless fully realized without any of the delusions encouraged by pacifism and by the so-called appeasement policy. He was also convinced that peace could never be saved or defence made possible, should war be-

come inevitable, in the absence of a close understanding between, and mutual support of, Britain and France. This conviction it was that prompted him, from 1937 onwards, to send a number of letters to the *Manchester Guardian*, which were repeatedly followed by answers and discussions. Some of his present readers may remember those letters, signed either Étienne Mantoux or Historicus, and, in the first few months of the war, Ex-Civilian. If so, they will not have forgotten their devastating, undeniably French logic, combined with something much akin to British common sense and humour. Perhaps the most interesting among them are those Étienne exchanged with Sir Norman Angell, when he was endeavouring to demonstrate that the axiom 'War cannot pay' might lead to the greatest—and most dangerous—of illusions, if interpreted as ruling out the possibility of new war methods: those clearly outlined in National-Socialist written and spoken doctrine, and involving expropriation, enslavement, forced transfer of populations, and, if need be, wholesale extermination. How could such perils be averted if their existence was denied?

He also believed that the development of world relations after 1919 would certainly have led to more satisfactory results had a constant effort been made on both sides of the Channel to prevent fatal oppositions of views and policies. This consideration led him to study, from the political as well as from the economic point of view, certain misstatements or misinterpretations of fact which did so much from time to time to estrange British and French public opinion from each other, particularly on the treatment of German problems.

During the first year of the war, he served in the French Air Force as an observation officer on the Saar frontier. After the collapse in the summer of 1940, he and his two brothers having unsuccessfully attempted to sail for England, he spent some months in Lyons writing his doctor's thesis on the monetary theory of forced saving. In July 1941, thanks to the granting of a Rockefeller fellowship, he was able to leave for the United States and undertake original research in the Institute for Advanced Study at Princeton, New Jersey. The result was the writing of the present book, the purpose and meaning of which it must be left for the reader to appreciate. As soon as he had achieved what he had in mind to do, he left for England and early in 1943 resumed his officer's duties in the Fighting French Forces.



After the Allied landing in Normandy, it was his good fortune to be entrusted with a mission which fully repaid him for many tedious months of routine service. He belonged to the division led by General Leclerc, and was flying in one of the diminutive observation planes known as Piper Cubs, slow, unprotected, and unarmed craft which were supposed to be used exclusively for the control of artillery fire. When the population of Paris rose against the retreating Germans, the division was hurried forward to support the movement. Then it was that Étienne Mantoux was sent thirty miles ahead to fly over Paris and drop into the courtyard of the Préfecture de Police Leclerc's message to the Résistance Committee: 'Hold on, we are coming.' He and Captain Callet, the pilot, succeeded in their dangerous mission and returned unscathed through a hail of flak. After the division had fought their way into the city and met with the *delirious reception of Parisian crowds*, Étienne was one of the officers detached to see that the German capitulation was carried out, and first to stop local fighting. His lot was to receive the surrender of the troops still in occupation of two famous buildings—the Chamber of Deputies and the Ministère des Affaires Étrangères at the Quai d'Orsay. He then knew the full joy of a triumphant return home. In the following months he distinguished himself in the advance on Strasbourg and in the action at Royan to reopen the river access to Bordeaux, winning the Croix de Guerre with three palms and the American Air Medal. But his name remains associated with the great story of his native city's liberation from bondage—his beloved Paris, which after four anxious years he had discovered again from the sky. Mention of that momentous day was again made when he was posthumously awarded the Cross of a Chevalier of the Legion of Honour with a fourth palm.

Since the freeing of Paris he had been repeatedly asked by the Secretary-General of the Provisional Government to come and assist him. Another tempting proposal came from U.N.R.R.A., in which he was offered a post of responsibility. His only answer was that he was unwilling to leave the fighting forces until he had seen the war through. He particularly wished to end the campaign on German soil. He had just arrived there when the fatal occurrence happened in which he lost his life.

He disappeared at the moment when he saw the world, as it were, opening before him; when, after years of steady and

searching work, he felt ready for production and for action. All he had learnt and experienced and thought upon since childhood, his legal and economic training, his interest in international affairs, his familiarity with things British and American, all combined to fit him for the services he hoped to render. He had never been inclined to complacent optimism, and well knew that as much courage, although of a different kind, was needed in peace as in wartime. But he believed in the power of clear thinking and straightforward resolution, with both of which he was fully armed.

May I now quote from the letter Professor Laski wrote to the *Manchester Guardian* after reading the news of Étienne's death? 'I thought him one of the ablest students who had ever come my way. He had a quick, incisive mind, an astonishingly mature power of statement, and an almost equally mature power to see all round the problems he discussed. To that I must add that the simple integrity of his character, his friendliness, and his capacity for finding common intellectual interests a highroad to friendships, will never fade from my memory. After the fall of France in 1940 I lost sight of him until 1942. But we then began to correspond again and I must have heard from him every four or five months until the end of last year. His letters were, I cannot doubt, those of a young man who, both by intellect and character, was unmistakably destined to be one of the leaders of renascent France. I think of him not only as a friend but as a man who devoted all his great gifts to fitting himself for the service of freedom.'

There was so much life and spirit in him that, to those who knew him best, it is almost impossible to believe that he can be no more. His athletic build, powerful head, and clear complexion made him the very picture of health and strength. Nothing human was alien or indifferent to him. His range of culture was ever widening: he was well read in science and philosophy, and felt more and more attracted by history. He remained as eager as he had been when a boy to discover new aspects of the world. He was sensitive to all forms of beauty: music he simply could not live without—music and sunshine. On the eve of a battle he was enraptured by the sight of orchards in blossom. A copy of Baudelaire's poems was found in the pocket of the trench-coat he wore last, and a volume of Robert Browning's works in his officer's kit. He was fond of children, and children loved him. He felt at ease with men of all condi-

tions. Many are the letters telling of the warm feeling of friendship he left behind him. His human sympathy went together with his passion for what he deemed true and just. The causes he stood for he would defend in his frank, outspoken manner. Error or bias he would denounce with close reasoning and sharp irony. But there was no bitterness in him, save against deliberate falsehood or iniquity, when he would often cover his anger and scorn under a veil of feigned cynicism. His heart was as warm as his mind was lucid, generosity as much as intellectual power shining out of his clear, direct green-blue eyes.

PAUL MANTOUX

*Paris*  
*October 1945*

## PREFACE

The absence of romance in my history will, I fear, detract somewhat from its interest; but I shall be content if it is judged useful by those inquirers who desire an exact knowledge of the past as an aid to the interpretation of the future, which, in the course of human things, must resemble if it does not reflect it.—THUCYDIDES.

THE title of this volume is not intended in any spirit of discourtesy to Baron Keynes of Tilton. But the book to which it is meant to reply made history some twenty-five years ago, and its author has in this respect assumed a historical character. It is with the ideas of that author that the following is concerned, and not with the person of the present Lord Keynes.

This, however, is not to say that the subject has no immediate relevance to the present. It will probably be asked whether a controversy on this retrospective plane can to-day serve any useful purpose. Merely to raise such doubts in the abstract would be to deny all value to history; as Mr. Churchill has often reminded us, the longer you look back, the farther you can look forward. And the answer, in this particular case, is that while most of the facts under review belong indeed to the past, their consequences are lodged in the very vivid present. Bygones, to be sure, but *only* bygones, are bygones. To examine Mr. Keynes's pronouncements over the last Peace is neither to rake up old grievances nor to disinter dead issues; the issue is nothing else than what the coming Peace is to be.

For whereas twenty-five years ago the spirit of Mr. Keynes was militant, to-day it is triumphant. 'It was', he has written, 'my endeavour, in a series of books and articles during those years, to declare the eventual destination, conceding as little as possible to the diplomatic demands for half-truth or quarter-truth—or ten per cent truth to start with; and to throw down with violence the idols of the market place.'<sup>1</sup> After 1919, public opinion was swayed by a polemist of genius; for twenty-five years we did not cease to hear the vociferous echoes of his grand

<sup>1</sup> 'The Reconstruction of Germany', *The Nation and Athenaeum*, 7 January 1928, p. 532.

offensive against the last Peace; and it has now become an almost overriding axiom that in the making of the next, the warnings of the prophet must be heeded. The consequences, then, are with us. It is hard to see why anyone should be denied a sporting chance of hitting back on the pretext that the first blow was delivered a quarter of a century ago. *The Economic Consequences of the Peace* is generally considered a classic, and the first virtue of classics is that their subject is always up-to-date. The shortcomings of the present work must therefore be blamed upon the author solely, and not upon the subject.

In the process of so critical an enterprise, it was, on the other hand, the critic's responsibility to parry, as far as possible, the risks of distortion or misrepresentation that arise so frequently from arbitrary selection or from elision of context. I have therefore felt it necessary to quote rather extensively Mr. Keynes, as well as other sources, so that no suspicion of unfairness or insincerity could attach itself to the presentation of the case. In this I genuinely hope to have succeeded: although there may be some hard hitting in what follows, at least there is none aimed below the belt. Yet the presence of so many quotations inevitably burdens the narrative with dimensions more academic than will perhaps be thought desirable; and it will probably be said, for this reason, that I have overlaboured the point.

The answer, again, is that any labour involved is only proportionate to the importance assumed in our times by the ideas of Mr. Keynes—not one point only, but something, surely, that is somewhat vaster. Ideas, unless they can conspire with affections, moods, interests, or superstitions, are by themselves of very little moment in the swirl and swing of human affairs, so that their real contribution to the forces of history is never easy to unravel. If Mr. Keynes's ideas were such a success, it is because they were no accident; and it would doubtless be a profitable task to inquire into the Historical Causes of Mr. Keynes.

Yet even if one concedes (with Mr. Keynes) that it is by ideas that the world is ruled in the long run, one may still question how much influence can be wielded by those of a single individual. When nations are blown to pieces and empires shattered to their foundations, the historian is tempted to take the broader view. But Mr. Keynes belongs to that species of men who stand

in symbolic relation to the opinions and policies of their times; and the author of *The Economic Consequences of Mr. Churchill* would surely be the last to deny a share in the shaping of events to certain powerful personalities, or to pretend that this influence is any less true of the writer than of the statesman. 'Practical men', he has well said, 'who believe themselves to be quite exempt from intellectual influences, are usually the slaves of some defunct economist.' But this grip can be just as tight when the economist is still very much alive.

What follows, then, is not recrimination, but rehabilitation; for it is, in Mr. Keynes's own words, 'a story which is more important to the world than the motives and reputations of individual actors in it'.<sup>1</sup>

E. MANTOUX

July 1944

<sup>1</sup> *R.T.*, p. 149 n.

#### ABBREVIATIONS

- E.C.P.* J. M. KEYNES: *The Economic Consequences of the Peace*,  
1919.  
*R.T.* J. M. KEYNES: *A Revision of the Treaty*, 1922.  
*Baker.* RAY S. BAKER: *Woodrow Wilson and World Settlement*,  
1923.  
*Burnett.* P. M. BURNETT: *Reparation at the Paris Peace Con-  
ference*, 1940.  
*Miller.* D. H. MILLER: *My Diary at the Paris Peace Conference*,  
1924.

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## Chapter One

### INTRODUCTORY

People will endure their tyrants for years, but they tear their deliverers to pieces if a millennium is not created immediately.—WOODROW WILSON, on board U.S.S. *George Washington*, December 1918<sup>1</sup>

THE capacity to face practical alternatives is not a marked characteristic of mankind. Very few of us are prepared to decide the merits of human achievement from what we believe could have been better done instead. We prefer the soft, undelineated, tantalizing vision of which we know but one thing for certain, that it would answer our heart's desire. By what ways, at what cost, is left unspecified. For cost is sacrifice, and to forgo any portion of our beloved hopes, or to stand up to what we perceive, though ever so dimly, of their possible consequences, would be to fall back upon this inflexible law of choice which is as inseparable from human condition as is our lingering obstinacy in ignoring it.

This disposition has its advantages; the contemplation of an ideal, however distant, however impracticable, is a perennial incentive to our ingenuity and courage. But merely to crave for the happy end without calculating the means and accounting for the obstacles on the way is not idealism of a very noble brand. The subtlest obstacle, moreover, is in ourselves: for even as we come within reach of our heart's desire, it is our heart, meanwhile, that has changed, and we are already looking so far ahead as to taste in success the very smack of frustration.

Look at the end of work, contrast  
The petty done, the undone vast,  
This present of theirs with the hopeful past!

So does 'progress' elude us because nature mysteriously drives us to bypass it.

These features are common to all ages. They were dramatically displayed after 1919. For four agonizing years the Allied nations had been under the overwhelming threat of subjection to the might of Germany. Thanks to unexampled endurance

<sup>1</sup> Quoted in G. Creel: *The War, the World and Wilson*, 1920, p. 163.

and to measureless sacrifice, they had won a victory so complete as to surpass the hopes of even the most extravagant. Now they could breathe again. Now they were in a position not merely to free themselves from that menace for ever, but literally to give 'a new birth of freedom' to all those peoples who, sometimes for centuries, had been under the domination of foreign conquerors. 'Germany', said President Wilson on his return from Paris, 'had been preparing every resource, perfecting every skill, developing every invention, which would enable her to master the European world; and, after mastering the European world, to dominate the rest of the world. Everybody had been looking on. Everybody had known. . . . Yet we were all living in a fool's paradise.'<sup>1</sup> 'Her military men', he said, 'published books and told us what they were going to do . . . but we dismissed them. We said, "The thing is a nightmare. The man is a crank. It can not be that he speaks for a great Government. The thing is inconceivable and can not happen." Very well, could not it happen? Did not it happen? . . . The great nations of the world have been asleep,' continued the President, 'but God knows the other nations have not been asleep. I have seen representatives of peoples over there who for generations through, in the dumbness of unutterable suffering, have known what the weight of those armaments and the weight of that power meant.'<sup>2</sup>

To this state of affairs, the treaties of 1919 very properly put an end. The dream of resurrection came true. Never before had the nations of Europe enjoyed such a measure of freedom as after the Peace of Versailles. 'Probably less than three per cent of the European population are now living under Governments whose nationality they repudiate,' wrote Mr. Winston Churchill; 'and the map of Europe has for the first time been drawn in general harmony with the wishes of its peoples.'<sup>3</sup>

But great exertions, such as the War had imposed upon the Allied peoples, are likely to carry great expectations in their train. Such sacrifices, surely, could not go without their reward; and, like locusts, the hopes of millions were now descending thick and fast upon the Conference of Paris. What was expected from it was nothing less, literally, than the New Jerusalem. 'There', said a New York worker, pointing to the ship that was carrying President Wilson to Europe while it sailed past the

<sup>1</sup> Address at Sioux Falls, S. Dakota, 8 September 1919.

<sup>2</sup> Address at Minneapolis, Minn., 9 September 1919.

<sup>3</sup> Winston S. Churchill: *The Aftermath*, London, 1929, p. 206.

sweatshops of Hoboken and Newark, '—there goes the man who is going to change all this for us.'<sup>1</sup> And almost at the same moment, the President was expressing his own misgivings. 'What I seem to see', he said to a friend during the voyage, '—with all my heart I hope that I am wrong—is a tragedy of disappointment.'<sup>2</sup>

The peace that brought liberation to millions did not bring the millennium. So to the many other millions who, free as they were already, could not understand the full meaning of this liberation because they could not experience it, it came as a sharp disappointment—disappointment being probably sharpest among those who had suffered least, for it was they who were expecting most. Never before could a Peace Treaty have met with such vehement and indiscriminate abuse, not on the part of the vanquished merely, but on the part of the victors.

That resentment should have expressed itself on the side of the defeated party was inevitable. Had a solution existed that could satisfy all parties at once, no war would have been fought. However generous the Allies might show themselves, defeat could never be pleasant. Merely to forgo her ambitions of European conquest must have enraged Germany; to lose even her former hegemony over Europe must have infuriated her still more.

Similar outbursts of national indignation have been frequent in the past, and their effects sometimes more lasting, under the screen of peace, than is perhaps realized. It is to-day a fashionable practice to contrast the sixty (some even say hundred) years of peace that followed the Treaties of Vienna, with the twenty years' truce after the Treaty of Versailles. Yet the Treaties of Vienna had been for long years an object of deep and widespread detestation. In France particularly, this settlement was resented as a 'dictate'. 'No, they are not treaties, these sentences pronounced against us by the diplomats of Vienna,' wrote Armand Carrel, the foremost liberal journalist of his time. 'France was never a party to those infamous transactions. . . . Never could a more inhuman cunning devise all the conditions of the eternal abasement of a nation without allies, when the whole world was in arms against her.' 'The rage of our forefathers against the Treaties of 1815', another French-

<sup>1</sup> C. H. Haskins and R. H. Lord: *Some Problems of the Peace Conference*, Harvard, 1920, p. 7.

<sup>2</sup> G. Creel: *The War, the World and Wilson*, p. 163. (Quoted in R. S. Baker: *Woodrow Wilson and World Settlement*, vol. 1, p. 8.)

man has written more recently, 'counterbalanced for forty years the public discords caused by so many revolutions.'<sup>1</sup>

Fortunately for peace, however, the statesmen of those times were on all sides of a firmer stamp than those to whom the destinies of Europe were entrusted after 1919. Neither Canning, nor Palmerston, nor Metternich, was in a mood to tolerate any tampering with the European order under the pretext of 'appeasing' France. And the French monarchy, bent upon the maintenance of peace, had resolved (at the cost of its ultimate downfall) to curb the clamorous agitation of the more bellicose elements of public opinion at home. It was not through the absence of French resentment against the Treaties of Vienna that the peace of Europe was kept so long: it was kept, in spite of this resentment, by the quality of European statesmanship.

A French historian has written that it was only after the Treaty of Frankfort that history had rehabilitated the Treaties of Vienna. Likewise, public opinion has undergone a measure of change in recent years with regard to the Treaty of Versailles, and the legend of the Carthaginian Peace has, of late, worn a little thin. Yet there is hardly anything that we know to-day about Versailles that was not known already in 1919. Opinion changes not with the facts, but with perspective.

Perspective was still very close in the early days of June 1919. While the Allied and Associated Powers were preparing their reply to the Observations of the German Delegation on the Draft Treaty, Mr. John Maynard Keynes resigned his position as representative of the British Treasury at the Peace Conference, since, as he wrote afterwards, 'it became evident that hope could no longer be entertained of substantial modification in the draft Terms of Peace'.<sup>2</sup> Back in London, he wrote to General Smuts,<sup>3</sup> at that time delegate for the Union of South Africa at the Conference. He hoped that Smuts 'would feel one ought to do something about what was happening in Paris—revelation, protestation. He said he was to these ends, in any way, at Smuts's command.'<sup>4</sup>

General Smuts answered at once. He advised him to write 'a clear connected account of what the financial and economic clauses of the Treaty actually are and mean, and what their probable results will be. It should not', added the General, 'be

<sup>1</sup> Charles de Gaulle: *The Army of the Future*, New York, 1940, p. 80.

<sup>2</sup> *E.C.P.*, Preface.

<sup>3</sup> Now Field-Marshal Smuts.

<sup>4</sup> S. G. Millin: *General Smuts*, London, 1936, vol. II, p. 255.

too long or technical, as we may want to appeal to the plain man more than to the well informed or the specialist.<sup>1</sup>

*The Economic Consequences of the Peace* appeared in London in December 1919. It contained a vehement indictment of the Peace Treaty, and accused its authors of perjury, imbecility, and mass murder. The book became at once a best seller in Great Britain and in the United States. It was soon to be a classic of the English language; and its felicity of expression was certainly remarkable.

'Paris', wrote Mr. Keynes, 'was a nightmare, and everyone there was morbid. . . .' Its atmosphere was 'hot and poisoned', its halls 'treacherous' . . . Paris was a 'morass'. The European statesmen of the Conference were 'subtle and dangerous spellbinders . . .', the 'subtlest sophisters and most hypocritical draftsmen'; what inspired them was 'debauchery of thought and speech . . .', 'greed, sentiment, prejudice and deception. . .'. Their labours were 'empty and arid intrigue', 'the dreams of designing diplomats', 'the untruths of politicians', 'endless controversy and intrigue', 'contorted, miserable, utterly unsatisfactory to all parties'. President Wilson was 'a blind and deaf Don Quixote'; he was 'playing blind man's buff' in the party; he ended in 'collapse' and 'extraordinary betrayal'. The Treaty was clothed with 'insincerity', with 'an apparatus of self-deception', with 'a web of Jesuitical exegesis', which were to distinguish it 'from all its historical predecessors'. Its provisions were 'dishonourable', 'ridiculous and injurious', 'abhorrent and detestable'; they revealed 'imbecile greed', 'senseless greed overreaching itself', 'oppression and rapine'. For the Treaty 'reduced Germany to servitude'. It refused Germany 'even a modicum of prosperity, at least for a generation to come'; it 'perpetuated its economic ruin'; year by year, if it were enforced, 'Germany must be kept impoverished and her children starved and crippled'. Thus the Peace, that would 'sow the decay of the whole civilized life of Europe', was 'one of the most outrageous acts of a cruel victor in civilized history'.

There was sound and fury enough in Mr. Keynes's tale. What it signified is to be examined in what follows.

<sup>1</sup> S. G. Millin, *op. cit.*, vol. II, p. 256.

## Chapter Two

### PROPHECY AND PERSUASION

The age of chivalry is gone. That of sophisters, economists and calculators has succeeded; and the glory of Europe is extinguished forever.—BURKE, 1790

MR. KEYNES had assailed the statesmen of the Conference for their failure to apprehend 'that the most serious of the problems which claimed their attention were not political or territorial but financial and economic, and that the perils of the future lay not in frontiers or sovereignties but in food, coal, and transport'.<sup>1</sup> Compared to these, other issues, such as territorial adjustment and the balance of power, were unreal or 'insignificant'.<sup>2</sup> How often do we hear this pronouncement quoted to-day as the unheeded lesson that must this time become our inspiration!<sup>3</sup> But in view of the wealth of prophecies and warnings that were issued at the time, the merit has not yet perhaps been quite fairly apportioned among them all. As for his own, Mr. Keynes did not appear to believe that they had much to do with the unfurling of policies and events. 'The *Prophecy*', he wrote some years afterwards, in the preface to a volume where he had collected some of his miscellaneous writings, 'has been more successful than the *Persuasion*'.<sup>4</sup>

*The Economic Consequences of the Peace* was read all over the world. By 1924 the book had been translated into eleven languages, and its various editions had run into some 140,000 copies.<sup>5</sup> Perhaps only Edmund Burke's *Reflections on the Revolution in France* may be said to have wielded over the destinies of Europe such a widespread and immediate influence.

Its success, to be sure, was far from uniform. Naturally enough, enthusiasm was loudest in Germany (even though nothing in the book could be sensibly called 'pro-German'). And although Mr. Keynes had written most explicitly: 'France, in

<sup>1</sup> *E.C.P.*, p. 134.

<sup>2</sup> *E.C.P.*, pp. 138, 215.

<sup>3</sup> See for instance Professor E. H. Carr's *Conditions of Peace*, 1942, p. 57.

<sup>4</sup> *Essays in Persuasion*, London, 1932.

<sup>5</sup> It had been read, in the opinion of Sir William Beveridge, 'by—at a moderate computation—half a million people who never read an economic work before and probably will not read one again'. (*Economica*, vol. IV, 1924, p. 2.)

my judgment, in spite of her policy at the Peace Conference, a policy largely traceable to her sufferings, has the greatest claims on our generosity',<sup>1</sup> it was received in France with a stupefied indignation. In Great Britain and the United States, reactions were mixed: 'Comfort for Germany', wrote the *London Times*. Several of the American delegates to the Conference—Messrs. D. H. Miller, J. F. Dulles, Clive Day—protested sharply against what they called the book's misrepresentations, and challenged its general conclusions. Most of the hostile reviewers reprimanded the author for his lack of 'political sense'. Some said the book was academic, others that it was reckless. But very few attempted to criticize in any detail Mr. Keynes's findings on the economic side of the Peace Treaty; and such opponents as dared to affront his indefatigable pugnacity were soon overwhelmed by the mounting tide of public opinion. '*The Nation, Westminster Gazette, Sunday Chronicle, Athenaeum, Fortnightly Review*, all recognized at once the authentic and masterly, and freely welcomed it,' wrote Lord Stamp several years later. 'The general instructed chorus in America was with Keynes. . . .'<sup>2</sup> And only two months after the publication of his book, Mr. Keynes was writing to *The Times*: 'I have been criticized on various grounds, personal and otherwise. But no one has made a serious attempt to traverse my main conclusions. The illuminating influence of time has done its work, and these conclusions no longer conflict with the instructed opinion of the day.'

Thus, however Prophecy might fare, Persuasion, at any rate, had so far been successful; its effects were soon to be manifest.

For good or ill, the whole structure of the Treaty of Versailles had to rest upon the active and continuous support of all those who had designed it. Among them, America was foremost. Had America been absent from the War, the end might have been very different; so might have been the Treaty in the absence of America at the Conference. And without her participation in future, much of the Treaty was meaningless: for certain concrete guarantees had been abandoned in exchange for America's promise to give her own guarantee to the peace settlement. 'The whole Treaty', wrote Mr. Harold Nicolson, 'had been deliberately, and ingeniously, framed by Mr. Wilson himself to render American co-operation essential.'<sup>3</sup> Should this co-opera-

<sup>1</sup> *E.C.P.*, p. 115.

<sup>2</sup> 'The Economic Consequences of the Peace', *Foreign Affairs*, New York, October 1934, p. 106.

<sup>3</sup> H. Nicolson: *Peacemaking, 1919*, London, 1933, p. 207.

tion fail to materialize, the whole equipoise of Europe, so precarious already, might once again collapse.

Contemptuous as he was then of the balance of power and other such issues, Mr. Keynes probably did not attach much importance to this aspect of the problem. But no one could have been better convinced than he was of the need for America's participation in the economic reconstruction of Europe; for his positive programme of remedies implied, as an indispensable condition, not only a cancellation of inter-Allied indebtedness with the main burden falling upon the United States, but a new loan the major part of which was to come out of American pockets. Just as the execution of the Treaty was dependent upon American co-operation, so was the policy advocated in its stead dependent upon American goodwill. It seemed essential that America should not be persuaded to let Europe stew in its own juice.

Now even before the Treaty had been signed, the future attitude of the United States was arousing the gravest misgivings. News from across the Atlantic revealed increasing criticism of the President's person and policies. Many were beginning to wonder whether the public was still behind him, and whether in the end the Treaty would be ratified. Theodore Roosevelt had warned Europe that the President no longer commanded the confidence of the nation. In Congress, opposition was becoming louder every day. 'As it dawned gradually upon them (as upon us)', Mr. Harold Nicolson has said of his relations with the American delegates, 'that America was asking Europe to make vital sacrifices for an ideal which America herself would be the first to betray, a helpless embarrassment descended upon both of us. The ghastly suspicion that the American people would not honour the signature of their own delegates was never mentioned between us; it became the ghost at all our feasts.'<sup>1</sup> The months that followed the return of the President to America gave increasing confirmation of these suspicions; and in the summer and fall of 1919, while Keynes's book was being written, the President was locked in mortal struggle to secure the adoption of the Treaty against the rising tide of opposition.

Now no one can say with any certainty what course history would have taken if America's political co-operation with Europe had continued after 1919. But at the time it was not unwarranted to assume—particularly on the part of any one

<sup>1</sup> *Peacemaking, 1919*, p. 108.



bent, as was Mr. Keynes, on the softening of the Treaty's provisions—that in view of the attitude taken over certain questions by the American delegates at Paris, the best chance of having the Treaty modified in the sense desired was first to secure the continuance of America's participation in the application of the Treaty. 'If by any mysterious influence of error', said the President, 'America should not take the leading part in this new enterprise of concerted power, the world would experience one of those reversals of sentiment, one of those penetrating chills of reaction, which would lead to a universal cynicism, for if America goes back upon mankind, mankind has no other place to turn.'<sup>1</sup> But Mr. Keynes insisted that it was Europe that had gone back upon America, that the Treaty was a betrayal of American ideals, an economic absurdity, an instrument of systematic oppression and murder. Not content with presenting the statesmen of the Peace Conference with these amenities, he showered ridicule upon President Wilson. This was at a time when all hope of associating the United States in European reconstruction was hanging on the success of the President's efforts to have the Treaty accepted by the American people. His was already a losing battle; and in the thick of the fight, while Mr. Keynes was busy thus writing, he had finally broken down. It would seem that prudence recommended the familiar injunction 'Do not shoot the pianist. . . .' But the sarcastic verve of Mr. Keynes swept on with irrepressible gusto. Was it really possible to resist such a temptation? What a first-class 'stunt' would be his 'inside story' of the Conference! How the world would laugh at his sallies against the old Puritan of the White House! And so 'the poor President' was pictured as a 'blind and deaf Don Quixote', terrorized by Clemenceau or hypnotized by Mr. Lloyd George.<sup>2</sup> Nothing could have better pleased the enemies of the President at home. In his plea for mercy to the beaten foe, Mr. Keynes was to appeal with success to the traditional British distaste for hitting a man when he is down. But what matter? the man who was now going down was a friend. The time was up. The cock was already crowing.

*The Economic Consequences of the Peace* appeared in the

<sup>1</sup> 8 September 1919.

<sup>2</sup> 'There can seldom have been a statesman of the first rank more incompetent than the President in the agilities of the council chamber.' (*E.C.P.*, p. 40.) 'Never could a man have stepped into the parlour a more perfect and predestined victim of the finished accomplishments of the Prime Minister.' (*ibid.*, p. 38.) The President was 'foolishly and unfortunately sensitive' to the suggestion 'of being "pro-German"'. (*ibid.*, p. 42.)

United States in January 1920. It had a phenomenal sale. 'The truth is,' said General Smuts many years later, 'America wanted a reason for denying Wilson. The world wanted a scapegoat. At that opportune moment Keynes brought out his *Economic Consequences of the Peace*. There were a few pages about Wilson in it which exactly suited the policies of America and the world's mood. When I encouraged Keynes to write that book, I knew his views about the statesmen at Paris. But I did not expect a personal note in his book. I did not expect him to turn Wilson into a figure of fun. These few pages about Wilson in Keynes's book made an Aunt Sally of the noblest figure—perhaps the only noble figure—in the history of the war, and they led a fashion against Wilson that was adopted by the Intelligentsia of the day and is not yet past—the Intelligentsia (not the Intellectuals)—the people who, admiring only their own cleverness, despise real goodness, real thought, real wisdom. . . . Every paper I saw', added the General, 'quoted the part about Wilson's bamboozlement. Wilson was already going down in America. In their hearts, the Americans wanted him to go down: they wanted to evade the duties he imposed on them. The book was absolutely to their purpose. It helped to finish Wilson, and it strengthened the Americans against the League.'<sup>1</sup>

Judging from the use made of Mr. Keynes's book during the debate over the Peace Treaty, it is hard to find fault with General Smuts's comments. The book was seized by the President's opponents as a first-rate weapon in the fight then raging. It was quoted extensively as evidence of the infamous deeds committed at Paris, and in which America would not connive. On 10 February, Senator Borah read long extracts in the Senate; his comments could scarcely improve upon Mr. Keynes's text.

'His contention', he said, 'is that the German Treaty consigns continental Europe to perpetual famine and chronic revolution; that unless the Treaty is completely revised and rewritten, it must inevitably result that the economic system of Europe will be destroyed, which will result in the loss of millions of lives and in revolution after revolution, which necessarily follows when a people find themselves in the condition to which the people of Europe will be reduced. . . . When you think of the fact that they have lightly wrecked the entire economic system of an entire continent and reduced to starvation millions of people and perhaps prevented the world peace from coming

<sup>1</sup> S. G. Millin, *op. cit.*, vol. II, pp. 174, 257.

at all in this decade, there is no language too severe for such men. . . . The Treaty in its consequences is a crime born of blind revenge and insatiable greed.<sup>1</sup>

One month later, the Treaty was finally defeated. From that time on, the Keynesian picture was to remain implanted in the American mind. The horrors of Versailles became a veritable article of faith. They were used at every juncture to show that there was really no difference between the nations of Europe—that they were all equally revengeful, equally machiavellian, equally imperialistic; that the entry of America in the last war had been a ghastly mistake; and that the issue of any new one would be to her a matter of indifference, for an Allied victory would probably be no better than Versailles and a German victory could certainly be no worse. And thus, in sheer despair of a continent that would not be redeemed, America declared herself neutral: should war break out, she would be interested in neither party; all she would be interested in was keeping out. Whatever might happen in Europe, it was all the fault of Versailles.

## II

The United States had repudiated the Treaty legally from the outset. Great Britain was to abandon it morally in the course of the next twenty years, and to discover at the last moment that in the enforcement of its remaining provisions her very existence was at stake.

Mr. Keynes's pronouncements had not all been a matter of unanimous agreement in Great Britain. But after the first tide of protest had subsided, opinion divided itself henceforward into two major groups: those who accepted his verdict over the Treaty as a whole; and those who, while making reservations on the political side, yet accepted his economic conclusions. How deeply these conclusions did succeed in impressing all who were modest enough to accept the findings of the professional expert on 'technical' matters which they felt lay outside their own competence, may be seen from the opinion of Mr. Winston Churchill.

'Mr. Keynes,' he wrote in 1929, 'a man of clairvoyant intelligence and no undue patriotic bias, was a member of the staff which Great Britain transported to Paris for the Peace Con-

<sup>1</sup> *Congressional Record*, vol. 59, part 3, pp. 2696 ff.

ference. Saturated in the Treasury knowledge of the real facts, he revolted against the absurd objectives which had been proclaimed, and still more against the execrable methods by which they were to be achieved. In a book which gained a vast publicity, particularly in the United States, he exposed and denounced "a Carthaginian Peace". He showed in successive chapters of unanswerable good sense the monstrous character of the financial and economic clauses. On all these matters his opinion is good. Carried away however by his natural indignation at the economic terms which were to be solemnly enacted, he wrapped the whole structure of the Peace Treaties in one common condemnation. His qualifications to speak on the economic aspects were indisputable; but on the other and vastly more important side of the problem he could judge no better than many others. The Keynes view of the Peace of Versailles, justified as it was on the special aspects with which he was acquainted, greatly influenced the judgement of England and America on the whole settlement. It is however of high importance for those who wish to understand what actually happened, that the economic and general aspects of the Treaty of Versailles should be kept entirely separate.<sup>1</sup>

Now what gives special interest in this case to Mr. Churchill's opinion is that it is representative of what in Great Britain was the most reserved view. The influence of the book went a long way further; and the consequences were not perhaps quite those which had been either foreseen or desired.

The word 'appeasement' has acquired to-day a rather sinister sound. This has not always been so—or, rather, the indignant echo has not always rung so loud, nor has it always answered from the same direction. The word was present in the very earliest phase of the twenty years' debate, and with the same contradictory implications. 'We imagine that we shall appease [Germany] by certain improvements in our territorial conditions,' wrote Clemenceau to Mr. Lloyd George in March 1919. 'This is a sheer illusion and the remedy is not equal to the disease. . . .'<sup>2</sup> 'If', said the Allied Reply to the German Delegation, in June 1919, 'there is to be early reconciliation and appeasement, it will be because those responsible for concluding the war have had the courage to see that justice is not deflected

<sup>1</sup> Winston S. Churchill, *The Aftermath*, pp. 155-6.

<sup>2</sup> General observations on Mr. Lloyd George's Memorandum of 26 March, quoted in *Papers Respecting Negotiations for an Anglo-French Pact*, Cmd. 2169, p. 89.

for the sake of a convenient peace.<sup>1</sup> And Mr. Keynes, one year later, was to vindicate his argument as 'an advocacy of appeasement and moderation'.<sup>2</sup> Appeasement did not start with the days of Munich.

But by what legerdemain could the days of Munich follow so insensibly after those of Versailles? Mr. Keynes had announced all manner of catastrophes—but not this one. Quite the contrary: any fears of 'a new Napoleonic domination, rising, as a phoenix, from the ashes of cosmopolitan militarism', were dismissed by him as 'the anticipations of the timid'.<sup>3</sup> Yet, twenty years afterwards, Germany was master of half Europe. The world reeled in stupefaction; as Germany's onrush was reaching the gates of the Atlantic, President Roosevelt was telling Congress of 'the almost incredible events of the last two weeks'.<sup>4</sup> Incredible—yes, that was the true motto of the day. The golden age of 'debunking', now going up in the flame and smoke of Dunkirk, had certainly not prepared the public for these eventualities. So we have now entered a period of grim stocktaking: for the disasters inflicted upon the Western Democracies were not fundamentally due to their material inferiority. As they never ceased to reassure themselves, their potential forces in combination were far greater than those of their enemies. They had, above all, suffered an intellectual and spiritual defeat.

Mr. Keynes had summed up the European situation by asserting that the most serious problems 'were not political or territorial but financial and economic, and that the perils of the future lay not in frontiers and sovereignties, but in food, coal and transport'.<sup>5</sup> Persuasion, in this case, was not unavailing; and the policies of later years moulded themselves around these pronouncements. How, it is asked to-day, could so many people remain blind to the openly proclaimed ambitions of Germany? 'My program', said Hitler in 1941, 'was to abolish the Treaty of Versailles. It is futile nonsense for the rest of the world to pretend to-day that I did not reveal this program until 1933, 1935, or 1937. Instead of listening to the foolish chatter of emigrés, these gentlemen would have been wiser to read what I have written—and written thousands of times.' But it may be added that millions outside Germany would have been quite content to see him 'abolish the Treaty of Versailles'. For them this

<sup>1</sup> Letter to the President of the German Delegation covering the Reply of the Allied and Associated Powers, 16 June 1919.

<sup>2</sup> Letter to the *National Review*, June 1920, p. 569.

<sup>3</sup> *E.C.P.*, p. 272.

<sup>4</sup> Message to Congress of 31 May 1940.

<sup>5</sup> *E.C.P.*, p. 134.

could only have meant the redress of a monstrous injustice. All that mattered was that it should be done 'by peaceful means'. *What* was to be done apparently did not matter. They could not imagine it might mean the destruction of free peoples. And yet, had not Hitler declared with the utmost precision that he aimed at Germany's expansion over European territory? 'Only a sufficiently extensive area on this globe can guarantee a nation's freedom of existence. . . . The National-Socialist movement must strive to terminate the discrepancy between our population and our territory, and consider the latter not merely as the basis of our welfare, but as the platform of power politics. . . . We National-Socialists put an end to the colonial and commercial policy of the pre-War period, and inaugurate the territorial policy of the future.'<sup>1</sup> But all that could not be taken seriously. Remember—he was in prison when he was thus writing—poor devil, he was pardonably excited; and even if he did still think so, surely he was confused by some economic fallacy. That was not what could really be ailing the German people. Didn't you know?—'the perils of the future lay not in frontiers and sovereignties, but in food, coal and transport'.

So statesmen, giving vent to general opinion, and thus sincerely hoping to buy off Germany's acquiescence, spoke of access to raw materials, trade agreements and international loans. It was only after the occupation of Prague that the territorial possibilities of *Lebensraum* became at long last evident.

This perspective did not only affect the public approach to the causes and motives of the Second World War; it also played its part in the tragic mismanagement by the Democracies of its preliminaries—or, rather, of the measures that might so easily have averted it.

For twenty years the public had been led to believe that Germany had been crushed at Versailles—that 'little has been overlooked which might impoverish Germany now or obstruct her development in future.'<sup>2</sup> Even though she had been liberated from all Reparation payments after 1931, even though it was well known that she was proceeding with rearmament, no one would seriously believe that she could be very dangerous for many, many years to come. Dangerous enough to precipitate a war—yes, that was a possible calamity; but powerful enough to bring about the defeat of the Democracies?—that

<sup>1</sup> *Mein Kampf*, chap. xiv.

<sup>2</sup> *E.C.P.*, p. 102.

was unthinkable. Had not Mr. Keynes demonstrated that Germany could not be expected in the next thirty years to find more than £100 million per annum for Reparations? that her annual savings were even likely to fall below that sum? How then could she find many, many times as much to finance rearmament on a scale adequate to beat the combined forces of the Democracies? How could a nation so weakened, so exhausted by the vindictive peace, muster enough power to defy the combined resources of the former and future Allies? Nazi finance was tottering. Nazi economy was threatened with 'collapse'. Germany had no foodstuffs. She had no raw materials. Her economy was built on substitutes. The mere application of the economic weapon would be sufficient to bring her to her knees. What were nothing else than the far-seeing and efficient measures taken by the German Government to bring the military strength of the nation to its peak were foolishly mistaken for signs of economic distress. A catchword, current in Great Britain and France in the year 1939, was that Germany was already so exhausted by her preparations for war that the resilience of her economy and the morale of her people were strained to a degree comparable to 1917, after three years of uninterrupted warfare: the Democracies, on the other hand, would enter the arena with all the freshness of relaxation.

Thus, the 'have-not' myth, carefully exploited by Germany, served the double purpose of convincing the world that her grievances might induce her to provoke a war, but that her poverty would at the same time disable her from winning it.

The same delusions that made a German victory almost inconceivable, also helped to minimize the prospect of its eventual consequences. The notion, already in circulation before 1914, that under modern conditions there is no victor, that all parties are equally engulfed in the same calamity, that 'war settles nothing', that 'war doesn't pay', had been 'proved conclusively' (so it was said) by the outcome of the last war.<sup>1</sup> Had

<sup>1</sup> 'If the war taught one lesson above all others', wrote *The Times* in 1920, reviewing *The Economic Consequences of the Peace*, 'it was that the calculations of economists, bankers, and financial experts, who preached the impossibility of war because "it would not pay", were perilous nonsense.' Ten years later, the lesson had been unlearned. 'If', wrote Sir Andrew McFadyean, after quoting this passage, 'the peace has taught one lesson above all others, it is that the contention of economists that war cannot pay, and that excessive demands upon the vanquished in defiance of all economic, banking, and financial teaching, defeat their own object, is the plainest common sense.' (*Reparation Reviewed*, London, 1930, pp. 4-5.)

not Mr. Keynes explained that the 'Carthaginian Peace' was 'not practically right or possible'? Were not the facts palpable? And so the economic prospects of Germany's conquests were regarded with scepticism. Even after she had annexed Austria and Czechoslovakia—even after she had invaded Poland, Denmark, and Norway—voices were still heard asserting that she could, at most, seize a few stocks, but that in the long run, she would not be able to exploit her new territories with any profit; they were bound to become, rather than an asset, an economic liability.

It was not illogical, of course, to argue that conquest and tribute might result in general waste, that they might impoverish the conquered without enriching the conqueror; and Mr. Keynes did not say more than this when he criticized the Reparation clauses of 1919. But many minds were carried a little further by the very spectacle of Germany after her defeat: if the imposition of tribute was *impossible*, so even defeat, after all, became economically innocuous. Even if one began to think of the unthinkable—even of a German hegemony over Europe—although it might, no doubt, carry some nasty political consequences, it would not, on the whole, disturb very appreciably the condition of the common man. Wages and pensions would still be paid. Business would go on. Who knows? A Europe unified, albeit under Hitler, might result in better economic organization, in increased production and employment; and that, surely, was what really mattered in the end—food, coal, and transport, not frontiers or sovereignties.

For few people would bring themselves to imagine to what extremities the subjection of defeated peoples could be carried. Warnings of these horrors were received with scepticism, suspicion, even resentment. They came from a morbid imagination. They smacked of 'war propaganda'. Many a competent man would shrug his shoulders with derision at such suggestions as the wholesale exploitation of populations. These things simply 'could not be done'.

Such delusions will probably go a long way to explain the 'incredible' blunders of the Western Democracies. But they were something more than intellectual fallacy proper. Without the 'guilt-complex',<sup>1</sup> without the loss of faith that paralysed their will, the pathetic succession of surrenders which culmin-

<sup>1</sup> This expression was first put into circulation, I believe, by the regretted R. de Roussy de Sales (*The Making of To-morrow*, New York, 1941).



ated in the catastrophe of 1939-40 would never have been possible.

'We do not', once said Clemenceau, 'have to beg pardon for our victory.' He could not have better described what was to follow. *Meaculpism*—for such is the name that this school of thought invites—loomed large, in Great Britain and in France, during the inter-war period. The Treaty, Mr. Keynes had written, was a 'breach of engagements and of international morality' comparable to the invasion of Belgium.<sup>1</sup> 'Those who sign this Treaty will sign the death sentence of millions of German men, women and children.'<sup>2</sup> Such words ate deep into many consciences. Long before Hitler had made his appearance on the European scene, meaculpsists were agitating for the revision of the Treaty. When concession after concession on the part of the Allies had finally been rewarded, most properly, by the National-Socialist Revolution, they never tired of complaining that Hitler was the consequence of Versailles and of the outrageous treatment meted out to the German Republic. But from that time onwards, they became more reluctant to see their Governments acceding to Germany's new moves. If only it had not been Hitler! How distressing to have to grant the demands of that bad man, when there were so many others to whom they could have been conceded without the slightest inconvenience! But still . . . it had to be done. Versailles, you see. And if anyone was likely to forget it, Hitler would soon remind him. Abuse of the 'Diktat' was a favourite gag in his grandiose nerve-war. But now his invective sounded in many ears like some ghastly echo from *The Economic Consequences of the Peace*.

So it came about that the mounting accumulation of Germany's demands was met each time with a perfect frenzy of breast-beating. In 1936 she remilitarized the Rhineland. Was it possible to forbid Germany to occupy her own territory? Again one of those awful provisions of Versailles! 'There is no doubt', writes Professor E. H. Carr, 'that the easy acquiescence of the *status quo* Powers in such actions as the denunciation of the military clauses, the reoccupation of the Rhineland or the annexation of Austria was due, not wholly to the fact that it was the line of least resistance, but in part also to a consensus

<sup>1</sup> *E.C.P.*, p. 59.

<sup>2</sup> These were the words used by Brockdorff-Rantzau and quoted by Mr. Keynes, who added that he knew of no adequate answer (*infra*, p. 164).

of opinion that these changes were in themselves reasonable and just.<sup>1</sup>

At Munich, meaculpism probably reached its zenith. It will be the historian's task to decide whether or not this capitulation was, in the circumstances, the best possible solution with regard to existing conditions of diplomatic and military strategy. Mr. Churchill was not afraid to call it 'an unmitigated defeat'; even defeats sometimes cannot be avoided. But the point is that, at the time, it was presented as a triumph of peaceful negotiation, and in that spirit an overwhelming portion of public opinion, both in France and in Great Britain, was apparently content to accept it. No words could have better expressed the temper of the day than the apology offered by Mr. Neville Chamberlain after Germany had marched into Prague. 'I have never denied', he said, 'that the terms which I was able to secure at Munich were not those I myself would have desired, but as I explained then, I had to deal with no new problem. This was something that had existed ever since the Treaty of Versailles; a problem that ought to have been solved long ago if only the statesmen of the last twenty years had taken a broader and more enlightened view of their duty.'<sup>2</sup> Those who heard that speech will not easily forget the intonation: '*Versailles!*'—that was enough. That alone explained, justified, and absolved. In the dismal days of September 1938, when the best hearts were rent between sense of honour and love of peace, the life and liberty of Czechoslovakia weighed very little against the heavy pressure of the 'guilt-complex'. And, after all, was it not only a question of frontiers? The perils of the future lay not in frontiers or sovereignties, but in food, coal, and transport.

But, now, the indignation of Mr. Keynes had been aroused: 'We and France', he wrote, 'have only sacrificed our honour and our engagements to a civilised and faithful nation, and fraternised with what is vile.'<sup>3</sup> Would that twenty years before he had understood how the Peace, in providing that nation with frontiers and with sovereignty, had endowed her with the means of resurrection!

Another year rolled on. Another great war started. But while in Great Britain and France there was acquiescence, and

<sup>1</sup> E. H. Carr: *The Twenty Years' Crisis*, 1940, p. 281. Elsewhere in the same book, Professor Carr refers to 'the unprecedented vindictiveness of the peace treaties, and in particular of their economic clauses' (p. 79).

<sup>2</sup> Speech at Birmingham, 17 March 1939.

<sup>3</sup> *New Statesman and Nation*, 8 October 1938.

even determination, there was little or no zeal. Consciences had been too sorely tried. Some were even doubting whether the war was being fought for a just cause. To his horror, Mr. Keynes discovered that the same people who for twenty years had been persuaded that the Treaty of Versailles was unjust and impracticable, could not see quite clearly why they should now fight because Germany, in invading Poland, had destroyed one of Versailles' most criticized achievements. 'The intelligentsia of the Left', he wrote, 'were the loudest in demanding that the Nazi aggression should be resisted at all costs. When it comes to a show-down, scarce four weeks have passed before they remember that they are pacifists and write defeatist letters to your columns, leaving the defence of freedom and of civilisation to Colonel Blimp and the Old School Tie, for whom Three Cheers.'<sup>1</sup> The consequences of pacifism and defeatism were soon to be fully revealed elsewhere.

## III

The decision of the French Government to seek a separate armistice in June 1940 cannot very well be excused; but it has been fearfully expiated; and it is not, alas, so very difficult to explain.

It must be remembered that it was in the side of France that the indictment of Mr. Keynes left its sharpest sting. 'In those parts of the Treaty with which I am here concerned', he wrote, 'the lead was taken by the French. . . . In so far as the main economic lines of the Treaty represent an intellectual idea, it is the idea of France and of Clemenceau.'<sup>2</sup>

As we shall see later, Mr. Keynes was far from unsympathetic to Clemenceau personally, but he ascribed to his policy the most unwarrantable motives and the most monstrous effects. 'By loss of territory and other measures,' he wrote, 'her [Germany's] population was to be curtailed; but chiefly the economic system, upon which she depended for her new strength, the vast fabric built upon iron, coal, and transport, must be destroyed.'<sup>3</sup> He did not only leave the impression that France was bent on the economic subjection of Germany; he claimed that her policy would result in the physical extermination of 'many millions of men, women and children'.

<sup>1</sup> Letter to the *New Statesman and Nation*, 14 October 1939.

<sup>2</sup> *E.C.P.*, pp. 25-6.

<sup>3</sup> *E.C.P.*, p. 32

The problem that was haunting the minds, not merely of the French statesmen, but of the whole French people, had been correctly apprehended by Mr. Keynes. He gave a fair account of their concern for security, derived from the facts of France's and Germany's respective situations. He admitted that 'in spite . . . of France's victorious issue from the present struggle (with the aid, this time, of England and America), her future position remained precarious' in the eyes of Clemenceau, who foresaw 'the day when [Germany] will once again hurl at France her greater numbers and her superior resources and technical skill'.<sup>1</sup> Of such fears he was quite aware; but he did not think them justified. They were 'unreal issues'.<sup>2</sup> 'One could not', he wrote, 'despise Clemenceau or dislike him, but only take a different view as to the nature of civilised man, or indulge, at least, a different hope.'<sup>3</sup>

Twenty-four years later, Marshal Smuts, in a speech that created some sensation, was explaining to the world that one of the lessons of the war then raging was that we could not get away from the problem of power. Had the views of Clemenceau, to whom the experience of fifty years had taught that 'the politics of power are inevitable',<sup>4</sup> not been dismissed, in 1919, as 'the policy of an old man, whose most vivid impressions and most lively imaginations are of the past and not of the future',<sup>5</sup> the tragic cost of this somewhat belated revelation might quite possibly have been spared. 'Hope' was what Mr. Keynes was offering in 1919. But the French delegates at the Conference had already explained that they could not afford to stake the future of their country upon any mere hopes.

'Hopes, without certainty,' they said, 'cannot suffice to those who suffered the aggression of 1914. Hopes, without certainty, cannot suffice to Belgium, victim of her loyalty to her pledged words, punished for her loyalty by invasion, fire, pillage, rape and ruin. Hopes, without certainty, cannot suffice France, invaded before the declaration of war, deprived in a few hours (because she had withdrawn her troops from the frontier in order to avoid incidents) of 90 per cent of her iron ore and 86 per cent of her pig-iron; France, who lost 1,351,000 killed, 734,000 crippled, 3,000,000 wounded and 438,000 prisoners martyred in German prisons, who lost 26 per cent of her mobilized manpower and 57 per cent of her soldiers under 31

<sup>1</sup> *E.C.P.*, pp. 31-2.

<sup>4</sup> *E.C.P.*, p. 30.

<sup>2</sup> *E.C.P.*, p. 138.

<sup>5</sup> *E.C.P.*, p. 33.

<sup>3</sup> *E.C.P.*, p. 26.

years of age—the most productive part of the nation—who saw a quarter of her productive capital wiped out, the systematic destruction of her industrial districts in the north and in the east, the captivity of her children, her women and her girls.<sup>1</sup>

As the indispensable condition of security, the French asked for a 'physical guarantee': the military occupation of the Rhine bridgeheads, in which the principal Allies would all participate. For they were anxious to divest their proposal of any pretext for national aggrandizement. 'France', they affirmed, 'demands nothing for herself, not an inch of territory, nor any right of sovereignty. She does not want to annex the left bank of the Rhine.'<sup>2</sup> They insisted that in view of the geographical position of their country, the guarantees they were asking for were in the interest of the Allies at large: 'In order', they said, 'that the maritime Powers may play a useful part on the Continent against any aggression coming from the East, they must have the assurance that French territory will not be overrun in a few days. In other words, should there not remain enough French ports for the Overseas Armies to debark their troops and war supplies, should there not remain enough French territory for them to concentrate and operate from their bases, the Overseas Democracies would be debarred from waging a continental war against any Power seeking to dominate the Continent. They would be deprived of their nearest and most natural battleground. Nothing would be left to them but naval and economic warfare.'<sup>3</sup>

It was no doubt this perspective that prompted Mr. Churchill to write that French security was 'the root problem of the Peace Conference'.<sup>4</sup> But to others, such issues were literally 'unreal'. And persuasion, in this case, was unavailing. President Wilson and Mr. Lloyd George did not contest the importance of the problem; but on the question of the Rhineland they were adamant. To separate the Rhineland from Germany would be contrary to the principle of self-determination. Mr. Lloyd George expressed fears that it might create a new Alsace-Lorraine, and prove a permanent nuisance to the Peace of Europe. He and the President were both 'resolutely opposed to the plan'. 'We regarded it', he writes, 'as a definite and dis-

<sup>1</sup> *Memorandum of the French Government on the Fixation at the Rhine of the Western Frontier of Germany*, 26 February 1919. Quoted in *Negotiations for an Anglo-French Pact*, Cmd. 2169, pp. 49–50.

<sup>2</sup> Cmd. 2169, p. 26.

<sup>3</sup> Cmd. 2169, p. 55.

<sup>4</sup> Churchill, *The Aftermath*, p. 216.

honourable betrayal of one of the fundamental principles for which the Allies had professed to fight, and which they blazoned forth to their own people in the hour of sacrifice.<sup>1</sup> By the end of March, a complete deadlock was reached, and the Conference entered its gravest crisis. It was at that time that the Prime Ministers and the President decided to transact these vital matters in the restricted 'Council of Four'. But Mr. Keynes could see nothing in their efforts but 'empty and arid intrigue'.<sup>2</sup>

In the end, a compromise was patched up. Instead of the permanent inter-Allied military occupation of the Rhine, President Wilson and Mr. Lloyd George offered Clemenceau a treaty of guarantee, under which the United States and Great Britain would pledge themselves to come to the assistance of France in case of unprovoked aggression by Germany. After some hesitation, the offer was finally accepted. The occupation of the Rhine was to be reduced by progressive evacuations, to be completed after fifteen years. And in the place of the Rhineland barrier, France would rely upon the Treaty of Guarantee.

It was not long before the first bird flew out of this diplomatic bush: the American Senate rejected the Treaty of Versailles. The second followed immediately: for although the British House of Commons had ratified the Treaty of Guarantee unani- mously, Great Britain, whose signature had been given jointly with that of the United States, was no longer bound. So the French, in the words of Mr. Churchill, found themselves 'isolated, and, as they claim, deceived and deserted'.<sup>3</sup> That they did not at once—as they had every right now to do—denounce in their turn the Treaty of Versailles and secure for themselves the guarantees they had relinquished in exchange for assurances that no longer held is an early measure of that weariness which was to grow progressively into mortal paralysis.

What France did instead was to cling obstinately to what remained of the Treaty. Henceforward, she would consider it as a minimum. But for that attitude she was soon to be denounced as militaristic, imperialistic, aspiring to the hegemony of Europe, a menace to peace. She insisted that Germany must pay. Mr. Keynes branded her as 'Shylock', 'whining', claiming 'her pound of flesh'.<sup>4</sup> Poincaré and Tardieu demanded that the

<sup>1</sup> D. Lloyd George: *The Truth about the Peace Treaties* London, 1938, vol. 1, p. 396.

<sup>2</sup> *E.C.P.*, p. 5.

<sup>3</sup> *The Aftermath*, p. 222.

<sup>4</sup> *A Revision of the Treaty*, London, 1922, pp. 186-7. (Referred to hereafter as *R.T.*)

Treaty be enforced. 'Germany's population was increasing,' pleaded M. Poincaré; 'her industries were intact, she had no factories to reconstruct, she had no flooded mines. Her resources were intact, above and below ground. . . . In fifteen or twenty years Germany would be mistress of Europe. In front of her would be France with a population scarcely increased. . . .'<sup>1</sup> But to Mr. Keynes, Poincaré and Tardieu were 'wild men, . . . who, if their utterances were to be taken seriously and were not merely a ruse to obtain office, might very well disturb the peace of Europe before they could be flung from authority'.<sup>2</sup> When, in the face of repeated defaults on the part of Germany, France decided to occupy the Ruhr, Great Britain looked down disapprovingly, protested, yet would not, after all, oppose openly her former ally. But Mr. Keynes was not satisfied; when Lord Grey urged the necessity of compromise, he was taunted for his ignorance, and coached in the difficult art of foreign affairs: 'Lord Grey', wrote Mr. Keynes, 'shows not even a suspicion that France may have a definite and scarcely concealed plan for the future of Europe which is destructive of everything he cares for, and that this is at the bottom of the whole diplomatic situation.'<sup>3</sup>

Such suspicions were not received with indifference in France. They deeply affected the public mind in a country where fears of estranging and antagonizing British opinion were being more and more profoundly embedded. Such fears played no negligible part in the political landslide of the 1924 general election, which brought the downfall of Poincaré and the triumph of a coalition of the Left. Yet they were not confined to these circles. They were shared by men like Foch, much as he might then represent to the outside world the spirit of French militarism. In 1922, when asked by a politician whether he favoured a march on Berlin as a means of enforcing the payment of Reparations, he answered that the scheme was not practicable; it would require partial mobilization. 'What effect would it have on the rest of Europe and the rest of the world? What would be said in England and America, and the neutral countries, where people are always ready to spy on us, suspect our intentions and denounce us for an imperialistic, chauvinistic nation?'<sup>4</sup>

<sup>1</sup> Quoted in *Miscellaneous No. 3 (1923)*, 'Inter-Allied Conference on Reparation, etc.', pp. 123-4.

<sup>2</sup> *R. T.*, p. 21.

<sup>3</sup> 'Lord Grey's Letter to *The Times*': *The Nation and Athenaeum*, 13 October 1923.

<sup>4</sup> R. Recouly: *Marshal Foch: His Own Words on Many Subjects*, London, 1929, pp. 139-40.

By 1924, the European ship of state entered more serene water, and for a few years of elusive calm and prosperity it seemed that Europe had found peace at last. But what, it will be asked, of the Treaty of Versailles? Surely that was still a festering fount of grievance? As long as the economic and territorial settlement of Europe was not modified, Germany's unrest would remain as a menace to peace, as was demonstrated later by the rise of National Socialism?

Such was not, at any rate, the universal view. In the palmy days of 1928, *The Nation and Athenaeum*, for instance, explained that the main obstacles to the pacification of Europe had now disappeared with one exception only: the occupation of the Rhineland. Once this danger was removed, the rest would apparently be easy. 'We have only to ask ourselves', they wrote, 'how Germany might once again become a real menace to France in order to realize the supreme importance of the Rhineland. . . . A genuine and widespread feeling of national grievance . . . could not possibly be created by mere nationalist sentiment or ambition, nor even, we believe, by resentment against the territorial arrangements of the Treaty of Versailles. Only the continued occupation of the Rhineland could stimulate bitterness to the intense degree that would be necessary to induce the German people, in the face of the Covenant and the Pact of Paris, to set out on the arduous and hazardous policy of *revanche*. Only the continued occupation of the Rhineland could do it, but this easily might.'<sup>1</sup>

A few months later, a committee of experts was assembled in Paris (the wild man, Poincaré, *regnante*) to reconsider the Reparation settlement—the first of a series of conferences that were to lead to the adoption of the Young Plan. In June 1930 the last French troops evacuated the Rhineland. Three months later, 107 National-Socialist deputies marched into the Reichstag.

The French people had not been under any illusion as to what future Germany might hold in reserve for Europe. But they had been taunted so long for obstructing the reconstruction of Europe by their punctilious formalism, their old-fashioned shortsightedness, their tiresome worries! Now they had agreed to leave the Rhine; no one would ever again suspect them of aggressive intentions. They would reorganize their army en-

<sup>1</sup> 'The Importance of the Rhineland' (Editorial, unsigned), *The Nation and Athenaeum*, 15 December 1928, p. 403. Mr. Keynes was then the chairman of this periodical.



tirely on defensive lines; they would build fortifications; they would also, naturally, maintain their alliances, within the framework of the League Covenant, with the new states of Eastern Europe—Czechoslovakia and Poland; for now that the major grievance of the Rhineland was removed, the defence of the Europe of Versailles could no longer, surely, be branded as the perpetuation of an injustice?

But strange misgivings had already been making their way. In 1919 the Treaty had not been received in parliament with unqualified enthusiasm; on the contrary, a vehement disappointment was expected because, it was claimed, the country's security had not been assured, and because the political settlement of Europe would prove too unstable to stand by itself; thus the Treaty was often denounced as politically unwise—was it wise to leave so many young and small states to enjoy their national independence separately in the vicinity of a Germany that remained powerfully centralized? But few questioned that it opened a long-awaited era of justice among the nations of Europe. And in addition to a handful of isolated members, only a small group of socialists had voted against the Treaty in the Chamber of Deputies. Before the final vote was taken, their spokesman—one Lafont—had complained of the Treaty's 'economic and financial deficiencies'. This was, however, but the opinion of a few, and with one exception, the names of these men are now generally forgotten.

By and by, other strictures made their appearance. When Mr. Keynes's book was published in France, it aroused at first considerable irritation. 'Mr. Keynes', wrote M. Tardieu, 'oversteps the limits of permissible tomfoolery and is only making fun of Germany's victims.' But at the same time, it did not fail to impress those of the French who were fearful of seeing their country accused of perpetuating the chaos and ruin of Europe. They had first hailed the Treaty as the achievement of liberal ideals; and here was Mr. Keynes explaining, with all the authority of the expert, that it was an economic monstrosity. Could it be true? Was the Treaty really so bad as he made it out to be? By 1921, 'even in France,' wrote Mr. Keynes, 'to praise the perfections of the Treaty was to make oneself ridiculous'.<sup>1</sup> Disillusion was growing quickly.

In the fantastic welter of mental confusion which Hitler planned and exploited with his masterly skill in psychological

<sup>1</sup> *R.T.*, p. 24.

strategy, these feelings played a not inconsiderable part. The French people had seen the bastions of the new European order falling one after the other: first, the collapse of the Treaty of Guarantee; then the evacuation of the Rhineland by the Allies; then its reoccupation by Germany, and Germany's swift rearmament. And now that the final act was at hand, in the *darkening night* of their anxiety, they felt that the central bastion, their own spiritual strength, their faith in the justice of the cause they were committed to defend, was being steadily undermined. Now Adolf Hitler was dinning into their ears that the Diktat was ridiculous, monstrous, infamous, indefensible; didn't they know it? had it not been acknowledged long ago by the common consensus of opinion? and meaculpists echoed the strain. So when the *decisive moves came*—those to which the preceding ones had been nothing but the indispensable preliminaries—when the moment came to stand by her pledges to Czechoslovakia, France, in abject dismay, her vision obscured, her heart riven by ferocious party dissensions, clung desperately to peace at any price. After all, she was not going to make war for the sake of the absurd Treaty of Versailles.

When all favourable positions had been wantonly abandoned—after they had evacuated the Rhineland, allowed Germany to rearm, let her reoccupy the Rhineland, annex Austria and destroy Czechoslovakia—Great Britain and France decided that the time had finally come to make a stand. Germany invaded Poland; Great Britain and France sent a declaration of war. But what more could they do? Germany was now holding the Rhineland, and the Allies, with the limited forces at their disposal, durst not risk at this early stage an offensive against the new German fortifications. Yet the perils of this situation had not been unforeseen, for the men who, at the Peace Conference, had pleaded for the inter-Allied occupation of the Rhine, had made it clear that they were anxious to protect the new states which the Allies had called into being to the east and south of Germany: 'Suppose', they had written, 'that Germany, mistress of the Rhine, were to wish to attack the Republic of Poland, or the Republic of Bohemia [i.e. Czechoslovakia]. Established defensively on the Rhine, she would hold in check (and for how long?) the Western nations coming to the aid of the young Republics, and the latter would be crushed before they could receive aid.'<sup>1</sup> But such issues, it was asserted at the time, were

<sup>1</sup> Cmd. 2169, p. 46.

'unreal', and in the meantime the Western Democracies had preferred to believe that the perils of the future lay not in frontiers and sovereignties, but in food, coal, and transport.

The French people had gone to war in a determined spirit, but as in Great Britain, their disposition was made more of resignation than of enthusiasm. Everyone agreed that Hitler was going too far; he had to be stopped. 'Il faut en finir.' But still, it was not quite clear what the war was being fought for. France had not been attacked, as in 1914. Poland, her ally, had been, no doubt; but was it worth while to die for Dantzig? And as doubts ran whispering round under the blast of German propaganda, morale was rapidly decaying.

At least, there must be some prospect that after this war, the coming sacrifices would be rewarded by a guarantee of lasting security. Air bombardment, the effects of which were already plainly visible in Poland, would inflict the most frightful devastation; but Germany would have to make compensation? Millions of men were being asked to offer their lives; surely they must be promised something worth while, for themselves or for their children? But no such assurance ever came. Official pronouncements of war aims, whenever Governments dared to air them, were confined to the most timid generalities; for any appearance of threat to Germany was to be avoided, lest the German people be driven into the arms of their leaders. The enemies had to be wooed. But the Allies? Oh, surely, that was hardly necessary; the question did not even arise. Could not a democratic people always be trusted to fight without assurance of any 'selfish reward'? It never occurred to these charitable souls that for every dubious German they might be 'driving out of the arms of Hitler', they might ultimately be driving a Frenchman into the arms of Pétain. For many a Frenchman under arms was reflecting, during that bleak winter of 1939-40, on the experience of the last twenty years. Security . . . Reparations . . . there had been precious little of either after the victory; even less, apparently, was to be counted upon this time. Versailles must not be repeated. We must forbear to profit from our victory. It was a war against Hitlerism, remember, not against the German people. The game was appearing more and more as 'heads they win, tails we lose'.

The hour of decision came. The French armies were smashed to pieces. Unpreparedness, incompetence, disunion, confusion, defeatism, even treason—all played their part. But even if none

of these causes had operated, the 'root problem' stressed by Mr. Churchill would have remained: 'It should be sufficient', he had written in 1929, 'to state that after 1940 Germany will have about twice as many men of military age as France.'<sup>1</sup> The Treaty of Versailles, it had been alleged, had been designed to eliminate this discrepancy, 'to weaken and destroy Germany in every possible way'.<sup>2</sup> Yet Germany, twenty years after Versailles, emerged as the most formidable power on the Continent, in the full strength, as Clemenceau, as well as Mr. Churchill, had anticipated, of 'her greater numbers and superior resources and technical skill'. The situation of France was rather different; as Mr. Keynes had observed,<sup>3</sup> her sufferings and loss had been proportionately the greatest, after Serbia's, of all the belligerents of 1914-18; one of the richest portions of her territory had been systematically ravaged, and since only a fraction of Reparations had been collected, she had been left to fall back upon her own resources to retrieve the disaster. The return of Alsace and Lorraine had added to her total population a number approximately equivalent to the losses of the war, but had not constituted anything like equivalent compensation in man power, and her birth-rate had been barely sufficient to maintain the population; thus, twenty years after Versailles, France emerged from victory in a state of human bankruptcy; and heavy as may indeed have been the nation's own faults, this state of affairs could hardly be blamed upon the nation alone.

All these thoughts must have been present to the minds of the men who, in June 1940, were called upon to decide whether or not France would continue the war. Most of them were cramped by petty political prejudice, incapable of rising to the greatness of the issue, bereft of hope, faith, and fighting spirit. But not all were traitors; and what future did they contemplate? Even if victory could be won in the end, was there any probability that it would yield something better than after 1919? Nothing—not even the revolutionary offer of a Union of Britain and France—gave any prospect of it. In vain did all the generosity of Mr. Churchill extend itself in an assurance that there was no loss of friends. France had come out of the last war victorious, but exhausted; this time, they thought, if war continued, victory or no victory, she would be done with. 'Il faut en finir.' Otherwise, what was happening now would only happen again in ten or twenty years, for what was happening

<sup>1</sup> *The Aftermath*, p. 216.

<sup>2</sup> *E.C.P.*, p. 138.

<sup>3</sup> *E.C.P.*, p. 115.

now was nothing more than what had been predicted some twenty years ago, and by a voice that the accents of defeatism had never strained. . . . If the Allies do not stay on the Rhine, ' . . . the battle which we will have to face in the plains of Belgium will be one in which we shall suffer from a considerable numerical inferiority, and where we shall have no natural obstacle to help us. Once more, Belgium and Northern France will be made a field of battle, a field of defeat; the enemy will soon be on the coast of Ostend and Calais, and once again those same countries will fall a prey to havoc and devastation. . . . There is no English or American help which can be strong enough, and which can arrive in sufficient time, to prevent disaster in the plains of the north, to preserve France from a complete defeat, or if she wants to save her armies from this, to free her from the necessity of withdrawing them behind the Somme, or the Seine, or the Loire, in order to await there the help of her allies. . . .'<sup>1</sup>

Meanwhile, under the blazing sun of June, human torrents were streaming along all the roads of France. After years of nerve-racking apprehension, crowned by the final suddenness of disaster, minds could no longer react, nor hearts respond. The Armistice had been announced—it was Peace! it was the end! terror and death were over! But France was beaten, crushed, annihilated? They would not believe it. They would not think of it. And after all . . . surely, it would not make so much difference. The Germans were not so bad. All that had been exaggerated. Anyway, they could not alter very greatly the condition of the common man. Didn't you know, by now, that conquest is not practicable? See how quickly Germany had recovered from Versailles! France would recover too. It was Peace. Everyone would soon be safely back home. So did the French people seek a refuge from the depths of their despair in an agonizing fit of dizzy make-believe. It may have been hard to bamboozle that old nation; but it was too late now to de-bamboozle it.

Clemenceau or Foch—even Poincaré or Tardieu, the 'wild men'—would never have signed the Armistice. They would have fought on to the end, knowing that it would never be so bitter as now. A people is blessed who, in such moments, can find leaders of such mettle. But 'wild men' are of a peculiar complexion, as precious as it is rare. Their breed, in the last

<sup>1</sup> Foch, Memorandum of 31 March 1919 (in *Papers Respecting Negotiations for an Anglo-French Pact*, Cmd. 2169, p. 87).

years, had not been very strongly encouraged. Now came the hour of the conciliator. He was one of those who, in 1919, had voted against the Treaty of Versailles. His name was Pierre Laval. The Government at Bordeaux signed the Armistice, and France went out of the war.

### Chapter Three

#### THE CONFERENCE

Political arrangement, as it is a work for social ends, is to be wrought by social means. There mind must conspire with mind. Time is required to produce that union of minds which alone can produce all the good we aim at. Our patience will achieve more than our force.—BURKE, 1790

#### I

THE year 1919 had given an early switch to the currents of the next twenty years. To these crucial days, then, we shall do well to look back once again if we are to pick up the guiding thread of this unwieldy texture. That was also why those of the witnesses who felt sharply how much of the future was being engaged by these decisions, had seen the Conference as a tragedy. 'The word', wrote J. Bainville in April 1919, 'was on every lip.' So, too, did it appear to Mr. Keynes. 'A sense of impending catastrophe', he noted in his famous sketch of the Conference, '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.'<sup>1</sup> As far as tragedy moves us to terror and to pity at the spectacle of disaster predestined, the observation was pat to the occasion; yet what gave the Conference its tragic undertones was not so much the march of *outside* events—the misery and decay of Europe that were the consequences of the War just ended—as the very fate of the Conference itself. The chaos of Europe was a tragedy of its own; the tragedy of the Conference was something different. For the conflicts that had crystallized at Paris in painful travail were the outcome of forces deeply rooted in the past.

A French preacher once declared that ever since the partition of Poland, Europe had been living in a state of mortal sin. There is indeed much to be said for the view that traces the starting point of national unrest in modern times to the eighteenth-century partitions by which the Great Powers of Eastern

<sup>1</sup> *E.C.P.*, pp. 3-4.

Europe had agreed to defer the solution of the new-born Eastern Question. For by allotting themselves equal portions of what Frederick had sarcastically called 'the eucharistic body of Poland', Russia, Austria, and Prussia had succeeded, as it were, in transposing in space a problem that would inexorably reassert itself in time. Under the impetus of the hopes and passions aroused by the French Revolution, the aspirations of nationalities, temporarily quashed at Vienna, seethed and soared from beginning to end of the nineteenth century. The revolt of Greece, who claimed in deeds the right of nations to freedom from foreign rule, first stirred the disjected members of the Mediterranean peoples. Soon afterwards, the sudden landslide that sent the French Monarchy toppling down was precipitated by the passions of nationalism in array against the Europe of Vienna, and resounded throughout Europe: in Poland, insurrection flared up and was put down; while the secession of Belgium from Holland, after much apprehension for the peace of Europe had been overcome, laid down successfully the foundations of a nation that has endured unto our day. Ten years later, when what was to be the first independent Arab State broke away from Ottoman rule, the repercussions of the Eastern Question reached the banks of the Rhine, and brought France and Prussia very near to conflict. In 1848, Lombardy and Venetia, Bohemia and Hungary, all struggled to free themselves from Habsburg dominion and were all subdued; but the cauldron soon boiled over again, and the unity of Italy was carried to its triumph by the fiery enthusiasm of the Risorgimento. Then the same year that saw a second Polish insurrection quelled in blood, also witnessed the first steps of Prussia's dazzling march to hegemony: the attack on the Danish Duchies that led to the annexation of Schleswig and Holstein was undertaken by Bismarck for the sake of Germany's national unity; and so was the war with France, where victory brought Alsace and Lorraine, welded into one 'Reichsland' conceived as the cementing stone of the newly founded Reich.

A new Europe had come into shape, where 'large units' dominated the scene; 'an extraordinary episode in the economic progress of man'<sup>1</sup> had begun. Would the great Powers rest in contentment? Would Peace be secure? But millions of subjects were still under alien domination. Hardly less than the Ottoman Empire, the Austro-Hungarian Monarchy was a composite of

<sup>1</sup> *E.C.P.*, p. 9.



different races now agitating for a larger measure of autonomy, if not for independence proper. By far the largest group was made up of Slav peoples who looked to Russia, the 'big brother', for support, as Russia looked to the *bratouchki* as a vehicle of influence in Central and Southern Europe. From the gradual disintegration of the Ottoman Empire either Russia or Austria-Hungary must profit, and with the impending rottenness of the Austro-Hungarian structure, this double process of dislocation would share its effects between Russia and Germany. 'The key to the whole situation in East Europe,—and it is a fact which cannot be too clearly laid to heart at the present moment,' wrote Sir Halford Mackinder in 1919, 'is the German claim to dominance over the Slav.'<sup>1</sup> After the Austro-Prussian war of 1866, Mazzini had announced that the downfall of Turkey would be followed by the downfall of Austria; and in the very year of the Berlin Congress, when Russia's intervention in favour of the Slav subjects of Turkey had nearly brought about a war with the British Empire, the French historian Sorel had observed that once Europe came to believe the Eastern Question solved, the Austrian Question would inevitably arise. It was the Austrian question that precipitated the war in 1914; and in that very year the Irish question, that running sore of Britain's domestic politics, had brought the nation to the verge of civil war. In 1919, Mr. Keynes, who confessed candidly that 'to become a European in his cares and outlook' was 'for him a new experience',<sup>2</sup> may no doubt be excused for having scolded the Council of Four because they bothered with such 'unreal issues' as frontiers and sovereignties. No one can very well blame the good lady who found her cakes burning for thinking that King Alfred's preoccupations were unreal in the extreme. But it should not be very difficult to understand why, to the statesmen who sat down in 1919 to organize a world where the main causes of war would have been extirpated, the root of the trouble appeared as the problem of nationality.

Yet Mr. Keynes did not hesitate to accuse them of taking an irresponsible view of their duties. 'The future life of Europe was not their concern; its means of livelihood was not their anxiety.' 'It is', he wrote, 'an extraordinary fact that the fundamental economic problem of a Europe starving and dis-

<sup>1</sup> H. J. Mackinder: *Democratic Ideals and Reality*, 1919 (Pelican edit., 1944, p. 96).

<sup>2</sup> *E.C.P.*, p. 3.

integrating before their eyes, was the one question in which it was impossible to arouse the interest of the Four.<sup>1</sup> For so serious a charge there must surely have been serious evidence; so it is somewhat disconcerting to find it propounded by one who had sat, as deputy for the Chancellor of the Exchequer, at the Supreme Economic Council. This body had been appointed in February 1919 on the initiative of President Wilson and had absorbed all the existing inter-Allied services already dealing with problems of finance, food, blockade and raw materials. Its functions were 'to examine such economic measures as shall be taken during the period of reconstruction after the War, so as to ensure (a) a due supply of materials and other commodities necessary for the restoration of the devastated areas; (b) the economic restoration of the countries which have suffered most from War; (c) the supply of neutral and ex-enemy countries without detriment to the supply of the needs of the Allied and Associated countries'. Its mission was therefore entirely one of economic administration (such as the reorganization of European transport) and of assistance to the many parts of Europe threatened with starvation. In the performance of this task, its relief section, under Mr. Herbert Hoover<sup>2</sup> distributed some 35,000,000 tons of commodities of every kind.<sup>3</sup> But it was natural that the Council, whose agenda covered the whole settlement, not merely of Europe but of various other parts of the world as well, should not have devoted to that particular side of its task an undue proportion of its overcrowded time. After a long sitting, on 5 March, had been almost entirely occupied by the question of European relief, Lord Balfour observed that 'it was unnecessary that every proposal of the Supreme Economic Council should be referred for sanction to the five Powers. The Economic Council had, he understood, executive authority within the terms of its reference.'<sup>4</sup> Very properly, the Supreme Council of the Allies delegated their responsibility in this sphere to the Economic Council. If any criticism should be directed at the Supreme Council's procedure, it would be that on the whole they were

<sup>1</sup> *E.C.P.*, pp. 51, 211.

<sup>2</sup> 'The only man', wrote Mr. Keynes, 'who emerged from the ordeal of Paris with an enhanced reputation.' (*E.C.P.*, p. 257 n.)

<sup>3</sup> The importance of this figure may perhaps best be appreciated by reference to the estimates made in 1943 by U.N.R.R.A. for the relief of Europe after liberation: it was calculated that forty-five million tons of materials would be necessary in the first six months.

<sup>4</sup> D. H. Miller: *My Diary at the Conference of Paris, 1928*, vol. xv, p. 155. *Foreign Relations of the United States: The Paris Peace Conference, 1919*, p. 199.

rather tempted to take too much into their own hands, and it is to be regretted, perhaps, that they did not in other provisional matters follow this wise attitude of discharging their executive and administrative duties upon some subordinate body.<sup>1</sup>

Thus the alleged unconcern of the Four with these problems is not to be attributed to 'empty and arid intrigue'. The facts are there to show that the requirements of relief and rehabilitation had not been overlooked. But economic relief and rehabilitation would have been of small avail unless the uprooted peoples of Europe could know to what allegiance they were to belong in future—where they would stand, and whether they were to stand or to crouch. Under no other condition could Europe have gone back to work. That the statesmen of 1919 concerned themselves with political and territorial problems in the first place, rather than with direct economic administration, is slender proof that 'the future life of Europe was not their concern'. It proves only that they did not think it possible to set even economic recovery in train before Europe had been made again orderly and peaceful. And in view of the national passions with which Europe was ablaze, the problem was not a simple one.

For some of the forces that had been instrumental to the outbreak of the war were to assist the Allies in winning it. During the final assault against the Central Empires, the Allies had found in the insurrection of the Slav nations a powerful support; and only through the hazards of war were the extraordinary conditions manufactured that made it possible, in a moment unique in history, to look forward to a Europe of free nations. 'Alas,' wrote Clemenceau ten years later, 'we must have the courage to say that our programme, when we entered

<sup>1</sup> Among the most pressing problems of economic administration was the blockade against Germany. The maintenance of this blockade for a period of four months after the signature of the Armistice has been part of Germany's stock-in-trade in her propaganda to convince the world of the inhumanity of the Allies. We are not here concerned with this problem, except to point out that Mr. Keynes did not find it proper to select this episode as an illustration of the crimes and follies of 1919. The delays in the relaxation of the blockade were due, as he observed, to the reluctance of the German authorities to transfer their mercantile shipping to the Allies who needed the ships for transporting the food. The unwillingness of the Germans to conclude was mainly due to the lack of any absolute guarantee on the part of the Allies that, if they surrendered the ships, they would get the food. But assuming reasonable good faith on the part of the latter (their behaviour in respect of certain other clauses of the Armistice, however, had not been impeccable and gave the enemy some just grounds for suspicion), their demand was not an improper one.' (*E.C.P.*, p. 161 n.)

the War, was not one of liberation! . . . We had started as allies of the Russian oppressors of Poland, with the Polish soldiers of Silesia and Galicia fighting against us. By the collapse of military Russia Poland found herself suddenly set free and recreated, and then all over Europe oppressed peoples raised their heads, and our war of national defence was transformed by force of events into a war of liberation. . . . A Europe founded upon right . . . instead of a dismembered Europe, was a fine dramatic turn of events.<sup>1</sup>

Now if any maxim could have summed up the programme brought to Europe by President Wilson, it would surely be that the principle of self-determination must henceforward prevail over that of the balance of power. 'An evident principle', he had explained in his Fourteen Points speech, 'runs throughout the whole program I have outlined. It is the principle of justice to all peoples and nationalities, and their right to live on equal terms of liberty and safety with one another, whether they be strong or weak.' 'Peoples and provinces', he had said a little later, 'are not to be bartered about from sovereignty to sovereignty as if they were mere chattels and pawns in a game, even the great game, now forever discredited, of the balance of power.' No resolution could have been implanted in the mind of the President (or, for that matter, of Mr. Lloyd George) more firmly than that the peace of the world should never again be at the mercy of the ferment of national irredentism. What they did not perhaps perceive was that whenever this ferment had succeeded in destroying the peace of Europe, it had done so by first upsetting the balance of power; and that without the firm establishment of such a balance, the 'equal rights' of weak nations would sooner or later wither away before the unequal forces of the strong.

The difficulties that followed the creation of so many independent states have induced a growing amount of reflection over the merits of self-determination—merits, it was widely believed in 1919 and after, that could be questioned only for unavowably reactionary motives. Thus could Mr. Keynes picture Clemenceau as paying lip-service, for diplomatic reasons 'to the "ideals" of foolish Americans and hypocritical Englishmen', but at the same time refusing to believe that there was 'any sense in the principle of self-determination except as an ingenious formula for rearranging the balance of power in one's

<sup>1</sup> G. Clemenceau: *Grandeur and Misery of Victory*, London, 1930, pp. 179-81.

own interests'.<sup>1</sup> Whether or not this was Clemenceau's real view, others beside him were also to express some startling strictures at the time. 'When the President talks of "self-determination",' wrote Mr. Robert Lansing in December 1918, 'what unit has he in mind? Does he mean a race, a territorial area, or a community? Without a definite unit which is practical, application of this principle is dangerous to peace and stability. . . . The phrase is simply loaded with dynamite. It will raise hopes which can never be realized. It will, I fear, cost thousands of lives. In the end, it is bound to be discredited, to be called the dream of an idealist who failed to realize the dangers until too late to check those who attempt to put this principle in force. What a calamity that the phrase was ever uttered! What misery it will cause!'<sup>2</sup> It is worth while observing, in view of the widespread legend of the Conference as a combat between American idealism and European cynicism, that one of the most realistic criticisms of self-determination made at the time came, not from some Machiavellian politician of the Old World, from an American Secretary of State.

These reservations have been resumed in recent times on a more systematic scale. Thus Professor E. H. Carr, in a book that has gained wide currency, has stressed in stimulating manner the difference between self-determination, understood as a subjective right, based upon the desire 'by a group of people of reasonable size' to constitute a state, and nationality, derived from such objective characteristics as 'differences of physical type, or . . . differences of language, culture and tradition.'<sup>3</sup> There is, he writes, 'a potential incongruity between nationality and self-determination' which was, he asserts, 'ignored by the peace-makers' 'who were unconscious of any discrepancy or indeed any distinction' between the two. This confusion, however, is to be explained by the fact that the two did practically coincide in Western Europe and in most of the overseas countries whose civilization was derived from Western Europe. But in Eastern Europe, things were no longer so simple. Here, continues Professor Carr, *language* was not the criterion of subjective will to form a state, as was shown by such plebiscites as Allenstein and Marienwerder, where Polish-speaking inhabitants voted for Germany, or at Klagenfurt, where Slovene-

<sup>1</sup> E.C.P., p. 30.

<sup>2</sup> R. Lansing: *The Peace Negotiations: A Personal Narrative*, London, 1921, pp. 86, 87.

<sup>3</sup> E. H. Carr: *Conditions of Peace*, London, 1942, pp. 38, 41.

speaking inhabitants voted for Austria. In short, with the exception of the clauses providing for plebiscites, nationality rather than self-determination was the guiding principle of the Conference.

Such a conflict could not have been solved in favour of either of the two alleged principles alone without uprooting the very lives of the peoples whom the Conference was endeavouring to resettle. Brought to its ultimate logic, self-determination would have meant not merely *universal* plebiscites, but *permanent* plebiscites. For why should the final shape of a nation be fixed according to what its people thought in 1919? Renan had described the life of a truly united nation as 'a plebiscite of every day'. But he would have been first to add that it could not apply literally to nations in becoming, until time, tradition, prescription, had made a living reality of 'the soul, the spiritual principle' without which a nation could not exist. 'To have common glories in the past, a common will in the present; to have accomplished great things together, and to want to accomplish more in the future: these are the essential conditions that make a people. . . .' No one in 1919 suggested that all Europe should be submitted to plebiscites, and even the most fervent supporters of self-determination could understand the dangers of anarchy that would follow if it were carried to the extreme. There was nothing then that could differentiate the right of self-determination from the 'right' to secession; and all the world could remember that the President who had now made himself the champion of self-determination was the successor of another President who had fought the most terrible war in the history of his country to save it from that very peril. A literal view of the principle would have meant that unless the whole territorial structure of Europe was determined by plebiscites, the Wilsonian programme would be violated.

No one present at the Conference ever took this view—not even President Wilson. In the earliest stages of the Conference, and before Mr. Lloyd George could have had any reasonable time to 'bamboozle' him, he made it clear that the adjustment of his principles to concrete cases could not be effected on such simplified lines. 'If', he declared on 30 January, 'a map of Europe were produced showing the limits of the territories to be created, based on historical, racial and economic facts, the Great Powers could then sit down to consider those suggestions and give weight to those points of view, such as expediency,

natural antagonisms, etc., which played no part in scholarly wisdom.<sup>1</sup> Time and again, as such difficulties came up for solution, it was admitted that some compromise was necessary. 'It would in many parts of the world', said Lord Balfour, 'be necessary to modify the ethnological principle by geographical and economic considerations. It had seemed to him that confusion would be increased and difficulties doubled by first offering votes to the population, and after recording the resulting of their votes, disregarding it. Would it not be better to say beforehand that there were certain considerations which must outweigh national sentiments, rather than by consulting the latter to make it almost impossible to allege the former?'<sup>2</sup> What Professor Carr ascribes to a confusion between self-determination and nationality was rather the tacit admission that the conflict could not be solved in favour of either one alone of the two. Furthermore, the fact that *language* is no sufficient criterion of the will to form a nation is the proof, not that self-determination does not coincide with nationality, but merely that nationality does not coincide with language.

Like those of any individual, the wants of a nation are multiple, and they are not always compatible. The mere wish of every 'national group' to form an independent state was hardly a sufficient basis for its future national existence. The peoples 'concerned' did not only want to belong to this or that nation; they also insisted that the nation to which they belonged should be strong, prosperous, and secure.

The economic consequences of territorial changes have been a source of frequent misunderstanding. In a famous book Sir Norman Angell once endeavoured to dispel some of them by demonstrating that under conditions of modern capitalism, private property, and free enterprise, territorial aggrandizement did not in itself enrich a conquering nation. As long as the property rights of the conquered were respected (and they could not fail to be), the conqueror gained in territory and population, but not in wealth; conversely, the people remaining in the mutilated country was not directly impoverished. We have learned to-day that wholesale expropriation and extermination have made the profits of totalitarianism something more than a 'Great Illusion'; but in view of the humane attitude of the victors in 1919, Sir Norman's conclusions had then acquired a very practical significance.

<sup>1</sup> Miller, vol. xiv, p. 77.

<sup>2</sup> *ibid.*, vol. xv, p. 529.

Yet even under this now obsolete method of territorial transfers, the presence of valuable economic resources is not a matter of indifference to the nation that is to gain or lose them. The nation *as a whole* will be richer as a consequence of the accretion of a rich population. National finance is strengthened by the application of taxation to the richer regions; and even in the absence of the multifarious forms of state control which may be used to turn the new resources into a literally national asset, their inclusion within the country's boundaries will in itself increase national wealth, were it merely because the population can migrate to the richer area without losing its national character. For all these reasons, 'economic considerations' were invoked during the Conference to support various claims for territorial annexation.

Now the removal of a political boundary between two regions may help to improve the economic welfare of both, regardless of considerations of aggregate economic *power*, since it also removes the *pretext* for putting obstacles to the free play of those forces which will naturally operate the most efficient geographical location of the factors of production. But the existence of a political boundary does not *by itself* render these transformations impossible or even more difficult. Even *within* one country, the produce of a region is being *exchanged* against that of another; all that a new boundary will do will be to substitute international for inter-regional trade—but not to suppress trade altogether. Thus, as Mr. Keynes remarked, political boundaries would be of little consequence to economic intercourse in a *régime of Free Trade*. But, he added, 'men have devised ways to impoverish . . . one another'; and 'calculating on the present passions and impulses of European capitalistic society', Europe's output would be in each case 'diminished by a new political frontier (which sentiment and historic justice require), because nationalism and private interest are thus allowed to impose a new economic frontier along the same lines.'<sup>1</sup>

What has happened since would seem enough to confirm amply the pertinence of this remark. Everywhere tariff barriers, reinforced with all manner of contrivances designed to promote economic self-sufficiency, have contributed to hamper the fullest economic development of Europe and of the rest of the world. But the conclusion drawn by Mr. Keynes was hardly legitimate: if economic frontiers were to grow wherever political frontiers

<sup>1</sup> *E.C.P.*, p. 91.



were drawn, the fault lay with 'the present passions and impulses of European capitalistic society', and not with the Peace Treaty. The idea that 'natural economic regions' should not be 'arbitrarily' partitioned may seem at first glance a highly reasonable one; but what is a 'natural economic region'? If complete self-sufficiency is being aimed at, where are the limits at which territorial extension will stop? No European nation could be economically self-sufficient, and not even the inclusion of all in one single European unit could have made them so. Had Mr. Keynes's complaints about the economic evils of political frontiers been consistent, they would not have justified his criticism of the changes wrought by the Treaty in *existing* frontiers—they would, rather, have justified his asking for their universal abolition—unless the 'Economic Eldorado' of pre-war days which he described in his opening chapter represented in his eyes such an acme of universal bliss as to render abhorrent any change in the political *status quo* of 1914. But Mr. Keynes, who, as we shall see, had severe remarks to offer about the impracticability of restoring Europe to 1870, did not appear to realize that it would be just as difficult to restore it even approximately to 1914.

And yet, considerable ingenuity was spent at the Conference in efforts to provide the new states with sufficient economic resources to make a reality of their political independence. Mr. Harold Nicolson has complained of the difficulties raised by such problems: 'No guidance', he writes, 'was . . . given us as to the inevitable conflict between "self-determination" and "economics"'. The French were always insisting that our main duty was to render the New States what they called "*viables*", or in other words to provide them with those essentials of security, transport and economic resources without which they would be unable to establish their independence. We were never told how far we were to accept this argument.<sup>1</sup> Perhaps the reason was that it was actually impossible to lay down hard and fast rules by the mere economic standard.

A characteristic instance of such problems is provided by the case of the German-speaking parts of Bohemia. When he presented it before the Supreme Council, Dr. Beneš made a long plea for the maintenance of the existing frontier between Germany and the Bohemian part of Austria-Hungary. This would, admittedly, include a minority of German character in the new

<sup>1</sup> *Peacemaking*, 1919, pp. 129-30.

Czechoslovakia; a number of arguments, historical and political, were nevertheless given in favour of this solution. 'The best argument, however,' added Dr. Beneš, 'on which to establish the rights of the Czechs was of an economic order. The Czecho-German parts of Bohemia contained nearly the whole of the industries of the country. Bohemia as a whole was the strongest industrial portion of Austria-Hungary. . . . Without the peripheral areas Bohemia could not live. The centre of the country was agricultural, and the two parts were so interdependent that neither could exist without the other. If the Germans were to be given the outer rim of Bohemia they would also possess the hinterland.'<sup>1</sup> Accordingly, and almost without discussion, it was decided that the frontier between Bohemia and Germany would remain as it was in 1914. A minority of some three million German-speaking people was included in Czechoslovakia. Here was a clear instance where 'economic considerations' had prevailed over the strictest application of the principle of self-determination. Perhaps for this very reason, Mr. Keynes was satisfied with the solution arrived at, for he made no critical reference to it. And yet it was precisely the problem of the Sudeten Germans that brought Europe to the brink of war in September 1938. Thus, even when food, coal, and transport were given their due share of attention, frontiers and sovereignties would still be inviting trouble.

Now the choice between economic and political advantage cannot be decided once for all, and calls for more than a judgement of fact, as it must rest, in the last resort, upon a choice of values. Long before Hermann Goering's notorious remark about the advantage of guns over butter, Adam Smith, for one, had expressed with the sweet simplicity of his age the opinion that defence was of much more importance than opulence. But there is no *demonstrable* reason in the world why any one should not prefer one to the other, and swap (whenever he finds it practicable) freedom for prosperity. After all, the earliest transaction of this type ever recorded could never have taken place if Esau had not *preferred* the pottage. For a long time the popular view has been that it was not he who had ultimately made the best out of that bargain; but this is now probably little else than a canting old-fashioned prejudice, in an age that takes

<sup>1</sup> Miller, vol. xiv, p. 215. In the final report of the Commission on Czechoslovakia, the economic motive for a recommendation of the inclusion of the Sudeten in Czechoslovakia came first. 'There is', said the report, 'complete economic interdependence between Bohemian Germans and Czechs.'

for granted the 'primacy of economics over politics'—or, indeed, over anything else. In 1919, the days were at hand when Mr. Ford would explain that what is economically right is also morally right; and to proclaim that the Peace Treaty was economically wrong was enough already to damn it as a whole. The times foreseen by Burke were there: the age of economists and calculators had truly come.

In this everlasting debate it is perhaps a little easy, and it is certainly not sufficient, to protest that man lives not by bread *alone*; for this never did mean that man can go without bread altogether, and it may even mean that bread has often to come first. But was this really the case in 1919? Had things then come to a point where all problems other than food, coal, and transport had become insignificant and were to remain so in future? And if this was so, what purpose could there have been in fighting the war for four mortal years? If the issues of national existence were 'unreal', how much simpler, then, it would have been to submit, in 1914, to what Mr. Keynes had had no difficulty in calling 'the reckless self-regard' of the German people, and to bow to the inevitable hegemony of the Central Powers rather than disturb the admirable economic machinery of Europe. That would certainly have saved a great deal of trouble. 'It was all your fault', explained Noske and Koester, the engaging German socialists, as they came, on the heels of the German Army, to pay a friendly visit to their Belgian comrades at Brussels in September 1914; 'why didn't you let us pass? You would have been largely compensated by our Government, and we would have brought you in addition the benefits of universal suffrage and of social insurance which you have not yet been able to obtain.' 'But', asked the Belgians, 'what of the honour of the nation?' 'The honour of the nation?' said Koester. 'That is bourgeois ideology, for which socialists can have no use.' It was not for nothing that German social democracy had been nurtured upon the economic interpretation of history.

So perhaps, after all, the German socialists had been right and the Belgians wrong. But in their simplicity, the leaders of nations who had thrown away the lives of their children in the defence of their *sovereignties* behind their *frontiers* were to take a different view. That was why, at the Conference, *sovereignties* and *frontiers* came first—aye, even before food, coal, and transport. If every dutiful economist must include in his cal-

culations what is not seen as well as what is seen, 'ce qu'on voit et ce qu'on ne voit pas', he should also remember that in so doing he is reckoning within the limits of the economic problem only. But the statesman, whose ideal is to be *the universal calculator*, and in whom the gift of *vision*—that vision without which the people perish—must be supreme, should strive to perceive, without limit, what is seen and what is not seen. Now while economics deals with the *measurable* side of human affairs, politics, as we know, is the realm of *imponderables*. In deciding that the enduring perils of the future would lie in national grievances and in political ambitions, the statesmen of 1919 must have believed that economic reconstruction could not be obtained at the price of spiritual destruction; they must have remembered how the Belgians had preferred the honour of the nation to the blessings of German state insurance, how Cesare Battisti, geographer and economist, had given his life that the Trentino might be Italian, even though he knew that the apples of his orchard would sell better in Austrian markets; they must have been looking not so much, perhaps, at the things which were seen as at the things which were unseen—at those deep sources of national unrest that would, as President Wilson once reminded them, fester and smoulder like the invisible progress of sparks creeping unheeded across the forest under a thick bed of leaves, until the great fire suddenly roars and rages. Perhaps, after all, they did remember that the things which are seen are temporal, but the things which are not seen are eternal.

## II

I have always felt great sympathy with the little boy who wanted to write a history of France 'with all the details'. Since history cannot be accumulation, it must perforce become selection; and since choice ultimately depends upon the arbitrary balance of personal preference, *history* can never be completely impartial: only the inclusion of 'all the details' would make it so.

It is therefore open to anyone to remark that the scope of Mr. Keynes's book was limited, and that it is hardly fair merely to point to some fact omitted from his picture; there are, admittedly, many that are not included in mine. For instance, this book is concerned with Mr. Keynes's ideas and not with his person; and as, furthermore, I have not the honour of his personal acquaintance, I am unable to entertain the reader with

a description of his looks; and I must admit that without some reference to the colour of his boots or to the texture of his skin, this story will remain sadly incomplete. In his prophetic vision of the destinies of Europe, Mr. Keynes seemed to set great store by these features; to what a different future might not humanity have looked forward if only the President's finger-tips had been sharper, or if his lower limbs had been longer!<sup>1</sup> Such details, be they anatomical or vestimentary, could only have come to the author's knowledge (so the reader might conclude) through the closest association with the Four. Thus, when one of the American delegates, in a book published soon after his own, claimed that the nature of the Council's sessions had been 'grossly misrepresented',<sup>2</sup> Mr. Keynes could retort triumphantly that the same book confirmed his own account of Clemenceau's grey gloves!<sup>3</sup> But why then, one may legitimately ask, did he stop there? Why not also reveal to the world that Wilson wore pince-nez and that Lloyd George had a grey moustache?

These, however, are but trifles. In view of the gravity of the issue, Mr. Keynes had asked to be excused for assuming sometimes, in his description of the Conference, 'the liberties which are habitual to historians, but which, in spite of the greater knowledge with which we speak, we generally hesitate to assume towards contemporaries'.<sup>4</sup> Had the liberties in question been those which enable historians to write with more regard for truth than for the feelings or reputation of their characters, no apology would indeed have been necessary. But some, at least, of the 'liberties' assumed by Mr. Keynes were, as we shall now see, of a somewhat different order; and it is the present writer who, though he too was at Paris, but was not then in a position to acquire the 'greater knowledge' of contemporaries, must

<sup>1</sup> 'His head and features were finely cut and exactly like his photographs, and the muscles of his neck and the carriage of his head were distinguished,' wrote Mr. Keynes, as he explained how the President's appearance was 'to impair some but not all' of his earlier illusions about that statesman. 'But,' he continued, 'like Odysseus, the President looked wiser when he was seated; and his hands, though capable and fairly strong, were wanting in sensitiveness and finesse.' (*E.C.P.*, p. 37.)

<sup>2</sup> See E. M. House and Ch. Seymour (editors): *What Really Happened at Paris*, New York, 1921, p. 65 n. 'The confused and furious gathering,' wrote Professor Haskins in chapter III of that book, 'which Keynes describes in the large drawing-room of the president's house would appear to have been so rendered by the presence of a large number of economic advisers like himself, specially called in for the occasion. The real work of the council was done quietly and efficiently in President Wilson's down-stairs study, and it is no service to the cause of truth or of peace to assert the contrary.'

<sup>3</sup> Letter to *The Times*, 24 May 1921.

<sup>4</sup> *E.C.P.*, p. 24.

ask to be excused for resorting merely to the written evidence now available to historians.<sup>1</sup>

'Two rival schemes for the future polity of the world took the field,—the Fourteen Points of the President, and the Carthaginian Peace of M. Clemenceau',<sup>2</sup> wrote Mr. Keynes as he narrated this pathetic conflict of the forces of idealism and progress against those of cynicism and reaction, ending in the final 'collapse' of the man who had come to Europe as the bearer of hopes so dear. The public at large has never since been able to shake off the spell cast by this fascinating and highly sensational story.

To the burning patriotism of Clemenceau, as well as to his uncanny charm, Mr. Keynes paid a deeply felt and moving tribute. His portrait of the old Tiger, who 'had one illusion—France; and one disillusion—mankind, including Frenchmen'<sup>3</sup> was masterly, and it is beyond anyone's power to excel it. But, in addition, he charged Clemenceau—and with him, the whole of French policy—with the deliberate intention of *destroying* the German nation. 'So far as possible . . . it was the policy of France to set the clock back and to undo what, since 1870, the progress of Germany had accomplished. By loss of territory and other measures her population was to be curtailed; but chiefly the economic system, upon which she depended for her new strength, the vast fabric built upon iron, coal, and transport, must be destroyed.'<sup>4</sup> Clemenceau's aim, he explained, was 'to weaken and destroy Germany in every possible way'.<sup>5</sup> Such a policy, he continued, was condemned, not merely by its inhumanity but by its impracticability. 'My purpose in this book is to show that the Carthaginian Peace is not *practically* right or possible. . . . The clock cannot be set back. You cannot restore Central Europe to 1870 without setting up such strains in the European structure and letting loose such human and spiritual forces as, pushing beyond frontiers and races, will overwhelm not only you and your "guarantees", but your institutions, and the existing order of your Society.'<sup>6</sup>

Now it may first be pointed out not only that it is quite

<sup>1</sup> When these lines were written, the only available reports of the Conference's proceedings were printed in unofficial publications, such as those quoted in this book. Since then the American Department of State has undertaken the complete publication of the Conference's minutes. So far (July 1944), the documents published do not add very appreciably to what was already known. Only when the minutes of the Council of Four proper are published in their entirety will the plain record of this story be unveiled before the eyes of the public.

<sup>2</sup> *E.C.P.*, p. 51.

<sup>3</sup> *E.C.P.*, p. 29.

<sup>4</sup> *E.C.P.*, p. 32.

<sup>5</sup> *E.C.P.*, p. 138.

<sup>6</sup> *E.C.P.*, p. 33.

possible to set a clock back, but also that when the clock is wrong it is often a very sensible thing to do. That, however, is not the essential point. The point is that only by an acrobatic flight of historical fancy could a settlement that left Europe with a unified Germany and a decomposed Austria bear the reproach of restoring Central Europe to 1870, when things stood exactly the other way round. The point is that the economic power achieved by Germany between 1871 and 1914 had been greatly assisted by political unity; and that to 'restore Central Europe in 1870' would have meant, first of all, undoing this unity.

A not negligible body of opinion in France had been urging that every opportunity of exploiting to this end whatever currents manifested themselves in Germany should be used to the full before coming to the conclusion that such a policy was not feasible; and as the Empire of the Hohenzollerns crumbled to pieces, several ominous symptoms had appeared under the cracked carapace. In Bavaria, an independent Republic had been proclaimed. In the Rhineland, a genuine feeling for separation from Prussia was becoming increasingly evident. In Wurttemberg, in Baden, even in Saxony, allegiance to Berlin was rudely shaken. It is impossible to ascertain to-day to what lengths such forces might have carried the German States if they had received more attention in Allied quarters; but what is certain is that the amplitude they had reached was no better apprehended than had been the true weakness of Germany before the conclusion of the Armistice.

It has been said that in June 1919, after Scheidemann had resigned rather than sign the Treaty, and when the German Government had but a few hours left to accept or reject the Peace terms, Bauer, the new Chancellor, was pressed by the *German High Command* to refuse his signature. At that moment a delegation from the Southern German States asked to be admitted. 'If', they declared, 'the Treaty is not signed, the Allied armies now waiting on the Rhine will march into Germany. We shall be the first to suffer invasion. Rather than submit to this, we shall make our own terms with the Allies and secede from the Reich.'

So Europe had perhaps gone through one of those exceptional moments of history—moments that can sometimes be shaped, if seized by a quick and masterly hand, into an enduring future. There is a tide in the affairs of men . . . But to Clemenceau the

Jacobin—who saw in the march of nations to unity one of those irreversible forces of modern times, and who remembered how, in spite of many lamentable illusions to the contrary, Saxons and Bavarians had all flocked to the colours in 1870, and joined Prussia in the common defence of the German fatherland, as well as in the common assault against France—the unity of Germany was an accomplished and final fact. In this sense, indeed, he was a man of 1870. If he refused to listen to the advocates of dissociation, it was not merely in acknowledgement of the opposition of his British and American colleagues—it was because such proposals, in his eyes, bore the mark of the reactionary, and because, at the bottom of his own political philosophy, there was indeed the conviction (which many of his critics did not fail to use as a reproach) that ‘the clock cannot be put back’. ‘The question’, he said to the French parliament, ‘was settled at the Conference almost before it had been presented.’

Thus the Allies either did not know or would not see how perilous was the sea on which they were then afloat. The Treaty of Versailles was signed, and the unity of Germany preserved. And as the book that was to denounce his ‘Carthaginian Peace’ was being written, Clemenceau, now engaged in the defence of his policy before parliament, was pleading that Germany *could not* be permanently destroyed.

‘To-day’, he said, ‘we are masters. Nevertheless, if we want a conciliation in the interests of our children, of the future, we must use this superiority with a moderation sufficient but necessary to assure its duration. If we do this, Germany is disarmed. Yet, if we want Germany to pay Reparations, she will have to work. This is a problem that we cannot escape. To those Italian diplomats who will not understand that they must make friends of the Serbs and of the Slavs, that without this there can be no peace in Europe, I often say: “Unite with them instead of making them your enemies.” I would almost say the same of the Germans. I do not want to run after their good will,—I do not have the proper feelings for that. Still, sixty million people in the centre of Europe will take some room, especially when they are men of science, of method, who have shown, in industrial fields, the most brilliant qualities. Do we have an interest in denying it? Is it not the truth? We have no right to forget it. . . . Unity, you see, is not in the protocols of diplomacy. . . . It is in the hearts of men.’<sup>1</sup>

<sup>1</sup> Speech to the Senate, 11 October 1919.



The Treaty was ratified by parliament; but a few months later, Clemenceau was defeated at the Presidential election, and among the hostile votes, those expressing the resentment against the man 'who had won the war and lost the peace' were not a few. It is but another of those familiar ironies of fate that Clemenceau, after ten years of scornful silence, spent the last months of his life answering those who had blamed him for having compromised the security of his country, and that he died almost pen in hand, justifying in a heartrending book his refusal to dismember Germany. If it is contended that an excess of territorial divisions was the chief obstacle brought by the Treaty to the economic recovery of Europe, then, surely, some credit for having—in the teeth of bitter opposition, and at the cost of his downfall—opposed the political disruption of Germany should have gone to Clemenceau.

## III

But even less justice was done to President Wilson. In what he denounced as the 'collapse' of the President, Mr. Keynes saw the outcome, not of some earnest compromise between the real needs of the Old World and the ideal remedies of the New, but of the weakness of a man whom personal failings had left disarmed before the cynical toughness of Clemenceau or the mesmeric charm of Mr. Lloyd George. 'This blind and deaf Don Quixote', he explained, 'was entering a cavern where the swift and glittering blade was in the hands of the adversary.'<sup>1</sup> Misinterpretation and even misrepresentation were in this case, by laying in public opinion the foundations of an historic misunderstanding, to carry a supreme symbolic significance.

Little need be said here of the President's natural accomplishments. Mr. Keynes had affirmed that 'his mind was slow and unadaptable', that 'there can seldom have been a statesman of the first rank more incompetent . . . in the agilities of the council chamber'.<sup>2</sup> Lord Balfour who (it may be assumed) had some experience of the council chamber, was, for one, not quite so exacting in his standards of agility. He was astonished, he told Mr. Nicolson, to find the President as good round a table as he was on paper. 'His attitude at the meetings of the Big Five is firm, modest, restrained, eloquent, well-informed and convincing.'<sup>3</sup> As early as March, Mr. Lloyd George confided to Lord Riddell

<sup>1</sup> *E.C.P.*, p. 38.    <sup>2</sup> *E.C.P.*, pp. 39-40.    <sup>3</sup> *Peacemaking*, 1919, p. 244.

that Clemenceau was 'overcome by the torrent of Wilson's eloquence. It seems to paralyse him.'<sup>1</sup> At first, no doubt, Clemenceau may have felt some ill-concealed irritation at what appeared to him as little more than a lot of high-falutin' or Sunday-school talk, when patience and reverence were what the troubles of Europe required—patience with their difficulty, reverence for their antiquity. 'When he first developed his programme', he confided at the time to Colonel Bonsal, 'it seemed to me perfectly Utopian. I said to him, "Mr. Wilson, if I accepted what you propose as ample for the security of France, after the millions who have died and the millions who have suffered, I believe, and indeed I hope, that my successor in office would take me by the nape of the neck and have me shot at daylight before the donjon of Vincennes." After that we began to get together.'<sup>2</sup> For behind the rugged countenance of the pessimist there throbbed a heart that could find out what made of Wilson a great and a good man. 'Mr. Wilson', he said, 'has lived in a world that has been fairly safe for Democracy; I have lived in a world where it was good form to shoot a Democrat. After a few weeks of sparring I became convinced that your President wanted the same things that I did, although we were very far apart as to the ways and means by which we could reach the desired end.'<sup>3</sup> Indeed, according to a close witness of these meetings, it was astonishing to watch the old fighter overcoming himself in an effort to rally closer to the point of view of his antagonist. There is in fact evidence that in the course of these 'battles', the President developed the deepest feeling for the man who had proved (in the words addressed to him by the lone cripple on the occasion of what was to prove their last meeting, at Washington, three years afterwards) 'a staunch friend as well as an open foe'.<sup>4</sup> And as the strenuous talks went on, day after day, the moral stature of the President was asserting itself against the earlier diffidence of his European colleagues.

His position was truly an exceptional one: here was the head of what had now become the most powerful state in the world, seeking no political or material advantage for himself or for his people, anxious only, in Mr. Keynes's own words, 'to do nothing that was not just and right'.<sup>5</sup> This time, he thought, the troubles that had been ailing the Old World so long were not to be cured

<sup>1</sup> Lord Riddell's *Intimate Diary*, London, 1933, p. 36.

<sup>2</sup> Stephen Bonsal: *Unfinished Business*, London, 1944, p. 69.

<sup>3</sup> *ibid.*

<sup>4</sup> *ibid.*, p. 283.

<sup>5</sup> *E.C.P.*, p. 211.

by the obsolete and precarious method of a Balance of Power between rival blocks, but by a universal League where all nations would be free from illegitimate rule, and where the interest of all in the maintenance of peace would be enough to restrain any possible offender.

An early shape had been given to this conception the year before in the President's addresses. Even then his ideas, which Mr. Keynes was to describe as 'nebulous and incomplete',<sup>1</sup> were confined to the mere expression of abstract principles; these, as in the Fourteen Points address, had been embodied in the first lineaments of geographical solutions for each country concerned. As a public statement of general policy, the Fourteen Points were indeed precise enough—precise, in Mr. Nicolson's opinion, 'to the point of recklessness'.<sup>2</sup> Still, there was all the difference in the world between a peace programme and a peace treaty. If the President's addresses had constituted *in themselves* a complete and satisfactory solution to the problems of the Peace, no Conference and no Treaty would have been at all necessary: all that was required was to lay down these texts upon a sheet of paper, have the plenipotentiaries affix their signatures, and live happily ever after. But for the resettlement of so complex and delicate a structure as that of 200 or 300 million people of different races, different languages, different traditions, different interests, and different strengths, a few Olympian abstractions were not perhaps altogether sufficient.

That was why the method of investing these principles, even before the Armistice was signed, with a quasi-contractual quality was fraught with the gravest inconvenience. In their correspondence of October 1918 with the President, the Germans had first proposed that peace negotiations should be conducted *on the basis* of the Fourteen Points; the President went further, and insisted that Germany must *accept* his addresses as the foundation of the peace settlement. But when, at the end of the month, the European Allies—who had never so far received any official notification of the Presidential programme, and had not therefore found any opportunity to discuss it as a common policy—were asked by the President to consider the German demand for an armistice, they could hardly be expected, after four years of unsparring sacrifice, to mortgage there and then, in a few sentences that would clearly be open to a variety of interpretations, the very fortunes of their peoples.

<sup>1</sup> *E.C.P.*, p. 39.

<sup>2</sup> *Peacemaking, 1919*, p. 39.

There was nothing in this attitude to suggest the influence of unavowable motives; to question the excellence, *sub specie aeternitatis*, of every one of the Fourteen Points, was not the mark of any sinister design. The points were brief, often equivocal; what was more, they were in several respects the product of circumstance; and as such, the President had not hesitated, when the issue had been presented to him squarely, to modify them in the light of current developments. Thus Point X, which stated that 'the peoples of Austria-Hungary, whose place among nations we wish to see safeguarded and assured, should be accorded the freest opportunity of autonomous development', could not have meant that the Danubian monarchy was to be broken into several sovereign states. But when the time came for the President to answer the Emperor Karl's request for an armistice, there had been momentous happenings meanwhile. The Slav nationalities had been given official support, in their most welcome insurrection against the Dual Monarchy, by the Allied Governments, who had encouraged the formation of a Czechoslovak army and even recognized a Czechoslovak national committee. On 18 October, President Wilson gave the Austro-Hungarian Government to understand that Point X could no longer hold. 'Because certain events of utmost importance', said his Note, 'which occurred since the delivery of his address of the 8th of January last, have measurably altered the attitude and responsibility of the Government of the United States, . . . the President is therefore no longer at liberty to accept the mere "autonomy" of these peoples as a basis for peace, but is obliged to insist that they, and not he, shall be judges of what action on the part of the Austro-Hungarian Government will satisfy their aspirations. . . .'<sup>1</sup> The first step in the President's 'collapse' had therefore taken place, not in 'the hot and poisoned atmosphere of Paris', but within the serene walls of the White House, and under the spell, not of Clemenceau or Lloyd George, but of Masaryk.

When, a few days later, the Points came up for examination between the Allied Premiers, now assembled at Paris, and Colonel House, who had just arrived as the President's envoy-extraordinary, the Premiers could not very well consent to commit themselves wholesale without any further elucidation. After all, a few things, too, had happened since the Points were issued some ten months before. Then they had been ignored or

<sup>1</sup> *Public Papers of Woodrow Wilson*, vol. v, pp. 281-2.

rejected by Germany, whose prospects of victory were at their highest; and her answer, a few weeks later, had been the Treaty of Brest-Litovsk, which wrested from Russia about one-third of her population. So scant, indeed, was the impression made by the Fourteen Points at the time upon the morale of the German soldier that Germany, in her successive assaults of March, of May, and of July 1918, had very nearly broken the Allied Armies in the West. It was all very well for the Germans to accept the Points now that military collapse was imminent. But as October 1918 drew to its end, the time was hardly favourable to an elaborate exegesis of the President's programme. 'In peace-time', as Foch once said, 'one has to listen to long speeches, but then no one dies while they are being made.' Colonel House had intimated that unless his programme were accepted, the President might well clean all negotiations off the slate, present the issue to Congress, and even conclude a separate peace with Germany. Meanwhile, every day's delay was costing thousands of lives. Colonel House, who above all was a man of goodwill if ever there was one, and who had realized the need to equip these rather bare pronouncements with some more specific definitions, had prepared a Commentary on the Points; the text had been approved by the President, who had added that 'details of application mentioned should be regarded as merely illustrative suggestions and reserved for peace conference'.<sup>1</sup> In this Commentary, which was submitted to the Premiers in the course of these discussions, not every doubtful issue did, indeed, receive a complete solution; but wherever the issue was in doubt, the various alternatives were outlined as clearly as possible. Thus, Point I, 'Open Covenants openly arrived at' meant the suppression of all secret agreements, but did not exclude 'confidential diplomatic negotiations involving delicate matters'. Point VII, the 'restoration of Belgium' meant that 'all the consequences' of Germany's illegitimate invasion were to be repaired—including the whole of Belgium's war debt. Point XIII ('an independent Polish state . . . inhabited by indisputably Polish populations, which should be assured a free and secure access to the sea'): 'the chief problem', said the Commentary, 'is whether Poland is

<sup>1</sup> R. S. Baker: *Woodrow Wilson, Life and Letters—Armistice*, New York, 1939, p. 533. The full text of this Commentary, which was largely the work of Messrs. Walter Lippmann and Frank Cobb, was first published in C. Seymour, *Intimate Papers of Colonel House*, 1928, vol. IV, pp. 198–209. See also Winston S. Churchill, *The Aftermath*, p. 107.

to obtain territory west of the Vistula which would cut off the Germans of East Prussia from the Empire, or whether Danzig can be made a free port and the Vistula internationalized.'

And so the Commentary went on. Mr. Keynes may have assured his readers that the President 'had no plan, no scheme, no constructive ideas whatever for clothing with the flesh of life the commandments which he had thundered from the White House'.<sup>1</sup> In fact, there was probably no other Head of State among the Allied Powers who had come to Paris with so comprehensive and detailed a 'blue-print'. But it was clear that the Points were still open to a fairly wide construction; so wide, indeed, that Colonel House, in his eagerness to arrive quickly at a compromise, allayed the scruples of the Premiers and assured them that their punctiliousness was, on the whole, unnecessary. 'The President', he told them, 'had insisted on Germany's accepting all his speeches, and from these you could establish almost any point that anyone wished against Germany.'<sup>2</sup>

So in the end the Premiers accepted the President's programme, with only two reservations—one relating to the Freedom of the Seas, the other to the Reparation question. These having been notified to Germany, Armistice talks started, and the War was brought to an end. But as Mr. Nicolson has since remarked, 'it is difficult to resist the impression that the Enemy Powers accepted the Fourteen Points as they stood; whereas the Allied Powers accepted them only as interpreted by Colonel House'.<sup>3</sup>

Mr. Keynes could be excused for being, at the time, unaware of this most unsatisfactory situation. This, however, is not to say that his own interpretation of the 'pre-Armistice Contract' was a very satisfactory one. 'Germany', he wrote, 'having rendered herself helpless in reliance on the Contract, the honour of the Allies was peculiarly involved in fulfilling their part and, if there were ambiguities, in not using their position to take advantage of them.'<sup>4</sup> This amounted to saying that the Allies could not depart from the interpretation *most* favourable to Germany without laying themselves open to a charge of dishonesty; for the 'ambiguities, being indeed many and far-reaching, it would always be possible for Germany to point out that the Allies had taken advantage of them to her detriment.

<sup>1</sup> *E.C.P.*, p. 39.

<sup>2</sup> Lloyd George, *The Truth about the Peace Treaties*, vol. 1, p. 80.

<sup>3</sup> *Peacemaking*, 1919, p. 16.

<sup>4</sup> *E.C.P.*, p. 55.

Thus, in the case of Point X, Colonel House had explained that the President had not said expressly that Alsace-Lorraine should return to France, but that he intended it positively. Clemenceau retorted that the Germans would certainly not place that interpretation on it. And, a few weeks later, General Groener, the Quartermaster-General, explained to the German Cabinet that part of Alsace-Lorraine should be retained at all costs, 'otherwise Germany would never be able to undertake the offensive in a future war. "It must surely be child's play", he exclaimed, "to secure what we want if Wilson is on our side."'<sup>1</sup> Mr. Keynes's interpretation of the 'pre-Armistice Contract', whether he wished it or not, would thus have forced President Wilson on to Germany's side every time.

We shall see in another chapter how this situation affected the Reparation problem. As far as the general attitude of the President at the Peace Conference was concerned, it was evident—as he himself had intimated—that the very object of the Conference would be to find out how his programme was to be applied to the concrete realities of Europe; for this living organism could not be made to fit into any mere academic strait-jacket. And as the President, having shot through the mists of the Atlantic banks, was peering with keen surmise into the European ant-heap, the appalling complexity of these problems touched him to the quick.

'What we are doing', he explained on his arrival for the flying visit he made to America during the Conference, 'is to hear the whole case; hear it from the mouths of the men most interested; hear it from those who are officially commissioned to state it; hear the rival claims; hear the claims that affect new nationalities, that affect new commercial and economic connections that have been established by the great world war through which we have gone. And I have been struck by the moderateness of those who have represented national claims. I can testify that I have nowhere seen the gleam of passion. I have seen earnestness, I have seen tears come to the eyes of the men who plead for the downtrodden people whom they were privileged to speak for; but they were not the tears of anguish, they were the tears of ardent hope.'<sup>2</sup> Perhaps, during these solemn moments, some treasured memory, from the quiet contemplative years under the broad elms of the Princeton campus, was carrying back to

<sup>1</sup> K. F. Nowak: *Versailles*, 1928, p. 195.

<sup>2</sup> Speech at Boston, 24 February 1919.

the President's mind the lines of which the young professor of politics had been so fond. . . . 'If I were as confident, as I ought to be diffident in my own loose, general ideas, I never should venture to broach them, if but at twenty leagues' distance from the centre of your affairs. I must see with my own eyes, I must, in a manner, touch with my own hands, not only the fixed, but the momentary circumstances, before I could venture to suggest any political project whatsoever. I must know the power and disposition to accept, to execute, to persevere. I must see all the aids and all the obstacles. I must see the means of correcting the plan, where correctives would be wanted. I must see the things; I must see the men. Without a concurrence and adaptation of these to the design, the very best speculative projects might become not only useless, but mischievous. Plans must be made for men. We cannot think of making men, and binding nature to our designs. People at a distance must judge ill of men. They do not always answer to their reputation when you approach them. Nay, the perspective varies, and shows them quite otherwise than you thought them. At a distance, if we judge uncertainly of men, we must judge worse of *opportunities*, which continually vary their shapes and colours, and pass away like clouds.'<sup>1</sup>

And so, when the great problems came up for solution, the President, in the course of his daily contacts with the men concerned, had become increasingly aware that at the bottom of each there lay a *conflict of condition and of purpose which only compromise could solve*.

It was perhaps in the case of Poland that these difficulties assumed their most characteristic shape. Point XIII had expressly promised her a free and secure access to the sea. In their report on this question, the Intelligence Section of the American delegation explained that if access was accorded through Polish territory, the province of East Prussia, with 1,600,000 Germans, would be cut from the rest of Germany. 'If Poland does not thus secure access to the sea, 600,000 Poles in West Prussia will remain under German rule, and 20,000,000 Poles in Poland proper will probably have but an awkward and precarious commercial outlet subject to the will of an alien and presumably hostile power. It is believed that the lesser of these evils is preferable, and that a corridor to the sea should be ceded to Poland.' The report also recommended the inclusion of Dantzig.

<sup>1</sup> Burke, *Letter to a Member of the National Assembly*, 1791.



'While the inclusion of these 150,000 Germans in Poland is not an easy thing to recommend, it seems clear that there is here a major economic and geographic necessity, and that there is no other solution of the problem which would be more than a half measure unsatisfactory in the long run to both sides.'<sup>1</sup>

In March, the Conference's Committee on Polish affairs submitted their report; it concluded unanimously in favour of the establishment of a 'corridor' and the annexation of Dantzig.

Mr. Lloyd George expressed his fears that this solution, which constituted in his opinion a departure from the Fourteen Points, might make trouble, 'not only for Poland, but for the world'. 'Wherever,' he said, 'it could be shown that the policy aimed at reversing the German policy of Polish expropriation, the decision might be accepted by the Germans, but the areas he had in mind would be represented as "Germania Irredenta" and would be the seed of future war. Should the populations of these areas rise against the Poles, and should their fellow-countrymen wish to go to their assistance, would France, Great Britain and the United States go to war to maintain Polish rule over them? He felt bound to make this protest against what he considered to be a most dangerous proposal.'

President Wilson said that 'the discussion had brought out a difficulty which, it had been said, would be met in many cases, and he had not reached a definite conclusion in his own mind on the particular point under discussion. He hoped that the discussion would be carried far enough to bring out all its elements. Everywhere in Europe blocks of foreign people would be found whose possession of the country could be justified by historic, commercial and similar arguments. He acknowledged that the inclusion of two million Germans in Poland was a violation of one principle; but Germany had been notified that free and safe access to the sea for Poland would be insisted upon. The Allied and Associated Powers were therefore not open to the reproach that they were doing this merely because they had the power to do it. This was one of the things they had fought for. The difficulty was to arrive at a balance between conflicting considerations.' 'It must be realized,' the President continued, 'the Allies were creating a new and weak State, weak not only because historically it had failed to govern itself, but because it was sure in the future to be divided into factions, more especially as religious differences were an element in the situation. It was there-

<sup>1</sup> Miller, vol. vi, Doc. 441, pp. 50, 51.

fore necessary to consider not only the economic but the strategic needs of this State, which would have to cope with Germany on both sides of it, the eastern fragment of Germany being one of a most aggressive character. There was bound to be a mixture of hostile populations included in either State. The Council would have to decide which mixture promised the best prospect of security. He was afraid himself of drawing the line as near the Dantzig-Thorn railway line as Mr. Lloyd George suggested. He, however, felt the same anxieties as Mr. Lloyd George. The desire might arise among the Germans to rescue German populations from Polish rule, and this desire would be hard to resist. It was a question of balancing antagonistic considerations. He had wished to bring out the other elements in the problem.<sup>1</sup>

When the Committee on Poland, to whom the problem had been referred back, had reported that they maintained their proposals in their entirety 'as the best possible solution', the Four, after further examination, finally decided to allow a 'corridor' to Poland, and to make Dantzig a Free City under the authority of the League of Nations. Thus did the Four, faced with a most baffling problem, take pains to reconcile the economic and strategic needs of Poland with the rights of German nationality. But to Mr. Keynes, the case of Dantzig was merely a typical instance of 'that web of sophistry and Jesuitical exegesis that was finally to clothe with insincerity the language and substance of the whole Treaty'.<sup>2</sup>

Such, therefore, were the steps that led the President to 'collapse' and to 'betrayal'. Just as 'the irresistible logic of events' (to use the words of Secretary of State Lansing) had moved him from neutrality to war, and from 'Peace without victory' in 1916 to 'Force without stint or limit' in 1918, so did his swiftly sharpening vision of the facts now carry him yet another step further. Above all, he was determined that the plague of national irredentism should be cleansed as thoroughly as possible. But the mingling of races, the intricacy of economic

<sup>1</sup> Miller, vol. xv, p. 428 ff. See also D. Lloyd George, *The Truth about the Peace Treaties*, vol. II, pp. 979 ff. *Foreign Relations of the United States: The Paris Peace Conference*, pp. 417-18.

<sup>2</sup> *E.C.P.*, p. 47. Mr. Keynes, it is true, conceded that the President could sometimes be capable of 'digging his toes in', as in the case of Fiume (*E.C.P.*, p. 40), although he did not mention that in this particular case, the attitude of the President had been dictated essentially by a regard, in the words of his geographical experts, for 'the commercial interests of Central Europe', or, in his own words, for 'the commercial and industrial life of the regions which the port must serve.' (See Baker, vol. III, pp. 288-90.)

requirements, the needs of young and small states for some assurance of national security against a big neighbour beyond the mere promise of a League of all virtues, did not allow any short cut to universal self-determination. Thus, when the question arose of determining the shape of the new Czechoslovakia, Mr. Robert Lansing might object that the fixing of frontier lines with a view to their military strength and in contemplation of war was directly contrary to the whole spirit of the League of Nations and to President Wilson's principles; but M. Cambon would explain that he had himself heard the President declare that the new states should begin under conditions that would enable them to survive.<sup>1</sup> Thus, in the President's own words, France still stood 'at the frontier of freedom', in the presence of threatening and still unanswered problems. For having, through his closer touch with the French, had as it were a smack of their experiences, the conviction had grown upon him that their craving for security was an issue of tragic reality. 'One of the most interesting things that I realized after I got to the other side of the water', he told his countrymen in one of the addresses of that final agonizing tour across the Western States, 'was that the mental attitude of the French people with regard to the settlement of this war was largely determined by the fact that for nearly fifty years they had expected it, that for nearly fifty years they had dreaded, by the exercise of German force, the very thing that had happened, and their constant theme was "We must devise means by which this intolerable fear will be lifted from our hearts. We can not, we will not, live another fifty years under the cloud of that terror." The terror had been there all the time and the war was its flame and its consummation.'<sup>2</sup> 'I believe, my fellow countrymen,' he was to say a few days later, 'that the only people in Europe who instinctively realized what was going to happen and what did happen in 1914 was the French people. . . .'<sup>3</sup>

And yet, faithful to his principles, the President had never consented to the French demand for the annexation of the Saar. 'I am willing', he told his advisers, 'to give France any indemnity in kind to which she is entitled. . . . I have no right to hand over to her people who do not want to go to her, or to give them a special government, even if it is better for them, if they do not

<sup>1</sup> Miller, vol. xvi, p. 12. *Foreign Relations of the United States: The Paris Peace Conference*, p. 544.

<sup>2</sup> Address at St. Louis, Mo., 5 September 1919.

<sup>3</sup> Address at Minneapolis, Minn., 9 September.

want it.<sup>1</sup> Neither could he consent for the sake of French security to any solution that would probably create on the left bank of the Rhine another Alsace-Lorraine; but then he knew that he could not do less to meet France's legitimate demand than promise, instead, the whole armed support of the American Republic. For with a Europe so constituted, nothing less than this assurance would suffice to protect the future of the new-born states. 'Those very weak nations', he was to explain, 'are situated through the very tract of country—between Germany and Persia—which Germany had meant to conquer and dominate, and if the nations of the world do not maintain their concert to sustain the independence and freedom of those peoples, Germany will yet have her will upon them, and we shall witness the very interesting spectacle of having spent millions upon millions of American treasure and, what is much more precious, hundreds of thousands of American lives, . . . to do a thing which we will then leave to be undone at the leisure of those who are masters of intrigue, at the leisure of those who are masters in combining wrong influences to overcome right influences, of those who are the masters of the very things we hate and mean always to fight. For, my fellow citizens, if Germany should ever attempt that again, whether we are in the league of nations or not, we will join to prevent it. We do not stand off and see murder done.'<sup>2</sup>

And so, in his efforts to go over to the peoples upon whom responsibility for maintaining peace would ultimately rest if they were not assured of constant and active support from overseas, the President had perhaps 'betrayed' the dream of a world unsullied by the presence of force; but then he had betrayed nothing but a dream. 'You may say, "You have been on the other side of the water and got bad dreams,"' he said to his countrymen. 'I have got no dreams at all. I am telling you the things, the evidence of which I have seen with awakened eyes and not with sleeping eyes, and I know that this country, if it wishes to stand alone, must stand alone as part of a world in arms.'<sup>3</sup> Now we hear a good deal to-day about 'the realities of power'. To so quick-witted a man as Mr. Keynes, the President's mind may no doubt have appeared 'slow and unadaptable'; yet, in those few pregnant months, the President had covered ground which others discovered after twenty-five years.

<sup>1</sup> Baker, vol. II, p. 73.

<sup>2</sup> Speech at Indianapolis, 4 September 1919.

<sup>3</sup> Address at St. Louis, Mo., 5 September, 1919.

But the unkindest cut of all—and one which left an historic scar—was Mr. Keynes's account of how the President, because he would not admit that any of his principles had been violated, was to refuse, at the last moment, all conciliatory amendments to the Treaty. The sight of this Wild Duck, stuck to the bottom, and holding fast to the weed and tangle and all the rubbish that was down there, was too much for Mr. Keynes. Only an extraordinarily clever dog could dive after it and fish it up again. And so he denounced implacably 'the apparatus of self-deception', the 'web of sophistry and Jesuitical exegesis', the 'unprecedented insincerity'. When the German delegation protested that the Fourteen Points had been violated, for the President to admit this 'was to destroy his self-respect and to disrupt the inner equipoise of his soul. . . . 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. After all, it was harder to de-bamboozle this old Presbyterian than it had been to bamboozle him; for the former involved his belief in and respect for himself. Thus in the last act the President stood for stubbornness and a refusal of conciliations.'<sup>1</sup> So that was that. An eminent statesman—almost an eminent Victorian—had been gloriously and decisively debunked.

In diagnosing that 'a Freudian complex' was at the bottom of that lamentable breakdown, Mr. Keynes had added to his analysis of this psychopathological case a final, irresistibly up-to-date touch. I cannot for my part pretend to having probed so thoroughly the innermost recesses of the Presidential conscience. On the other hand, some of the records of what actually passed between the President and his colleagues are now available, and it is perhaps best to let them speak for themselves.

Something like the process of 'appeasement', for ill or good, was prefigured, as it were, in the crisis that started at the end of May, after the receipt of the German Observations on the Draft Treaty. Greatly alarmed, Mr. Lloyd George feared lest the Germans might refuse to sign. Some features of the Treaty, as he had pointed out in the course of the Conference, were indeed objectionable in themselves, and might, even if Germany signed now, provoke fresh trouble in future. But if Germany refused her signature, then the Allies would have to march into

<sup>1</sup> *E.C.P.*, pp. 49-50.

her territory—demobilization would have to be postponed—and then, what an outcry at home! The last six months had been harassing enough; and now there opened a new vista of endless complications. . . . So the Prime Minister, after a long sitting of the Imperial Cabinet, proposed several abatements, and was authorized to press for concessions in four principal respects: the eastern frontiers of Germany; her admission to the League of Nations; the limitation of the period of military occupation; and the Reparation provisions 'in the direction of fixing the liability of the Germans to the Allies at a definite amount'.<sup>1</sup>

The chief resistance came from the French delegation. 'A few instances among thousands', wrote M. Tardieu, 'will illustrate those infernal weeks. . . . With an emotion that was not feigned the Prime Minister admitted that he disowned his former position. "What I want is peace, and England wants it too . . . she cares but little about details. . . . I am prepared for any concession that will enable us to conclude. . . . If by our demands we cause the German Government to be upset, we shall have nobody before us to sign. . . ." and the conclusion returned again and again, harrowing, panting, entreating. . . . "They must sign . . . with concessions they will sign. . . . Warburg said that with concessions they would sign. . . . We must conclude." . . .'<sup>2</sup>

In the end, M. Tardieu made a strong plea to Colonel House. 'Mr. Lloyd George', he wrote, 'has said: "But they will not sign, and we shall have a thousand difficulties." It is the argument we heard so often during the war—after the battle of the Marne, after Verdun, after the German offensive in the spring of 1918, people said in all our countries, "Let us make peace to avoid difficulties." We did not listen to them and we did well. We went on with the war and we won it. Shall we have less heart for peace than we had for war?'<sup>3</sup>

The President, on the other hand, was by no means opposed to all thought of concession. In the morning of 3 June he held a full meeting of the American delegation; and after the four points raised by the British delegation had been examined at length, he summed up his own view of the modifications suggested.

<sup>1</sup> Lloyd George: *The Truth about the Peace Treaties*, vol. I, pp. 718-19.

<sup>2</sup> A. Tardieu: *Le Slesvig et la Paix*, 1926, pp. 246-7.

<sup>3</sup> Quoted in Seymour: *Intimate Papers of Colonel House*, vol. IV, p. 477.

'The question that lies in my mind,' he declared, 'is: "Where have they [i.e. the Germans] made good in their points?" "Where have they shown that the arrangements of the treaty are essentially unjust?" Not "Where have they shown merely that they are hard?", for they are hard—but the Germans earned that. And I think it is profitable that a nation should learn once and for all what an unjust war means in itself. I have no desire to soften the treaty, but I have a very sincere desire to alter those portions of it that are shown to be unjust, or which are shown to be contrary to the principles which we ourselves have laid down.

'Take the Silesian question, for example: we said in so many words in the documents that were the basis of the peace, that we would make a free Poland out of the districts with Polish population. Now where it can be shown that the populations . . . are not indisputably Polish, then we must resort to something like a plebiscite. . . . Where we have included Germans unnecessarily, the border ought to be rectified. . . . Take Poland's access to the sea. For strategic reasons our Polish experts—the group of Allied experts—recommended a corridor running up to Dantzig and it included some very solid groups of German populations. We determined in that case to leave the Dantzig district to the Germans and to establish a plebiscite. . . . I think that we have been more successful than I supposed we could possibly be in drawing ethnographic lines, because races are terribly mixed in some parts of Germany where we tried to draw the line. But wherever we can rectify them we ought to rectify them.

'Similarly, if the reparations clauses are unjust because they won't work—not because they are putting the heavy burden of payment upon Germany (because that is just)—but because we are putting it in such a way that they cannot pay, then I think we ought to rectify that.

'I put it this way: We ought to examine our consciences to see where we can make modifications that correspond with the principles that we are putting forth.'<sup>1</sup>

How to reconcile this language with Mr. Keynes's diagnosis will probably best be left to the psychiatrist. On the other hand, it is quite true that on the advisability of mutilating the Peace for the sake of a quick signature, the President's views were not, indeed, very different from those of M. Tardieu.

<sup>1</sup> Baker, vol. III, pp. 498-9.

'Well,' he said at the end of the meeting, 'I don't want to seem to be unreasonable, but my feeling is this: that we ought not, with the object of getting it signed, [to] make changes in the treaty, if we think that it embodies what we were contending for; that the time to consider all these questions was when we were writing the treaty, and it makes me a little tired for people to come and say now that they are afraid the Germans won't sign, and their fear is based upon things that they insisted upon at the time of the writing of the treaty: that makes me very sick.

'And that is the thing that happened. These people that over-rode our judgment, and wrote things into the treaty that are now the stumbling blocks, are now falling over themselves to remove these stumbling blocks. Now, if they ought not to have been there I say, remove them, but I say do not remove them merely for the fact of having the treaty signed.'<sup>1</sup>

The time came for the Four to agree upon modifications. On the subject of Germany's admission to the League, the President said that it would be in the general interest to have Germany inside rather than outside; but he did not think it was possible to fix at once the time when she could be admitted. It was necessary to know first that the change in Government was genuine and permanent. There is no indication of any serious disagreement between himself and Mr. Lloyd George when the question was finally settled.<sup>2</sup> Nor was there any difficulty between them in the matter of military occupation, where the conflict was essentially one between British and French. It was the President who finally worked out a compromise providing for civilian instead of military administration in the occupied territories, and who induced Clemenceau to agree to the possibility of evacuation in advance of the original time-limit.<sup>3</sup>

The case of Reparations is still more edifying. At the meeting of the American delegation, the President had agreed with his financial experts over the advisability of a fixed sum. It was,

<sup>1</sup> Baker, vol. III, p. 503.

<sup>2</sup> Even Mr. Lloyd George would not agree to the fixing of a period of a few months for Germany's admission. In the Allied Reply to the German Observations, it was indicated that the length of the period would depend upon the observance of international agreements by Germany in the meantime. 'Provided that these necessary conditions are assured, there is no reason why Germany should not become a member of the League in the near future.' Subsequently, Germany was admitted to the League in 1926. (See Baker, vol. II, p. 515; Lloyd George, *op. cit.*, vol. I, p. 724.)

<sup>3</sup> Baker, vol. II, p. 117. 'The articles of this Agreement', wrote Mr. Keynes, 'are very fairly and reasonably drawn.' (*E.C.F.*, p. 96 n.)



he said, a condition for securing world credit for German securities. A few days later, he used the same argument in the Council of Four. But Mr. Lloyd George could not agree. 'The conclusion he had come to was that if figures were given now, they would frighten rather than reassure the Germans. Any figure that would not frighten them would be below the figure with which he and M. Clemenceau could face their peoples in the present state of public opinion.'<sup>1</sup> For the Supreme Council to fix a definite figure in the limited time at its disposal and with so many questions pressing for immediate decisions was 'like asking a man in the maelstrom of Niagara to fix the price of a horse'. The President insisted. But the Prime Minister was obdurate. 'He thought that the American concessions were in excess of what was necessary.'<sup>2</sup> So a few days later, the idea of a fixed sum was abandoned. 'The American proposals', said the President, 'were not made as surrender to Germany but in a spirit of co-operation with the Allies. If not acceptable, they could be withdrawn.'<sup>3</sup> 'Ultimately', records Mr. Lloyd George, 'the British amendment was agreed to and was incorporated in the reply sent to the German delegation.'<sup>4</sup> This was how, in the face of Mr. Lloyd George's desire for moderation, the President had 'stood for stubbornness and a refusal of conciliations'.

We come now to the last point—the eastern frontiers of Germany. The stumbling block, in this case, was Upper Silesia. Mr. Lloyd George insisted upon a plebiscite. But the President had grown a little impatient of the whole affair. 'The reply to the Germans on reparation', he was to say a few days later, 'had been whittled down so that all sacrifice by the Allies had been abandoned. Now it was proposed to place the sacrifice on the Poles.'<sup>5</sup> He alluded to the doubts expressed by some of his experts as to the possibility of having the plebiscite conducted fairly. Silesia was under the domination of German industrial and landed magnates. 'Have you forgotten what the Germans are capable of when it comes to propaganda and pressure? I know what they did in America. What will they not do in Silesia where they are politically and economically supreme?'

<sup>1</sup> Baker, vol. II, p. 406.

<sup>2</sup> Miller, vol. XIX, pp. 280-1. Burnett, vol. II, p. 167.

<sup>3</sup> Miller. Burnett, vol. II, p. 177.

<sup>4</sup> Lloyd George, *The Truth about the Peace Treaties*, vol. I, p. 724. The British amendment invited Germany to sign the clauses as they stood and make an offer within three months for a definite sum.

<sup>5</sup> Baker, vol. II, pp. 407-8.

<sup>6</sup> Mermeix: *Le Combat des Trois*, 1928, p. 248.

The President did not dispute the right of peoples to have a vote, 'but he doubted whether it could in practice be carried freely. Even in the United States there was a great deal of domination at elections by employers in great industrial districts.'

Mr. Lloyd George said that 'the figures of previous elections in Upper Silesia had shown that there was no serious intimidation. The principle of self-determination was involved. Why should there be a plebiscite in Allenstein, Schleswig, Klagenfurt, but not in Upper Silesia?'

President Wilson said that 'all he wanted to be sure of was that it was a genuine self-determination'.

Mr. Lloyd George insisted. 'He feared that to refuse a plebiscite might mean a renewal of the war, as the Germans were greatly concerned about Upper Silesia.'

The President would still not hear reason. 'He was less concerned as to whether the Germans would sign than with ensuring that the terms of peace were in themselves just and sound.'<sup>1</sup>

And yet it was agreed, in the end, to include the plebiscite in the Treaty. So the Old Boy had not been so hard to 'de-bamboozle', after all.

<sup>1</sup> Miller, vol. XIX, pp. 96-7.

## Chapter Four

### THE TREATY

The characteristic of this Treaty is that it gives liberty to peoples who never could have won it for themselves.—  
WOODROW WILSON: *Address at Oakland, California*,  
18 September 1919

**I**N this chapter, as in the next, I must make a special plea for the reader's patience. Yet I think he will forgive me for expatiating at such historical and statistical lengths upon what may to-day often appear as a matter of obsolete detail, when he ponders the arguments and the figures with which the Peace of 1919 was so successfully discredited in the eyes of the world.

The Treaty of Versailles was, at the very outset, under fire from almost every quarter. Some said that it was too harsh, others that it was too mild. Many thought that the Peace was not just, many that it was not wise. Perhaps the most sensible verdict came from J. Bainville when he said that the Peace was 'too mild for its harshness'.<sup>1</sup> All these pronouncements had this in common, however, that they were moral or political, and not therefore an object of 'scientific' demonstration; while the novelty of Mr. Keynes's attack consisted in its assertion of the Treaty's *economic impossibility*.

That neither ethics nor politics could be left out of count did not escape Mr. Keynes. 'This theme, however,' he declared, 'must be for another pen than mine. I am mainly concerned in what follows, not with the justice of the Treaty, . . . but with its wisdom and with its consequences.'<sup>2</sup> 'It is not only an ideal question that is at issue. My purpose in this book is to show that the Carthaginian Peace is not *practically* right or possible.'<sup>3</sup>

Now this approach was in itself perfectly legitimate. It was open to Mr. Keynes to examine in his professional capacity the economic clauses of the Treaty, or the economic consequences of its other clauses, and declare how far, in his opinion, they were

<sup>1</sup> 'Une paix trop douce pour ce qu'elle a de dur' (*Action Française*, 8 May 1919. See also Bainville, *Les Conséquences Politiques de la Paix*, Paris, 1920, p. 25.)

<sup>2</sup> *E.C.P.*, pp. 59-60.

<sup>3</sup> *E.C.P.*, p. 33.

practically feasible. But if he chose to stop there, he could not at the same time pretend to have gone any further. Yet after declaring that he would deal mainly with economic problems, he asserted flatly that other issues, compared to these, were 'insignificant';<sup>1</sup> that the most serious problems 'were not political or territorial but financial and economic';<sup>2</sup> and at the same time he burst into denunciations of the 'Carthaginian Peace'. It was unprecedented in insincerity; it was a breach of sacred engagements; it was abhorrent and detestable; etc., etc., etc.

This is not to say that Mr. Keynes was not, like every one else, entitled to an opinion of his own on the Treaty as a whole. But while, in Mr. Churchill's words, 'his qualifications to speak on the economic aspects were indisputable . . . on the other and vastly more important side of the problem he could judge no better than many others'. Furthermore, such a general evaluation should at least have been preceded by some general examination. 'A good decision' he wrote two years later about the problem of Upper Silesia, 'can only result by impartial, disinterested, very well-informed and authoritative persons taking *everything* into account.'<sup>3</sup> And he went on to reflect how dangerous it would be if the settlement of 'ancient conflicts now inherent in the tangled structure of Europe' were to be entrusted to 'elderly gentlemen from South America and the far Asiatic East' who would 'take account of as *few* things as possible, in an excusable search for a simplicity which is not there'.<sup>4</sup> How far then did the young gentleman from London and Cambridge succeed in taking '*everything*' into account?

It is true that Mr. Keynes did not neglect the non-economic aspects of the Treaty entirely. Thus the clause preventing Austria from uniting with Germany was selected as a piece of hypocrisy for declaring that 'Germany acknowledges and will respect strictly the independence of Austria'—since only a unanimous vote of the League of Nations Council could authorize the reunion of Austria.<sup>5</sup> Thus the status of the Free City of Dantzig was also taken as a proof of the Treaty's unprecedented insincerity, since it could only be a cloak covering the acquisition of Dantzig by Poland, in violation of the President's principles.<sup>6</sup> Thus the provisional regime of the Saar was treated as 'an act of spoliation and insincerity'.<sup>7</sup> Thus a whole section

<sup>1</sup> *E.C.P.*, p. 215.

<sup>2</sup> *E.C.P.*, p. 134.

<sup>3</sup> *R.T.*, p. 10.

<sup>4</sup> *R.T.*, pp. 10-11.

<sup>5</sup> *E.C.P.*, p. 47.

<sup>6</sup> *E.C.P.*, p. 48.

<sup>7</sup> *E.C.P.*, p. 76.

was devoted to clauses relating to Germany's transport and tariff system, although it was admitted that they were 'pin-pricks, interferences and vexations, not so much objectionable for their solid consequences, as dishonourable to the Allies in the light of their professions'.<sup>1</sup> Thus another section was devoted to proving that the Reparation chapter involved a definite breach of sacred engagements.<sup>2</sup>

None of the above arguments points to economic impossibility. Important and impressive as they may have been in themselves, it was hardly fair to single them out without so much as mentioning those political achievements which could have stood to the Treaty's credit. But as these represented only 'unreal' issues, they were left almost entirely out of the picture—apart from a brief reference to the League of Nations, which, although its Article XIX left but little room for change and improvement, had already, in Articles XI–XVII, 'accomplished a great and beneficial achievement'.<sup>3</sup>

The provisions of the Treaty which are now to be analysed may be conveniently divided into three categories: the territorial provisions, most of which were permanent and a few transitory; the economic clauses, many of which were transitory and a few permanent; and the Reparation clauses proper which were temporary but extended over a substantial period of time. These last will be examined in a separate chapter.

## II

Under the Treaty which 'outraged Justice, Mercy, and Wisdom',<sup>4</sup> Germany lost about 28,000 square miles of territory, representing 13·4 per cent of her territory, and some 7,000,000 inhabitants, or a little more than 10 per cent of her population. She also lost all her overseas colonies.

Of the European territories lost under the Treaty, most had been forcibly appropriated in the course of the last 150 years, and prescription, which is a combination of time *plus* consent, could not very easily be invoked. The German portion of Poland had been subject to Prussia since the days of the eighteenth-century partitions. Schleswig had been wrested from Denmark in 1864. Alsace and Lorraine had been annexed in 1871, notwithstanding the solemn protest of their elected representatives.

<sup>1</sup> *E.C.P.*, p. 93.  
<sup>4</sup> *R.T.*, p. 168.

<sup>2</sup> *E.C.P.*, p. 134.

<sup>3</sup> *E.C.P.*, p. 244.

For all these peoples the Treaty of Versailles was an act of liberation.<sup>1</sup>

The lost territories, including the Saar, represented 26 per cent of Germany's pre-war coal output, 75 per cent of her iron production, 69 per cent of her zinc production, 26 per cent of her lead production, and 14.3 per cent of her arable land.<sup>2</sup> As they were approximately of average wealth, the total loss of productivity was in proportion to the loss of territory, namely about 14 per cent.<sup>3</sup>

As Mr. Keynes had pointed out, the territorial losses affected mainly the coal and iron industries—in the Saar, in Lorraine, and in Upper Silesia.

(a) *The Saar.* Under the Treaty, the coal mines of the Saar district were to be ceded to France as compensation for the damage done to the coal mines in Northern France during the war. The Saar territory was to be administered by the League of Nations for fifteen years, following which a plebiscite was to decide the future status of the region. Mr. Keynes described this solution as 'an act of spoliation and insincerity', and quoted at

<sup>1</sup> According to official German statistics, the distribution of population by language in the lost territories was as follows:

| Population lost to:   | Total<br>Thousands | German-speaking<br>Thousands | Other Languages<br>Thousands |
|-----------------------|--------------------|------------------------------|------------------------------|
| France ... ..         | 1,874              | 1,634                        | 240                          |
| Belgium ... ..        | 60                 | 50                           | 10                           |
| Denmark ... ..        | 166                | 40                           | 126                          |
| Danzig ... ..         | 331                | 315                          | 16                           |
| Poland ... ..         | 3,855              | 1,364                        | 2,491                        |
| Memel ... ..          | 141                | 72                           | 69                           |
| Czechoslovakia ... .. | 48                 | 7                            | 41                           |
| Saar Territory ... .. | 652                | 652                          | —                            |
| <b>Total</b> ... ..   | <b>7,127</b>       | <b>4,134</b>                 | <b>2,993</b>                 |

Source: *Statistisches Jahrbuch für das Deutsche Reich*, 1924-25, pp. 14-15. It will be observed that in these statistics, 1,634,000 inhabitants of Alsace and Lorraine are given as German-speaking, while the least that can be said is that the restoration of Alsace and Lorraine was among the explicit aims of the Wilson programme. If these are then excluded we find that of the populations lost by Germany, only 2,500,000 were literally German by language, representing a little less than 4 per cent of the total pre-War population. Of these, the inhabitants of the Saar were placed under a provisional regime, leaving them free after fifteen years to return to the mother country if they so desired. The German peoples separated permanently from Germany represented thus less than 3 per cent of Germany's total population.

<sup>2</sup> *Statistisches Jahrbuch*, 1924-25, pp. 20, 21, 22.

<sup>3</sup> Professor J. W. Angell, in a study made some ten years later, came to the conclusion that the Treaty had deprived Germany of about 15 per cent of her productive capacity. (*The Recovery of Germany*, New Haven, 1932, p. 15.) Both these estimates are probably slightly excessive, since the German statistics of national income show that the lost territories were in the aggregate of less than average wealth.

length the protest of the German delegation affirming the German character of the Saar.

The Treaty was scrupulously carried into effect. The Saar remained under the administration of the League for fifteen years, during which the population increased by some 100,000. The plebiscite was duly held in 1935. Much propaganda was displayed by the German Government during the plebiscite campaign, practically none by the French. The vote decided the return of the Saar to Germany by a 90.3 per cent majority, at a time when Hitler had already been in power for two years.

There was much to be said for and against the regime adopted by the Treaty. France was entitled to compensation for the destruction of her mines; she was under the impression that coal deliveries from Germany would be difficult to enforce and that only direct exploitation would constitute a solid guarantee; further events have amply justified this belief. There was also considerable pressure in France for the annexation of the Saar for political and military reasons, and demands to this effect were presented by the French at the Conference.<sup>1</sup> But these were rejected by President Wilson, who would not, even in the name of economic necessity, violate the principle of self-determination in a case where the population was clearly German in character. After somewhat difficult negotiations, a compromise was finally reached. It was no doubt regrettable that to secure a compensation in coal, the national status of some 650,000 persons should have been affected. Yet the transaction adopted was a provisional one, and calculated to safeguard in the end their right of self-determination. How far, in the exercise of this right, national allegiance took precedence in the hearts of the people over economic interest was proved by the plebiscite. 'That the economic situation, however favourable it may be, is probably of minor importance in the minds of the inhabitants', wrote Dr. S. Wambaugh, who sat at the plebiscite Commission, 'was shown by the small emphasis placed on economic arguments in the plebiscite campaign and in the final vote, the result of which was clearly against the economic interest of the Saarlanders. . . . The Saar is evidence that when economic interests clash with patriotic ties, the latter win.'<sup>2</sup>

Yet, if it had been admitted that economics must prevail over

<sup>1</sup> What was demanded was the frontier of 1814, which was cutting across the Saar district proper.

<sup>2</sup> S. Wambaugh: *The Saar Plebiscite*, Cambridge, Mass., 1940, p. 376.

politics, the fate of these people would, in 1919, have been a secondary matter; and in so far as economics was concerned, the argument would have pointed more, perhaps, to the attribution of the Saar to France than to its retention by Germany. The Saar basin lay on the outer fringe of German territory, and its nearest market was the iron industry of Lorraine. Now that the reunion of Lorraine to France re-established the unity of the Briey basin, it could have been argued just as well that it was undesirable to separate the Saar coal from the Lorraine ore by a political frontier, and there should have been no reason, on purely economic grounds, for not making the Saar a French territory—unless, on the contrary, one was prepared to give to Germany the whole of the Lorraine industries.

Let us now turn to the solution offered by Mr. Keynes. 'The arrangement as to the Saar', he wrote in his final chapter, 'should hold good'<sup>1</sup>—with two reservations: while, under the Treaty, Germany was immediately to receive credit in the Reparation account for the value of the Saar mines, but was to pay for them in cash if the plebiscite decided in her favour, Mr. Keynes proposed that Germany should receive no credit for the mines, but should get them back without payment. No reasons were given for the urgency of this innovation.<sup>2</sup> On the other hand, the return of both mines and territory was to be effected 'unconditionally' (that is, probably, without plebiscite) after ten years. These changes were to be conditional on France and Germany agreeing to supply each other with coal and iron respectively. If the Saar arrangement was really 'an act of spoliation and insincerity', one wonders why it should have 'held good' even for ten years instead of fifteen.

(b) *Lorraine*. Similar considerations apply to the iron fields of Lorraine. Those provisions, observed Mr. Keynes, 'require less attention, because they are in large measure inevitable. . . . There is no question but that Germany must lose these ore-fields.'<sup>3</sup> For no one contended that Alsace and Lorraine should not return to France.

It was at this juncture, however, that Mr. Keynes chose to insert some general remarks about the economic disadvantages

<sup>1</sup> *E.C.P.*, p. 246.

<sup>2</sup> It may even be added that the change proposed was (particularly from Mr. Keynes's point of view) a rather illogical one, since one of the main difficulties of the Reparation problem was, as we shall see, to obtain payment in the shortest possible time. Not to credit Germany at once with the value of the mines would merely have added to her difficulties of immediate payment.

<sup>3</sup> *E.C.P.*, p. 90.



of political boundaries. 'It seems certain,' he wrote, 'calculating on the present passions and impulses of European capitalistic society, that the effective iron output of Europe will be diminished by a new political frontier (which sentiment and historic justice require), because nationalism and private interest are thus allowed to impose a new economic frontier along the same lines. . . . The economic frontiers which are to be established between the coal and the iron, upon which modern industrialism is founded, will not only diminish the production of useful commodities, but may possibly occupy an immense quantity of human labour in dragging iron or coal, as the case may be, over many useless miles to satisfy the dictates of a political treaty or because obstructions have been established to the proper localisation of industry.'<sup>1</sup>

It was not explained, however, why the boundaries of 1919 should have proved worse than those of 1914, which cut right across the industrial basin of Lorraine and divided it between France, Germany and Luxemburg. 'The entire dependence of all the Lorraine iron and steel works upon Germany for fuel supplies', observed a Report of the British Ministry of Munitions, quoted by Mr. Keynes, 'places them in a very unenviable position.'<sup>2</sup> Was *this* then one of the economic absurdities of the Treaty? Should this have justified France's annexing the whole of Westphalia? or perhaps Germany's annexing the whole of Lorraine? Now that France became a *first-rate producer of iron* while Germany retained the largest part of her coal deposits, the exchange of these complementary products would be in the natural interests of both countries. As Mr. Keynes remarked, 'the most economical and profitable course would certainly be to export to Germany, as hitherto, a considerable part of the output of the mines'.<sup>3</sup> Precisely. So why, in such conditions, show any concern lest Germany might be deprived of her iron-ore supplies? While noting that France may be expected to 'aim at replacing as far as possible the industries, which Germany had based on them [i.e. the iron deposits] by industries situated within her own frontiers',<sup>4</sup> he added that much time must elapse before the plant and skilled labour could be developed in France. No sudden disturbance was therefore to be feared.

Among his remedies, Mr. Keynes proposed, as we have seen,

<sup>1</sup> *E.C.P.*, pp. 91-2.

<sup>2</sup> *E.C.P.*, p. 92 n.

<sup>3</sup> *E.C.P.*, pp. 90-1.

<sup>4</sup> *E.C.P.*, p. 91.

that France should undertake to supply Germany with at least 50 per cent of the iron ore carried from Lorraine into Germany before the war, and that Germany should reciprocally undertake to supply France with coal. 'Calculating on the present passions and impulses of European capitalistic society', there was every probability that if anything was to be feared, it would soon be the other way round. Germany need never fear a shortage of iron supplies from France—in peacetime, at any rate—but on the other hand, France would soon experience some difficulties in exporting her iron manufactured goods to Germany. Likewise, French iron smelters would have little trouble in buying German coke or coal; in fact these imports were so essential to French industry that in 1931 they were not submitted to the new quota system of protection.

How groundless were the fears expressed by Mr. Keynes is confirmed by the development of the iron and steel industry in that part of Europe.

PRODUCTION OF IRON AND STEEL IN FRANCE AND GERMANY<sup>1</sup>  
(Millions of Tons)

|              | Iron Ore |      | Pig-Iron and<br>Ferro-Alloys |      | Steel |      |
|--------------|----------|------|------------------------------|------|-------|------|
|              | 1913     | 1929 | 1913                         | 1929 | 1913  | 1929 |
| Germany (a)  | 28.6     | —    | 16.6                         | —    | 17.6  | —    |
| (b)          | 7.3      | 6.4  | 10.9                         | 13.4 | 12.2  | 16.2 |
| France (a)   | 21.9     | —    | 5.3                          | —    | 4.7   | —    |
| (b)          | 43.0     | 50.6 | 8.9                          | 10.4 | 7.0   | 9.7  |
| Total of (b) | 50.3     | 57.0 | 19.8                         | 23.8 | 19.2  | 25.9 |

The two dates selected, 1913 and 1929, were both years when production reached a peak. But by 1925, the combined steel output of Germany and France had already surpassed the pre-war level in spite of the destructions and wear of the war. In 1929, the production of pig-iron was above pre-war level by 20 per cent and the production of steel by 30 per cent; while in Europe as a whole (U.S.S.R. excluded) the output of pig-iron was 13 per cent and the output of steel nearly 40 per cent above pre-war level. It is clear that output would have increased even faster if in 1926 the *International Steel Cartel* had not been formed with a view to stabilizing prices between the iron and steel industries of France, Belgium, Luxemburg, and the Saar,

<sup>1</sup> Source: *Statistical Year Book of the League of Nations*. (a) Pre-war territory; (b) Post-war territory.

who decided to limit total production and to allocate it between themselves according to variable percentages. That part of Europe, then, was faced after the Treaty of Versailles, not with underproduction but (at least in the opinion of the producers) with overproduction.

To sum up, if the changes in boundaries were, by Mr. Keynes's own admission, 'inevitable', it was irrelevant to deplore their economic consequences as one of the absurdities of the Treaty; and, as it turned out, these consequences were by no means deplorable. What reason could there have been for making the fantastic suggestion that the displacement of boundaries 'may possibly occupy an immense quantity of human labour in dragging iron or coal, as the case may be, over many useless miles'? No such result did occur or was even likely to occur.<sup>1</sup> And what was described as 'the dictates of a political treaty' was in the case of Lorraine nothing else than the application of Point VIII of President Wilson's programme: 'The wrong done to France by Prussia in 1871 in the matter of Alsace-Lorraine, which has unsettled the peace of the world for nearly fifty years, should be righted, in order that peace may once more be made secure in the interests of all.'

(c) *Upper Silesia*. The case of Upper Silesia is still more instructive. The Treaty, as we have seen, had provided for a plebiscite to decide whether the inhabitants wished to become German or Polish. It entrusted to an International Commission the task of presiding over the plebiscite, and after the vote, of recommending the frontier to be adopted. In this recommendation, regard was to be paid to the wishes of the inhabitants, and to the geographical and economic conditions of the locality.<sup>2</sup> The Principal Powers were then to fix the frontier line. Mr. Keynes acknowledged this provision in a footnote. In the text he explained that 'Upper Silesia . . . is, subject to a plebiscite, to be ceded to Poland'.<sup>3</sup> The essential point was that Upper Silesia was not, indeed, to be 'ceded to Poland', as had been previously contemplated. It was to be placed under the authority of the Commission until its fate was settled by the plebiscite. In his footnote, Mr. Keynes pointed out that whereas in the text he had assumed that Upper Silesia would cease altogether

<sup>1</sup> Mr. Guy Greer, in his detailed analysis of the coal and iron situation in this district, speaks of 'a carefully considered plan on the part of the Peace Conference to ensure the continuity of the Ruhr-Lorraine system'. (G. Greer: *The Ruhr-Lorraine Industrial Problem*, New York, 1925, p. 95.)

<sup>2</sup> Art. 88, Annex, para. 5.

<sup>3</sup> *E.C.P.*, p. 77.

to be German, this assumption was by no means certain to be verified, as the Germans claimed that two-thirds of the population would elect in the German interest and that to the extent that it proved erroneous his conclusions must be modified.

It is regrettable that Mr. Keynes did not choose to modify his text from the outset. 'Economically', he wrote, 'it [i.e. Upper Silesia] is intensely German; the industries of Eastern Germany depend upon it for their coal; and its loss would be a destructive blow at the economic structure of the German State.'<sup>1</sup> The iron industries of the district, he added, would also be impaired, for Germany, cut off from her supplies of ore in the west, would no longer have enough to export to the east. 'The efficiency and output of the industry seem certain to diminish.'<sup>2</sup> Let us now consider these reflections in some detail.

The population of Upper Silesia was of a mixed character. Since, however, 'economically it was intensely German', surely this argument must prevail? But what exactly did it mean? When President Wilson had consulted his experts, he had been informed, as we have seen, that the dominating influence of industrial and landed magnates would make it difficult to secure satisfactory conditions for a sincere plebiscite. According to the most authoritative German monograph written on this region before the war, some 11,000 square kilometres out of a total of 13,000 represented large estates in German hands; and about one-fourth of the country belonged to seven landowners, possessing more than 20,000 hectares. Similar conditions prevailed in industry, where, in 1904, 92 per cent of the coal was supplied by nineteen owners. The industrial and agricultural wage-earners, on the other hand, were largely Polish.<sup>3</sup> 'A great part of the industries of the country are in the hands of a very small group of great magnates,' said Dr. Lord, the American expert, at the meeting of the American delegation on 3 June. 'It means that the Polish population is economically, without a doubt, in great dependence upon German land owners and capitalists, and as the experience of every election that comes from that country shows, it is extremely difficult for them to vote as they please without ruining their chances of a livelihood.'<sup>4</sup> 'For centuries', pleaded

<sup>1</sup> *E.C.P.*, p. 78.

<sup>2</sup> *E.C.P.*, p. 92.

<sup>3</sup> See J. Partsch: *Schlesien, Eine Landeskunde*, Breslau, 1912. L. Eisenmann and others: *La Silesie Polonaise*, Paris, 1932, pp. 45 ff. Also S. Wambaugh: *Plebiscites Since the World War*, Washington, 1933, vol. 1, p. 209.

<sup>4</sup> Baker, vol. III, p. 483.

Paderewski, the Polish Premier, to the Four, 'they had been treated like slaves. They had been driven out of their country and sent to Westphalia and compelled to forced labour in Berlin and elsewhere. They had hoped in future to live decent lives on their ancestral soil.'<sup>1</sup> Here was indeed a sense in which Upper Silesia was 'economically intensely German'.

Let us assume, however, that Mr. Keynes meant it in a different sense. For him, it was enough that the coal resources of Upper Silesia were 'essential to the economic life of Germany',<sup>2</sup> or that her iron industries could not prosper without German ores.

The industrialists of Upper Silesia, however, a few years before, had taken a different view. In 1913, a publication of the Silesian Union of Mining Industries had underlined the unfavourable situation of the industry with regard to the German market, situated as it was on the outer edge of the country, at the farthest extremity of the Silesian corridor, and admitted that the outlets to Austria-Hungary and Russia were more favourable.<sup>3</sup> After the outbreak of the war, the Chamber of Commerce of Oppeln, in a memorandum presented in 1916 to Chancellor Bethmann-Hollweg, stressed the importance of iron-ore and wood supplies from Russian Poland, and begged for unhindered purchases from that market. That was not all. 'If', they said, 'the advantage of Upper Silesia is in question, then the union to it of Poland and especially of its southern districts is an absolute necessity.'<sup>4</sup> Things would no longer appear to the Germans in the same light when what was contemplated was the union to Poland of Upper Silesia.

But there was no need to explore such recondite sources. If Mr. Keynes had only consulted the special handbook on Upper Silesia prepared by the Foreign Office for the use of the British delegation at the Conference, he would have seen that 28 per cent only of the coal output was sent inside Germany, the rest being either consumed on the spot or exported abroad, and that far from depending for its iron-ore supplies on German Lorraine, Upper Silesia had regularly to import large quantities of ore

<sup>1</sup> Lloyd George: *The Truth about the Peace Treaties*, vol. II, p. 999.

<sup>2</sup> *E.C.P.*, p. 79 n. Upper Silesia produced in 1913, 43.5 million tons of coal, or about 23 per cent of Germany's total output.

<sup>3</sup> *Handbuch des Oberschlesischen Industriebezirks*, Kattowitz, 1913.

<sup>4</sup> *Das Interesse Oberschlesiens an der Zukunft Polens*, Oppeln, 1917. Reprinted in A. Wierzbicki: *The Truth about Upper Silesia*, Warsaw, 1921, pp. 53 ff.

from Upper Hungary, Styria, and Sweden for its smelting works.<sup>1</sup>

It is hard to see how this situation could have been affected by the separation of Upper Silesia from Germany. As was pointed out in 1921 by deputy Wierzbicki in the Polish Diet, Poland imported before the war, not, as Mr. Keynes had indicated<sup>2</sup> (reproducing the figures given in the German Observations)<sup>3</sup> 10.5 million tons of coal, but 19.5 millions; of these, not 1.5 but 7.8 million tons came from Upper Silesia. In his second book, Mr. Keynes acknowledged Mr. Wierzbicki's corrections and admitted that his footnote was 'misleading'. 'I there spoke of "Poland's pre-war annual demand" for coal, where I should have said "pre-war Poland's pre-war annual demand." . . . It is, I think,' he added, 'a tribute to the general accuracy of *The Economic Consequences* that partisan critics should have fastened so greedily on the omission of the word "pre-war" before the word "Poland" in the footnote in question. Quite a considerable literature has grown up round it.'<sup>4</sup> One may legitimately wonder what 'pre-war Poland' could possibly mean; before 1914, Poland was partitioned between Germany, Austria-Hungary, and Russia, and there was no such entity as 'pre-war Poland'.<sup>5</sup> Then surely the demand must have been zero? The gathering and adjusting of uniform and reliable statistics from three portions of territory must have presented considerable difficulties, and it was not easy to be accurately informed of economic conditions in 'pre-war Poland' (whatever that may mean). I am still in doubt as to whether the method employed in this case was an indication of 'the general accuracy of *The Economic Consequences*'.

And yet, as far as the argument went, these very figures were immaterial; for the triumphant answer to Mr. Keynes's criti-

<sup>1</sup> Handbooks prepared under the Direction of the Historical Section of the Foreign Office, No. 40, *Upper Silesia*. Before 1914, 260,000 tons of ore were supplied to Upper Silesia by Germany out of a total of some 1,100,000 consumed.

<sup>2</sup> *E.C.P.*, p. 79 n. (See Wierzbicki, *op. cit.*, p. 13.)

<sup>3</sup> Comments by the German Delegation on the Conditions of Peace. (Text in *International Conciliation*, October 1919, No. 143, p. 43.)

<sup>4</sup> *R.T.*, p. 47.

<sup>5</sup> Let it be added, at the risk of being myself called a 'partisan critic', that there is no mention of 'pre-war Poland' in the German Comments on this point. 'The Polish demand for coal just before the war amounted to approximately ten and a half million metric tons, while the Polish output of coal from the non-Silesian Polish collieries yielded 6.8 million metric tons. . . . One and a half millions of the deficit were imported from Upper Silesia. . . .' (Comments by the German Delegation, p. 43.)

cism of the Upper Silesian settlement was given . . . by Mr. Keynes himself, in another of his footnotes. He admitted that since Germany, under an express provision, was given access to Polish coal, free of all export duties, for a period of fifteen years, 'the loss is limited to the effect on her balance of trade, and is without the more serious repercussions . . . contemplated in the text'.<sup>1</sup> What he omitted to add (and what *he did not perhaps* know at the time) was that this clause had been inserted at the personal initiative of President Wilson.<sup>2</sup> But all the credit which the Four got for such precautions was the assertion that 'the future life of Europe was not their concern'.<sup>3</sup>

So the whole argument collapsed. But so, likewise, did all those which pointed to the economic catastrophes to follow any alienation of territory from Germany. Apart from Germany's global productivity, any economic loss involved by territorial curtailment was 'limited to the effect on her balance of trade'. For if it was argued that Upper Silesia was *economically* 'intensely German' because German industries needed Upper Silesian coal, why not also declare, since French iron and steel industries depended on Germany for their coal and coke supplies, that the Saar and the Ruhr were 'economically intensely French'? 'Germany', the German delegation had declared, 'cannot dispense with Upper Silesia; whilst Poland is not in need of it'.<sup>4</sup> Mr. Keynes wrote: 'whereas the Silesian mines are essential to the economic life of Germany, Poland does not need them.'<sup>5</sup> One might have thought, then, that Poland was overflowing with industrial resources. What a surprise, then, to find Mr. Keynes asserting, in a later passage, that 'unless her great neighbours are prosperous and orderly, Poland is an economic impossibility with no industry but Jew-baiting'.<sup>6</sup> No doubt it was precisely because Poland had no first-rate coal-consuming industries that it was argued that she needed no coal. Following this line of reasoning, the retention of the Upper Silesian mines by Germany, who already possessed a practical monopoly over coal in Central Europe, would have been justified by some economic variety of the principle 'to him that hath shall be

<sup>1</sup> *E.C.P.*, p. 79 n.

<sup>2</sup> The question had been discussed at some length at the meeting (of 3 June) of the American delegation. 'After all,' concluded the President, 'that is probably susceptible of solution . . . by guarantees obtained as to the supply of coal, that is, putting no restriction on the supplying of coal to Germany.' (Baker, vol. III, p. 485.)

<sup>3</sup> *E.C.P.*, p. 51.

<sup>4</sup> Comments by the German Delegation, p. 42.

<sup>5</sup> *E.C.P.*, p. 79 n.

<sup>6</sup> *E.C.P.*, p. 273.

given'—while Poland, having no important industrial assets, could barely claim her right to national existence.

In execution of the Treaty, a plebiscite was held in March 1921; 480,000 votes were cast for Poland, 708,000 for Germany, in accordance, as Mr. Keynes remarked,<sup>1</sup> with the German forecast which he had quoted in 1919. As the Allied Powers were unable to arrive at an agreement over the final solution, the problem was referred to the Council of the League of Nations, and Upper Silesia was partitioned so as to leave as many possible German voters on one side and Polish voters on the other.

It was at this juncture that Mr. Keynes expressed regrets that the frontier should have been drawn 'entirely irrespective of economic considerations', and made apt remarks on the necessity, in such serious issues, of 'taking *everything* into account'.<sup>2</sup> Yet, three years earlier, the 'remedy' he had offered for the Upper Silesian problem was as follows:

'The arrangement as to Upper Silesia should hold good. That is to say, a plebiscite should be held, and in coming to a final decision "regard will be paid (by the principal Allied and Associated Powers) to the wishes of the inhabitants as shown by the vote, and to the geographical and economic conditions of the locality".<sup>3</sup> But the Allies' (added Mr. Keynes) 'should declare that in their judgment "economic conditions" require the inclusion of the coal districts in Germany unless the wishes of the inhabitants are decidedly to the contrary.'<sup>4</sup> As in the case of the Saar, the improvement on the Treaty was remarkable indeed.

Partition was undoubtedly a source of much inconvenience to local life; but both sides readapted themselves to the new conditions. 'The living web of modern industry has been cut apart,' wrote Dr. Wambaugh, 'yet it lives. None of the disasters so freely prophesied have come to pass.'<sup>5</sup>

It is quite possible, nevertheless, that the productivity of the district would have been greater if no partition had occurred. But in the first place, it cannot be said that the German part of Upper Silesia suffered very greatly. While the global income of that region was 3,986 million marks in 1913, it had climbed to 4,575 millions in 1928, thus increasing by 15 per cent at a time when many other regions of Germany had not yet regained their

<sup>1</sup> *R.T.*, p. 46.

<sup>2</sup> *R.T.*, pp. 9-10.

<sup>3</sup> The sentence subquoted is the text of the Treaty. <sup>4</sup> *E.C.P.*, p. 247.

<sup>5</sup> Wambaugh, *Plebiscites Since the World War*, Washington, 1933, vol. 1, p. 269.



pre-war level of income.<sup>1</sup> Neither did industrial production show any sign of decay:

INDUSTRIAL OUTPUT IN GERMAN UPPER SILESIA  
(Millions of Tons)

|      | Coal |     | Cast Iron |     | Ingot Iron<br>and Steel |     | Rolling<br>Mill<br>Products |     | Total Iron<br>and Steel |     |
|------|------|-----|-----------|-----|-------------------------|-----|-----------------------------|-----|-------------------------|-----|
|      |      | %   |           | %   |                         | %   |                             | %   |                         | %   |
| 1913 | 11.1 | 100 | 381       | 100 | 355                     | 100 | 235                         | 100 | 971                     | 100 |
| 1925 | 14.3 | 129 | 289       | 76  | 357                     | 101 | 236                         | 100 | 882                     | 92  |
| 1928 | 19.7 | 177 | 245       | 64  | 528                     | 149 | 412                         | 175 | 1,185                   | 122 |

Lt.-Col. Hutchison, who quoted these figures, opposed them to those of the Polish district to show how much better it would have been if only the whole region had been left in German hands.<sup>2</sup>

INDUSTRIAL OUTPUT IN POLISH UPPER SILESIA  
(Millions of Tons)

|      | Coal |      | Cast Iron |      | Ingot Iron<br>and Steel |     | Rolling<br>Mill<br>Products |     | Total Iron<br>and Steel |      |
|------|------|------|-----------|------|-------------------------|-----|-----------------------------|-----|-------------------------|------|
|      |      | %    |           | %    |                         | %   |                             | %   |                         | %    |
| 1913 | 32.3 | 100  | 613       | 100  | 1,105                   | 100 | 828                         | 100 | 2,456                   | 100  |
| 1925 | 21.4 | 66   | 228       | 37.2 | 533                     | 48  | 432                         | 53  | 1,293                   | 45.7 |
| 1928 | 30.3 | 94.5 | 456       | 74.3 | 921                     | 83  | 696                         | 84  | 2,073                   | 80.4 |

It is evident from these figures that industrial production fared more favourably in Germany than in Poland, where it barely recovered, ten years after the war, to the pre-war level; and it is easy to point out that, in contrast to Germany, the industrial development of Poland did not proceed with such rapid strides. But how much allowance must not be made if Poland, after one century and a half of partition, failed, in the first years of national rebirth, to attain the same degree of efficiency as Germany after fifty years of unhampered progress favoured by national unity! Under so severe a handicap, Poland needed the assistance of her Western friends to lay the foundations of national prosperity. But while foreign capital poured into Germany by milliards, Poland received but scanty financial

<sup>1</sup> *Das Deutsche Volkseinkommen, Einzelschrift zur Statistik des deutschen Reichs*, Statistisches Reichsamts, Berlin 1932, No. 24. Both figures represent 1928 purchasing power. The figures for income per head were 915 marks in 1913 and 993 in 1928.

<sup>2</sup> Lt.-Col. Graham Seton Hutchison: *Silesia Revisited*, 1929, pp. 16-24.

encouragement, and the word was given to all investors, private and public,

To all my foes, dear Fortune, send  
Thy gifts; but never to my friend. . . .

The solution adopted for Upper Silesia was not a perfect one, and could not have been. The problem, as always, is whether a better one could have been found. While it is clear that things did not go smoothly in the district after the partition, the reason was in the underlying hostility between German and Pole, not in the Treaty that attempted to give to each his due. Any solution shunning partition would have involved the subjugation of one nationality to the other; but it would not have done away with the trouble. 'The restoration of the Polish State', said the Allied Reply to the German Comments, 'is a great historical act, which cannot be achieved without breaking many ties, and causing temporary difficulty to many individuals.'<sup>1</sup> It is to the credit of the Peacemakers that, in the words of F. W. Foerster, 'the rights of human beings prevailed over the rights of coal'.

Coal, however, is to be the hero of our epilogue to this story. Much concern had been shown by Mr. Keynes at the idea that Germany might be deprived of Upper Silesian coal. The Treaty, as we saw, had settled this difficulty. After the partition, an elaborate convention was drawn, between Germany and Poland, to parry as far as possible the economic inconveniences resulting from the new frontier. It reiterated Poland's obligation to supply Germany with coal for fifteen years. The Treaty had also decided that products from the former German Poland would be admitted to Germany free of import duties for a period of three years.<sup>2</sup> The Convention of 1922 established for coal exports a monthly quota of 500,000 tons.

In 1925 the force of that provision came to an end. One would have thought that if Germany was really in such need of Upper Silesian coal, that would have made little difference. Alas! it was now Germany who was anxious to *stop* the imports of coal and Poland to continue them. In June 1925, Germany notified Poland that she would accept no more duty-free consignments. A tariff war ensued; and in 1926, German economists were writing that Germany could henceforward do with-

<sup>1</sup> Reply of the Allied and Associated Powers to the Observations of the German Delegation, in *International Conciliation*, November 1919, No. 144, p. 31.

<sup>2</sup> Article 268b.

out Polish coal, and had better protect her industry against its invasion.<sup>1</sup> It must be conceded that the Treaty makers had shown a poor understanding of 'economic realities'.

## III

The same ineptitude was, according to Mr. Keynes, displayed in the coal clauses of the Reparation section; or rather, these clauses were part of the plan whereby the Peacemakers had aimed at the 'systematic destruction' of Germany's coal and iron system.

Germany, in the first place, was, for a period not exceeding fifteen years, to deliver to France, as compensation for the destruction of her coal mines, an amount of coal equal to the difference between the pre-war production of these mines and the production in each following year—such a delivery not to exceed 20,000,000 tons in the first five years, and 8,000,000 in the following five. 'This', wrote Mr. Keynes, 'is a reasonable provision if it stood by itself, and one which Germany should be able to fulfil if she were left her other resources to do it with.'<sup>2</sup>

The other deliveries were of a somewhat different character. In view of the existing shortage of coal in Europe, certain nations which, like France, Belgium, and Italy, were normally dependent upon German exports for their supplies, were apprehensive lest this dependence 'might in future be utilized by Germany in order to extort economic concessions, which in effect would largely nullify the reparation and economic terms of the treaty.'<sup>3</sup> These fears were perhaps exaggerated, but could be justified, in a time of acute shortage, by Germany's partially monopolistic position. Accordingly 'options' were given to France, Belgium, Italy, and Luxemburg, up to their normal pre-war imports from Germany. In all, these options amounted to an annual average of 25,000,000 tons. As the first 20,000,000 to be delivered in France were a maximum, Mr. Keynes calculated that total deliveries thus imposed upon Germany would amount to some 40,000,000 tons.

This, he went on, was a physical impossibility. The maximum production had been reached in 1913 with a total of 191.5

<sup>1</sup> See E. Storm, *Geschichte der Deutschen Kohlenwirtschaft von 1913-1926*, Berlin, 1926, pp. 279-80.

<sup>2</sup> *E.C.P.*, pp. 79-80.

<sup>3</sup> B. Baruch, *The Making of the Reparation and Economic Sections of the Treaty*, New York, 1920, p. 40.

million tons. But having regard to territorial losses, to the recent reduction in the hours of labour, to the bad condition of the mining plant, to the reduced efficiency of the miners owing to malnutrition 'which cannot be cured if a tithe of the reparation demands are to be satisfied,—the standard of life will have rather to be lowered',<sup>1</sup> a pre-war output would no longer be expected, and output was 'likely to fall, therefore, at least as low as 100,000,000 tons'. If 40,000,000 were to be delivered to the Allies, there would remain 60,000,000 for domestic consumption. Post-war requirements (account being taken of the reduction in domestic demand due to loss of territory) would amount to 110,000,000 tons, 'against an output not exceeding 100,000,000 tons, of which 40,000,000 tons are mortgaged to the Allies'. 'The general character of the facts', he continued, 'presents itself irresistibly. Allowing for the loss of territory and the loss of efficiency, Germany cannot export coal in the near future (and will even be dependent on her Treaty rights to purchase in Upper Silesia), if she is to continue as an industrial nation. Every million tons she is forced to export must be at the expense of closing down an industry. With results to be considered later this within certain limits is *possible*. But it is evident that Germany cannot and will not furnish the Allies with a contribution of 40,000,000 tons annually.'<sup>2</sup>

Of the general equity of the coal clauses there can be little doubt. Owing to the shortage of coal, most countries in Europe would in any case have had to make do with much less than before the war. It was only natural that Germany should be prevented, in the general interest, from maintaining her internal consumption as near as possible to pre-war level at the expense of her exportable surplus, and should be forced to share in the general restrictions. But this was just what Mr. Keynes would apparently not consider; his calculations of Germany's irreducible needs were 'on the basis of a pre-war efficiency of railways and industry'.<sup>3</sup> In other words, Germany, alone of European countries, would retain a coal supply equal to her pre-war requirements.

Yet Mr. Keynes conceded the facts of the situation. 'The coal position of all Europe', he wrote, 'is nearly desperate. . . . As is generally the case in real dilemmas, the French and Italian case will possess great force, indeed unanswerable force from a certain point of view.' . . . But, he continued, 'it is a case where

<sup>1</sup> *E.C.P.*, p. 83.      <sup>2</sup> *E.C.P.*, pp. 83-4.      <sup>3</sup> *E.C.P.*, p. 84.

particular interests and particular claims, however well founded in sentiment or in justice, must yield to sovereign expediency'.<sup>1</sup> 'Sovereign expediency' had not been overlooked in the Treaty. It was only in a footnote that Mr. Keynes observed that the Reparation Commission was instructed in a special paragraph 'to postpone or to cancel deliveries' if it considered 'that the full exercise of the foregoing options would interfere unduly with the industrial requirements of Germany'.<sup>2</sup> This was a proof (among so many others) of the care taken to give to the Treaty's provisions enough elasticity to protect the economic life of Germany whenever the formal requirements of equity were not immediately enforceable. The coal figures represented *options*, and as such were only maxima; the figure of 45,000,000 tons, or even of 40,000,000 tons mentioned by Mr. Keynes, was to be reduced automatically with the resumption of production in the French coal mines; and it could always be reduced by the Reparation Commission if Germany's export surplus was found wanting. A Coal Commission had been established by the Supreme Council of the Allies in 1919, and had already (as was observed in another footnote) reduced Germany's deliveries for the coming six months to an amount corresponding to an annual delivery of 20,000,000 tons. The establishment of this Commission, wrote Mr. Keynes, was 'a wise measure'.<sup>3</sup> Its decision was nothing but the exercise of the very provisions of the Treaty, which had thus made action possible even before Keynesian enlightenment had come to the rescue of Europe.

It may be retorted—and Mr. Keynes did not fail in this—that even if there were provisions in the Treaty for not enforcing its demands to the full, these maxima were still extravagant. So deep was the impression left by his statistics that, with the help of the reader's patience, this analysis must be continued still further.

In another footnote, Mr. Keynes reminded the reader that his calculations took no account of the production of lignite, whereby Germany might 'obtain substantial compensation for her loss of coal'.<sup>4</sup> When he was later criticized for not having made sufficient allowance for lignite in his estimates, he could retort triumphantly: 'This criticism is scarcely fair, because I was the first in popular controversy to call attention to the factor of lignite, and because I was careful from the outset to disclaim

<sup>1</sup> *E.C.P.*, pp. 86, 89.

<sup>2</sup> *E.C.P.*, p. 82 n.

<sup>3</sup> *E.C.P.*, p. 89.

<sup>4</sup> *E.C.P.*, p. 84 n.

any expert knowledge of the subject.<sup>1</sup> What I believe was scarcely fair was to omit to state that the factor of lignite had been mentioned for the first time in public controversy, not by Mr. Keynes in *The Economic Consequences*, but by the Allies in a note sent by Clemenceau to Count Brockdorff-Rantzau in May 1919. 'The German note', they said, '... omits to notice that one-fourth of the pre-war consumption of German coal was in the territories which it is proposed to transfer. Further it fails to take into account the production of lignite, eighty million tons of which were produced annually in Germany before the war, and none of which is derived from the transferred territories. Neither is any reference made to the fact that the output of coal was rapidly increasing before the war and that there is no reason to doubt that under proper management there will be a continuing increase in the future.'

The essentials of Germany's coal production and trade after Versailles are summarized below.

PRODUCTION AND TRADE OF COAL IN GERMANY  
(Millions of Tons)

| Year        | I<br>Coal<br>Out-<br>put | II<br>Lignite<br>Output | III<br>Coal<br>and<br>Lignite<br>Exports | IV<br>Coal<br>Exports | V<br>Coal<br>and<br>Coke<br>Exports | VI<br>Coal<br>Imports | VII<br>Net<br>Exports<br>(Coal &<br>Coke) | VIII<br>Repara-<br>tion<br>Deliveries |
|-------------|--------------------------|-------------------------|--|-----------------------|-------------------------------------|-----------------------|---|---------------------------------------|
| 1909-13 (a) | 165                      | 75                      | 182                                      | 20                    | 35                                  | 11                    | 24  | —                                     |
| 1909 13 (b) | 121                      | —                       | 138                                      | —                     | —                                   | —                     | —   | —                                     |
| 1913 (a)    | 190                      | 87                      | 210                                      | 35                    | 43                                  | 11                    | 32  | —                                     |
| 1913 (b)    | 141                      | —                       | 160                                      | —                     | —                                   | —                     | —   | —                                     |
| 1920        | 131*                     | 112                     | 156                                      | 16                    | 23                                  | 0.4                   | 22  | —                                     |
| 1921        | 136*                     | 123                     | 164                                      | 16                    | 23                                  | 0.9                   | 22  | 18                                    |
| 1922        | 130*                     | 137                     | 160                                      | 15                    | 24                                  | 13                    | 11  | 18                                    |
| 1923        | 62                       | 118                     | 89                                       | 6                     | 9                                   | 23                    | -14                                       | 8                                     |
| 1924        | 118                      | 124                     | 147                                      | 14                    | 30                                  | 13                    | 17  | 16                                    |
| 1925        | 133                      | 140                     | 164                                      | 23                    | 33                                  | 8                     | 25  | 15                                    |
| 1926        | 145                      | 140                     | 176                                      | 38                    | 52                                  | 3                     | 49  | 15                                    |
| 1927        | 154                      | 151                     | 187                                      | 27                    | 39                                  | 5                     | 34  | 13                                    |
| 1928        | 151                      | 166                     | 188                                      | 24                    | 36                                  | 7                     | 29  | 16                                    |
| 1929        | 153                      | 174                     | 202                                      | 27                    | 40                                  | 8                     | 32  | 14                                    |

(a) Pre-War Territory.

(b) Post-War Territory.

\* The figures of coal output for 1920, 1921, and 1922 relate to German territory before the partition of Upper Silesia, which took place in July 1922. If the output of Polish Upper Silesia is excluded, the figures are: 1920, 108; 1921, 114; 1922, 119.

Source: *Statistisches Jahrbuch für das Deutsche Reich*. Lignite is converted at the rate of 2.9 in col. III, coke at the rate of 4.3 in cols. V and VII.

Mr. Keynes had asserted that a pre-war level of output could not be expected. Three years after the Treaty, the output of coal, although still lower than in 1913 (which was a record year)

<sup>1</sup> R.T., pp. 49-50.

had almost regained the annual average level reached within the Versailles limits during the five years preceding the War (119 millions against 121). In 1921, the combined production of coal and lignite was already above that of 1913 within the same territorial limits; and by 1927, after the German coal industries had undergone a radical process of concentration and rationalization, production surpassed the *total* pre-war level. It would seem that the Allies' predictions were not altogether unsuccessful.

Yet recovery was not immediate, and it is clear that it would have been difficult to enforce the maximum demands of the Treaty during the first years—unless the Allies had been prepared to enforce an increase of working hours above the  $7\frac{1}{2}$  to which the German Government had reduced them. But no provision in the Treaty that was alleged 'to reduce Germany to servitude' had ever contemplated this possibility.

Germany, therefore, never fulfilled her coal obligations. As early as September 1919, as we have seen, deliveries were fixed for the next six months so as to correspond to an annual delivery of 20,000,000 tons, instead of the 43,000,000 required by the Treaty. In the following years, the Reparation Commission, making use of the powers conferred by the Treaty for this very purpose, continued to reduce Germany's coal obligations to some 27,000,000 tons for 1920, 22,000,000 for 1921 and 1922. Germany did not even comply with these demands, her actual deliveries being around 18,000,000 million tons for each of these three years. In January 1923 the Commission finally declared Germany in default, and French and Belgian troops occupied the Ruhr district.

The non-execution by Germany of her coal obligations has ever since been considered as a vindication of Mr. Keynes's criticisms. But that Germany *did* not deliver coal is hardly in itself proof that she *could* not. Mr. Keynes had noted that by November 1921 the movements of prices and exchanges were such that the price of British coal was about three and a half times as high as the price of the best bituminous coal from the Ruhr, and that the German iron-masters were thus 'placed in an advantageous position for competing with British producers'.<sup>1</sup> The Ruhr crisis brought a sharp decline in production, and Germany, for the first time in many decades, had a large net *import* of coal. But in 1924 the situation improved; and as early as 1925, fears of *overproduction* were being openly ex-

<sup>1</sup> R.T., p. 45.

pressed.<sup>1</sup> 1926 was the year of the British coal strike, and British coal exports ceased almost completely. As by sudden magic, German exports increased to 38,000,000 tons—an unprecedented record in the whole of German coal history. This time it was no longer a question of handing it over to the Allies, but of selling it at a profit. Coal *could not* be found before 1923 for Reparation deliveries; but when there was a handsome price to be paid, coal hurried out of Germany with surprising agility. So the limits of 'economic possibility' were decidedly more elastic than Mr. Keynes would have had us believe.

## IV

The other economic clauses of the Treaty criticized by Mr. Keynes related to Germany's overseas commerce and to her transport and tariff system.

(1) To make compensation for the shipping destroyed during the war, Germany was compelled to surrender the largest part of her merchant fleet. As a consequence, wrote Mr. Keynes, 'the German mercantile marine is swept from the seas and cannot be restored for many years to come on a scale adequate to meet the requirements of her own commerce. For the present, no lines will run from Hamburg, except such as foreign nations may find it worth while to establish out of their surplus tonnage.'<sup>2</sup>

It is hardly necessary to point out that the volume of a country's seaborne trade is not directly dependent upon the number of its merchant ships. Norwegian ports, with an enormous fleet, have a relatively small turnover. New York, at a time when the American merchant marine was still relatively small, had an enormous one. The same considerations could have applied to Hamburg. In fact, the German mercantile marine was rapidly restored from 673,000 tons in 1920 to 3,111,000 in 1926 and 4,093,000 in 1929, i.e. only 1,000,000 tons less than in 1913.

(2) The clauses relating to German property abroad were analysed at length.<sup>3</sup> They were particularly sweeping, since

<sup>1</sup> 'The exports of coal including deliveries on Reparation account are only slightly smaller than in pre-war time,' wrote the Reichs-Kredit-Gesellschaft's biannual review. 'There has been an overproduction of about 10 per cent. In the past few weeks, the German coal industry has accordingly cut down production, principally through the closing of the poorer mines.' (Reichs-Kredit-Gesellschaft, *Germany's Economic Development in the First Half of the Year 1925*, p. 3.)

<sup>2</sup> *E.C.P.*, p. 61.

<sup>3</sup> *E.C.P.*, pp. 60-74.



expropriation extended not only to State property in the ceded territories, but to the private property of German nationals as well. They were, in Mr. Keynes's view, a proof of the deliberate intention 'to destroy Germany's commercial and economic organisation'.<sup>1</sup> These clauses were, in the present writer's opinion, among the least defensible of the Treaty. As the German delegation did not fail to remark, they did cast doubt on the high aims the Allies had proclaimed and lent support to the suspicion that they had been at war to do away with a commercial rival.<sup>2</sup>

Yet it was not altogether absurd to consider German assets abroad as one of the means by which Germany could discharge her Reparation obligations. As was pointed out in the Allied Reply, the Allied Powers themselves had found it necessary, during the war, to take over the foreign investments of their own nationals, in order to meet the deficit of their trade balances. 'The time has arrived when Germany must do what she has forced her opponents to do.'<sup>3</sup>

In some cases the proceeds of liquidation were to be applied to the settlement of private debts due from Germany to Allied nationals, as part of a general clearing scheme for commercial debts, and only the surplus was to be credited to Germany's Reparation account. In other cases, the Reparation Commission was given powers to dispose of German interests. The sale of German foreign assets would have been a normal method of meeting the difficulties of transfer. But it would have been better, as Mr. Keynes observed, to leave Germany free to devise and select for herself the means of payment. The direct liquidation of Germany's private interests abroad was attended with serious disadvantages; as part of their value depended in many cases on commercial 'goodwill', they were of greater worth in German hands than in those of eventual purchasers. This was naturally a cause of discrepancy in the reckoning of Germany's payments by the Reparation Commission, resulting in constant squabbles, and often in a loss to everyone concerned. At the same time the disposal of these interests proved, as Mr. Keynes suspected, a boon to 'greedy adventurers and jealous concession-hunters',<sup>4</sup> and the occasion for many an unsavoury transaction.

<sup>1</sup> *E.C.P.*, p. 72.   <sup>2</sup> Comments by the German Delegation, *op. cit.*, p. 6.

<sup>3</sup> Reply of the Allied and Associated Powers, *op. cit.*, p. 65.

<sup>4</sup> *E.C.P.*, p. 70.

This being said, the impression given of the destructive effect on Germany's commerce was greatly exaggerated. German commerce abroad was hampered for a time by these measures; it was not destroyed. Its main foundations lay not so much in material assets as in the organization of markets and in the network of commercial agents. These ties had been largely disrupted by the War. But although the clauses just mentioned accentuated this disruption, their effects were limited and temporary, and no permanent obstacles were ever placed, contrary to a widespread belief, in the way of a recovery of Germany's foreign trade.

(3) The clauses relating to the tariff and transport system of Germany were not, in Mr. Keynes's eyes, so important as those discussed hitherto. They were 'pin-pricks, interferences and vexations, not so much objectionable for their solid consequences as dishonourable to the Allies in the light of their professions'.<sup>1</sup> The commercial clauses should nevertheless be examined here if we are to complete the picture of the disabilities imposed upon Germany by the Treaty.

A number of provisions were objected to by Mr. Keynes because of their non-reciprocal character. Thus, Germany was to grant for five years the most-favoured-nation clause to the Allied and Associated Powers. For five years, exports from Alsace-Lorraine to Germany would be free of duty, up to the average amount sent in the two years before the war. Similar provisions applied to exports from Poland and Luxemburg. Other clauses, of limited duration, imposed various non-reciprocal advantages to certain categories of exports to Germany.

These clauses were transitory; none exceeded five years, and a number were reduced to less. Furthermore, their non-reciprocal character was not very difficult to justify; for it was Germany who, during the war, had blatantly practised the policy of 'systematic destruction' in the occupied territories with the object of weakening her commercial competitors. The details of this policy had been outlined in a document, entitled *Industry in Occupied France*, edited in 1916 by the German High Command, and sent to all Chambers of Commerce and all financial and commercial associations of the Reich. It had been prepared, explained the introduction, by 200 officials who had examined some 4,000 industrial firms. Its purpose was 'to give an idea of the repercussions which would probably result for Germany

<sup>1</sup> *E.C.P.*, p. 93.

from the destruction of certain branches of French industries'. Each industry was carefully analysed in two sections, one describing the damage done, the other the 'repercussions upon Germany': how buildings had been destroyed, equipment smashed to pieces, special parts removed; how it would take years for these industries to recover; and how, in the meantime, German industry could profit by seizing new markets.<sup>1</sup> 'The illegal acts of the enemy', said the Allied Reply to the German Delegation, 'have placed many of the Allied States in a position of economic inferiority to Germany, whose territory has not been ravaged and whose plant is in a condition enabling manufactures and trade to be at once resumed after the war. For such countries, a certain freedom of action during the period of transition is vitally necessary, but it is also necessary that the Allied and Associated Powers in the meantime be safeguarded from the effects of special preferences or discriminations granted by Germany to an Allied or Associated country or to any country. Hence during the transitory period, formal reciprocity is not practicable. . . . If it were otherwise, Germany would reap the benefit of the criminal acts which she has committed in the territories occupied with the object of placing her adversaries in a condition of economic inferiority.'<sup>2</sup> Unless these facts, which Mr. Keynes did not mention, were kept in mind, it was perhaps a little rash to decide that non-reciprocity was 'dishonourable to the Allies in the light of their professions'.

So much for the ethical aspect of these clauses. Many of them, on the other hand, showed how much the makers of the Treaty were concerned with the problems of economic readjustment created by territorial change. To prevent detached territories from being suddenly severed from their German markets was a

<sup>1</sup> *Die Industrie im besetzten Frankreich: bearbeitet im Auftrage des Generalquartiermeisters*, München, 1916. Here are a few examples: 'Foundries: . . . Iron and smelting works will not be able to resume work before one or two years . . . as a result of this long interruption of activity, production, and therefore receipts, will fall off heavily, and industries will be so prejudiced . . . that it will be difficult for them to resume operation or to restore it to its former level. . . . Textiles: the French textile industry will during the War have lost its markets. To reconquer them, and to derive some use of the terrible blow suffered by the textile industry in occupied regions, it is particularly important for Germany to start its intact industries working as quickly as possible after the War. . . . Coal mines: the districts will be unproductive for years to come, owing to the removal of machinery and the flooding of shafts. . . . France will have to buy her machinery from Germany. . . .' And so the report goes on through 482 pages. Long extracts will be found in D. Lloyd George: *The Truth about the Peace Treaties*, vol. 1, pp. 441-3.

<sup>2</sup> Allied Reply, *op. cit.*, p. 60.

reasonable precaution.<sup>1</sup> Similar measures had been taken in 1871 when Alsace and Lorraine had been separated from France; and in their observations, the German delegation did not even protest against these clauses.

In brief, whatever inequalities were imposed on Germany's foreign trade never exceeded five years; with one exception<sup>2</sup> they left Germany entirely free to tax imports or exports as she pleased, the only limitation being that for five years she could make no discrimination against the Allied and Associated Powers. After five years, Germany recovered full freedom over her tariff system.

That Germany's foreign trade would suffer from the war—from the diversion of her peace-time productivity to the war effort, from the loss of man power, from the severance of her markets during the blockade, from the diminution of global productivity due to territorial losses—all this was only to be expected. If the loss of global productivity was put at some 15 per cent a similar decline in Germany's foreign trade would have been normal; and a recovery from the effects of war could have been expected in due time.

After having declined sharply after the war, Germany's foreign trade recovered swiftly after 1924, and in 1925 its total money value was already higher than in 1913. The total 'real' value (in 1913 prices) did not again reach the 1913 level of 21,867 million, but came very close to it in 1929 with 20,222 million, being thus higher than would have justified a 15 per cent loss in general productivity.

<sup>1</sup> Let it be added that this clause seems to have been drafted, not by some greedy and ignorant politician, but by Professor Allyn A. Young. (Miller, vol. 1, p. 222.)

<sup>2</sup> Considerable indignation had been displayed by Mr. Keynes against Article 269, under which Germany was forbidden, for six months, to impose on Allied imports higher duties than those prevalent before the War, this provision continuing for two and a half years more with regard to certain classes of commodities, such as wine, vegetable oils, artificial silk, and scoured wool. This was 'a ridiculous and injurious provision, . . . senseless greed over-reaching itself', for Germany would be 'threatened with a deluge of luxuries and semi-luxuries from abroad' and forced 'to allow as readily as in the days of her prosperity the import of champagne and of silk!' (*E.C.P.*, p. 95.) Let it first be observed that Article 269 did nothing more than forbid the imposition of duties higher than those most favourable in 1914, and that with the exception of 'champagne and silk', it was not to last more than six months. But what Mr. Keynes overlooked was that Germany, had she chosen to do so, was entirely free to place whatever internal restrictions she desired, from indirect taxation to rationing, on the consumption of these superfluities, and that such measures would have applied to imported as well as to domestic commodities. There is in fact no indication that the German Government took any serious steps to discourage the consumption of luxuries in the post-war years.

The recovery of Germany's foreign trade was of short duration; but so was the recovery of world trade. How far the Great Depression of 1929-33 can be traced back to the Treaty is to be discussed later. The fact remains that although German trade suffered from the inevitable consequences of war and of defeat, the Treaty was not, as was alleged, designed to hamper its recovery permanently, and did not in fact hamper it. Ten years after the disaster, its real value fell short only by 3 per cent of the record year of 1913, which had been reached after more than forty years of unbridled economic progress.

GERMANY'S FOREIGN TRADE AFTER VERSAILLES  
(Millions of Reichsmarks)

|       | Recorded Values |     |         |     | Values at 1913 Prices |     |         |     |
|-------|-----------------|-----|---------|-----|-----------------------|-----|---------|-----|
|       | Imports         | %   | Exports | %   | Imports               | %   | Exports | %   |
| 1913  | 10,770          | 100 | 10,097  | 100 | 10,770                | 100 | 10,097  | 100 |
| 1921* | 4,015           | 56  | 2,401   | 36  | 5,732                 | 53  | 2,976   | 44  |
| 1922  | 6,200           | 57  | 3,970   | 39  | 6,301                 | 59  | 6,188   | 61  |
| 1923  | 6,150           | 57  | 6,102   | 60  | 4,808                 | 45  | 5,388   | 53  |
| 1924  | 9,083           | 84  | 6,552   | 65  | 6,769                 | 63  | 5,134   | 51  |
| 1925  | 12,362          | 115 | 8,798   | 87  | 8,998                 | 84  | 6,596   | 65  |
| 1926  | 10,001          | 93  | 9,883   | 97  | 7,911                 | 74  | 7,340   | 73  |
| 1927  | 14,228          | 132 | 10,223  | 101 | 11,422                | 106 | 7,624   | 76  |
| 1928  | 14,001          | 130 | 11,613  | 115 | 11,045                | 103 | 8,658   | 86  |
| 1929  | 13,435          | 125 | 12,663  | 125 | 10,651                | 99  | 9,571   | 95  |

\* May-December only.

Source: League of Nations: *Review of World Trade, 1927-1929*, pp. 94-5.

So much, therefore, for those 'comprehensive' provisions that aimed at the 'systematic destruction' of Germany's economic system. It was with this situation in view that the monstrosity of the Reparation clauses was to be demonstrated. For it appeared as though the Allies had commanded Germany as Pharaoh the children of Israel: 'There shall no straw be given you, yet shall ye deliver the tale of bricks.'

Article 232 continues: 'The Allied and Associated Powers recognize that the resources of Germany are not adequate, after taking into account permanent diminutions of such resources which will result from other provisions of the present Treaty, to make complete reparation for all such loss and damage.

'The Allied and Associated Governments, however, require, and Germany undertakes, that she will make compensation for all damage done to the civilian population of the Allied and Associated Powers and to their property during the period of the belligerency of each as an Allied or Associated Power against Germany by such aggression by land, by sea and by air, and in general all damage as defined in Annexe I hereto.'<sup>1</sup>

The Treaty thus established a *general principle of liability*, which, as Mr. Keynes indicated, could be explained by Mr. Lloyd George as an admission of financial liability for the general cost of the war; and at the same time, recognizing the inability of Germany to meet this total liability, it *limited actual reparation to a certain category*, namely 'all damage done to the civilian population of the Allied and Associated Powers and to their property'.

2. The items involved in this category amounted, broadly, to (i) damage for injuries to civilians and acts contrary to international law; (ii) damage to property, with the exception of naval and military works and materials as a direct consequence of hostilities; (iii) separation and similar allowances granted during the War to families of mobilized men, and pensions to be paid for death or injury to combatants.

3. While defining the elements of Germany's liability, the Treaty did not fix its total amount. Germany, however, was to pay, before 1 May 1921, a sum of 20 milliard gold marks (£1,000 million), and not later than the same date a Reparation Commission was to assess the final amount of the total debt.

4. The manner in which this debt was to be discharged was not determined in detail, apart from the clauses dealing with deliveries in kind. Provisions were made for an early funding of the debt by the issue of 100 milliard gold marks of bearer bonds, in three portions. Further issues by way of acknowledgement and security could be required 'as the Commission subsequently determined from time to time' until the total liability had been provided for. Interest at 5 per cent was to be debited to Ger-

<sup>1</sup> Article 232 also made provision for the reimbursement of all Belgium's war debt, 'in accordance with Germany's pledges'.

many as from 1 May 1921, after allowing for payments already made.

5. Germany's total liability was to be determined by a Reparation Commission, composed of representatives of the Allied and Associated Powers. The Commission was to fix the amount of the instalments for a period of thirty years, any unpaid balance at the end of this period being 'postponed' or 'handled otherwise'; and to supervise the management of the debt, its collection and its distribution among Allied and Associated creditors.

In short: the Treaty established certain items of liability without fixing their monetary total, but specified a minimum debt of 100 milliard gold marks; it left to the Reparation Commission the task of fixing the total debt not later than 1 May 1921, and of administering the payments over a period of thirty years.

## II

### *The Ethics of Reparation*

In words that found innumerable echoes, Mr. Keynes had claimed that 'revenge' and 'greed' were at the bottom of the Peace settlement. Now 'revenge', in plain English, leaves little room for ambiguity; according to the *Oxford Dictionary*, revenge is 'the act of doing harm to another in return for wrong or injury inflicted; satisfaction obtained in the repayment of injuries'. In November 1918, means of revenge were in the hands of the Allies; and motives for revenge were not lacking in their hearts. For four years their countries had been invaded, their fields and cities plundered, their homes destroyed; and they knew that at the back of these disasters there lay something far deeper than the inevitable consequences of the act of War; the 'systematic destruction' of the French and Belgian industries could not, as we have seen, be attributed solely to military motives; and when the German armies retreated in 1917 and in 1918, these acts increased in wild proportions, the more so as all hopes of a military victory were gone. 'In their present enforced withdrawal from Flanders and France,' wrote President Wilson in a note of October 1918 to the German Government, 'the German armies are pursuing a course of wanton destruction which has always been regarded as

a direct violation of the rules and practices of civilised warfare. Cities and villages, if not destroyed, are being stripped, not only of all they contain, but often of their very inhabitants.'

When, at long last, Germany made known her intention to surrender, the Allies were in a position to carry the war into her territory and to give her in her turn a taste of her own medicine. But in their hour of victory, the Allies were to take another view: with such Armistice conditions as made Germany incapable of resuming hostilities, the results aimed at were in their possession. 'This being achieved,' said Foch, 'no man has the right to cause another drop of blood to be shed.'

And so the War ended before a single Allied soldier had set foot upon German soil. As for the Treaty, if in common speech revenge means inflicting harm for harm's sake—making the wrongdoers suffer in punishment rather than *repair* the wrong done, then, with the possible exceptions of the clauses relating to the trial of war criminals (which, incidentally, were never seriously put into effect)—there is not one single clause in the Treaty of Versailles that can be considered as an act of revenge.

'Reparation', said a memorandum presented in February 1919 by the British Delegation, 'is not a technical word. . . . It is the making good of the losses which a party injured has sustained by wrongful acts and their natural consequences, so as to replace him in as good a position as that which he occupied before the wrong was done. It is effectuated by material means and affords full compensation for the real effects of the wrong.'<sup>1</sup> 'The Principle of justice', said Mr. Hughes, the Australian Prime Minister, 'upon which the right of reparation is founded is that, when a wrong has been done and suffered, the wrong-doer should, to the full extent of his capacity, right the wrong. It is based on the idea of justice, not of revenge, on the idea that, so far as possible, the burden of the wrong done should fall on the wrong-doer, not on the innocent victim. This principle is universally recognised in every system of jurisprudence.'<sup>2</sup>

In mere equity, then, there should have been little doubt about the foundation of the Reparation chapter. But the case was not one of equity alone. As Mr. Keynes observed, the categories of damage in respect of which the Allies were entitled to Reparation were governed by principles enunciated in President Wilson's speeches and qualified by the 'Lansing Note' of 5 November 1918. Thus the 'Pre-Armistice Contract' forbade

<sup>1</sup> Quoted in Burnett, vol. II, p. 298.

<sup>2</sup> Burnett, vol. I, p. 553.



either a demand for the repayment of war costs, or even the inclusion of pensions which nearly trebled the bill. 'There are few episodes in history', he wrote, 'which posterity will have less reason to condone,—a war ostensibly waged in defence 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.'<sup>1</sup>

Now President Wilson, in his addresses, had made only the briefest mention of Reparation. He had insisted in the Fourteen Points that 'Belgium should be evacuated and restored'; that 'all French territory should be freed and the invaded portions restored'; that 'Rumania, Serbia and Montenegro should be evacuated; occupied territories restored'. In his speech before Congress of 11 February 1918, he had said that there should be 'no contributions' and 'no punitive damages'. While the word 'contributions' was perhaps open to various interpretations, that of 'punitive damages' was perfectly clear. What was thus excluded was the claim to an indemnity proper, that is one *exceeding* the actual losses suffered by the belligerents—although such an indemnity had been expressly contemplated in the case of Belgium by Mr. Asquith when he had said 'We shall never sheathe the sword which we have not lightly drawn until Belgium recovers in full measure all *and more than all* that she has sacrificed. . . .' Apart from references to the general principles of justice that were to govern the whole settlement, these were the only pronouncements on Reparation to be found in the President's speeches.

The equivocal brevity of this programme was, as we have seen, the occasion for one of the two reservations insisted upon by European statesmen in their pre-Armistice talks with Colonel House. As a consequence, the Note of 5 November reminded the German Government of the construction placed by the Allies upon the President's speeches: 'In the conditions of peace laid down in his address to Congress of January 8, 1918, the President declared that invaded territories must be restored as well as evacuated and freed. The Allied Governments feel that no doubt ought to be allowed to exist as to what this provision means. By it they understand that compensation will be made by Germany for all damage done to the civilian population of the Allies and their property by the aggression of Germany by land, by sea and from the air.'

<sup>1</sup> *E.C.P.*, p. 133.

The Armistice was signed on 11 November; Article 19, which had been inserted in the convention at the request of M. Klotz, the French Minister of Finance, at a meeting of the Supreme Council, opened as follows: 'With the reservation that any future claims and demands of the Allies and the United States of America remain unaffected, the following financial conditions are required: Reparation for damage done . . .'<sup>1</sup>

There is no record that the German delegates at Compiègne discussed or protested against this clause.

It is around the interpretation of these texts that the debate over what items were to be included in the Reparation chapter developed at the Peace Conference.

With the exception of the Americans, every delegation presented a demand for the total costs of the war. This claim was supported by several arguments.

1. According to M. Klotz, Article 19 of the Armistice convention had reserved all the rights of the Allies, and these could not therefore be limited by any restrictive interpretation of the so-called 'Pre-Armistice Contract'. But Mr. Keynes argued that it was 'not possible to maintain that this casual protective phrase, to which no one at the time attached any particular importance'<sup>2</sup> could have done away with the Fourteen Points as far as Reparation was concerned. 'Personal pride in so smart a trick', he added later, 'has led M. Klotz and his colleague M. Tardieu to persist too long with a contention which decent persons have now abandoned.'<sup>3</sup>

'Casual' and 'protective' as the phrase may appear, it had at least the merit of being unequivocal. If the terms of the Note of 5 November, which were not so precise, had really such a limiting quality, then this clause of the Armistice was in direct contradiction of them. The German delegates could have chosen to discuss it if they had so wished, but did not—for obvious reasons. So the contradiction remained, and gave rise during the Conference to the most unfortunate dissension between the Allies.

As Mr. Keynes rightly observed,<sup>4</sup> M. Klotz's interpretation was disposed of by the Allied Reply to the German Observa-

<sup>1</sup> In the French text signed at Compiègne, the word 'renonciations' (which means 'concessions') was mistakenly substituted for the word 'revendications' (which means 'demands'). This, observed Mr. Keynes, illustrated 'the pitfalls of the world' (*R.T.*, p. 141), but he agreed that the material error made no difference to the argument.

<sup>2</sup> *E.C.P.*, p. 104.

<sup>3</sup> *R.T.*, p. 141.

<sup>4</sup> *E.C.P.*, p. 105.

tions on the Draft Treaty, affirming their complete agreement with the German Delegation's claim that the basis for the negotiation of the Treaty of Peace was to be found in the correspondence which immediately preceded the Armistice. The particular issue raised by Article 19 is then, in the Allies' own interpretation, a closed one. Mention has been made of it here only in order to set out plainly the disastrous consequences of the ambiguity which surrounded the 'Pre-Armistice Contract'. It was thanks to this ambiguity that the moral foundations of the Treaty of Versailles could be undermined with effect.

2. That the terms of the Note of 5 November precluded a demand for War costs was the thesis of the American Delegation, presented with great eloquence by Mr. J. F. Dulles, and opposed, with no less eloquence, by Mr. Hughes and Lord Sumner. The debate was finally closed after the intervention of President Wilson, then on his visit to America, who cabled in answer to a demand of support from his delegates, that they were 'bound in honour to decline to agree to the inclusion of war costs in the reparation demanded'. 'We should', he added, 'dissent and dissent publicly if necessary, not on the ground of the intrinsic justice of it, but on the ground that it is clearly inconsistent with what we deliberately led the enemy to expect and cannot now honorably alter simply because we have the power.'<sup>1</sup>

The position of Mr. Lloyd George and of Clemenceau was not an easy one, caught as they were between the inflexibility of the President and the wrath of their respective parliaments, who would very likely hurl them from power if it could not be shown that the maximum had been demanded and obtained. It was, in the last resort, a problem of public opinion. The American delegates therefore worked out a compromise. If the public could be satisfied that nothing but the material impossibility of obtaining full Reparation had precluded the statesmen from imposing it on Germany, and if at the same time a formula could be found excluding the rights of the Allies, even in principle, to war costs, all parties would be satisfied. So, instead of asserting the *right* of the Allies to the reimbursement of war costs, the Treaty affirmed the *responsibility of Germany* for causing the damage they had suffered as a consequence of the War. It was thus thanks to the compromising ingenuity of the American delegates that the famous Article 231 came finally

<sup>1</sup> Burnett, vol. 1, p. 27.

into being. 'All this', wrote Mr. Keynes, who had participated in the drafting, 'is only a matter of words, of virtuosity in draftsmanship, which does no one any harm, and which probably seemed much more important at the time than it ever will again between now and Judgment Day.'<sup>1</sup> This particular prediction may perhaps also be taken as illustrating 'the pitfalls of the world'; for Germany's agitation against the 'War-Guilt Clause' was to poison the moral life of Europe for the next twenty years.

There remains the question of Pensions and Separation Allowances. 'It was', wrote Mr. Keynes, 'a long theological struggle in which, after the rejection of many different arguments, the President finally capitulated before a masterpiece of the sophist's art.'<sup>2</sup> What Mr. Keynes omitted to say at the time was that the 'sophist' in question was no other than General Smuts, in whose moral judgement he presumably placed some reliance, for it was to him, as we have seen, that he had turned for advice after his resignation from the British Delegation, and it was under his inspiration that he had written *The Economic Consequences of the Peace*.

Put shortly, General Smuts's argument, expressed in a Note written at Mr. Lloyd George's request, was that 'the President's limitation to restoration of the invaded territories only of some of the Allies was clearly abandoned' by the Note of 5 November; and that while direct military expenditure in material or the upkeep of a soldier under arms was not chargeable to Germany, pensions and separation allowances were paid to civilians, and therefore came under the Note's definition. 'What was or is spent', he wrote, 'on the citizen before he became a soldier, or after he has ceased to be a soldier, or at any time on his family, represents compensation for damage done to civilians and must be made good by the German Government under any fair interpretation of the above reservation. This includes all war pensions and separation allowances.'<sup>3</sup>

<sup>1</sup> *E.C.P.*, p. 141.

<sup>2</sup> *E.C.P.*, p. 49.

<sup>3</sup> Text in Burnett, vol. 1, pp. 773 ff. See also p. 63. Mr. Keynes's strictures were first challenged by Mr. J. F. Dulles, even though he conceded that he himself had come to the conclusion that pensions and separation allowances were 'not properly chargeable to Germany'. 'Many people whose intellect and sincerity command the confidence of the world', he wrote, 'reached a contrary conclusion. . . . Whatever one's personal views may be, anyone who considers this subject in a spirit of fairness can hardly deal in a contemptuous and offhand way with the sincere and reasoned judgment of men such as General Smuts.' (Letter to *The Times*, 16 February 1920.) General Smuts's argument was quoted later by Mr. Keynes in *A Revision of the Treaty*, pp. 149-50.

This 'plain commonsense construction' (in General Smuts's own words) was accepted by the President. But Mr. Keynes was horrified. 'The German commentators', he wrote 'had little difficulty in showing that the draft Treaty constituted a breach of engagements and international morality comparable with their own offence in the invasion of Belgium.'<sup>2</sup> That, surely, is a matter of opinion, and from the facts which I have set forth, the reader is free to form his own. But it is hard, I believe, to dispute that the verdict of Mr. Keynes took rank, in the moral disintegration of Europe, among those arguments which went, as Lord Acton once said, 'to confound right and wrong, and reduce the just man to the level of the reprobate'.

## III

*The Economics of Reparation*(1) *The Claims*

The Treaty, as we have seen, did not specify the final amount of Germany's liability. Several reasons had prevailed in favour of this solution; it was impossible to make a satisfactory computation of the extent of the damage before many months or even years; and in the meantime it would not have been easy to make public opinion accept a figure that was likely (as the statesmen well knew) to fall below general expectations. Various tentative estimates had nevertheless been put forward in the course of the Conference. They could not be considered as affecting the final liability of Germany, but as indicating the magnitude of the bill which the Allied Governments would later submit to the Reparation Commission.

Most of these figures, according to Mr. Keynes, were grossly exaggerated. How far justified were his strictures will now be seen in the principal of the cases which he brought to scrutiny: the French figures of damage to material property.

Mr. Keynes quoted M. Dubois, the *rapporteur* of the Budget Commission of the Chamber of Deputies, as giving early in 1919 a figure of 65 milliard francs for damage to the invaded areas; M. Loucheur, Minister of Industrial Reconstruction, whose figure, given in February 1919, was 75 milliards; and M. Klotz, Minister of Finance, who spoke in September 1919 of 134 milliards. These sums were converted by Mr. Keynes at the

<sup>2</sup> *E.C.P.*, p. 59.

1914 par of exchange (of 25 francs to the pound) giving respectively £2,600, £3,000, and £5,630 million.<sup>1</sup>

Now while estimates of French wealth before or during the War were naturally made in gold francs, the sums mentioned in 1919 related to *reconstruction costs*, and were therefore calculated in 'paper-francs', that is, with regard to the current price-level. No definite rate had yet been fixed, in 1919, for the conversion of gold francs into 'reconstitution francs'; but considering that in February 1919 the French index of wholesale prices (1914 = 100) stood at 348, this coefficient of depreciation should have been applied to the figures given at the time if they were to be either expressed in sterling or compared to the estimates made in 'pre-war francs'.

This qualification applied to all estimates. It was hardly a negligible one. M. Loucheur's figure, for instance, of 75 milliards for the reconstruction of the devastated areas was, wrote Mr. Keynes, 'more than double the estimate by the French economist, M. Pupin, of the entire wealth of their inhabitants'. M. Loucheur, he went on, 'may have found strict veracity inconsistent with the demands of patriotism'.<sup>2</sup>

Now M. Pupin's figure (which had been calculated in 1916) would have been absurd if it had represented anything but *pre-war* values; while M. Loucheur had made it clear that his estimate was made with regard to the costs of *reconstruction*.<sup>3</sup> If the two figures were to be compared, they should have been reduced to a common standard. If 3.5 was taken as the coefficient of currency depreciation, M. Loucheur's figure, in gold francs, would have amounted to 21.5 milliard francs—not double the previous wealth of the devastated regions, but barely two-thirds.

Having himself calculated that the total damage in devastated areas could be put at £500 million, Mr. Keynes quoted M. Pupin's estimate of 10 to 15 milliard francs ('£400 to £600 million'), between which his personal estimate fell halfway, as a confirmation of his own calculations. The use of this figure illustrates, if not perhaps 'the pitfalls of the world', at least the

<sup>1</sup> *E.C.P.*, pp. 118–20.

<sup>2</sup> *E.C.P.*, p. 119.

<sup>3</sup> This was acknowledged, rather belatedly, by Mr. Keynes: 'M. Locheur . . . estimated the cost at 75 milliards at the prices then prevailing.' (*R.T.*, p. 122.) But no adjustment was made for the method of conversion adopted in *The Economic Consequences*. Yet the significance of these figures was obvious: if M. Loucheur's 75 milliards or M. Klotz's 134 milliards had really been gold francs, these sums, 'at the prices then prevailing', would have amounted respectively to something like 260 and 470 milliards for material damage alone.

familiar danger of quoting from secondary sources. It was taken, said a footnote, from an article in the *Revue Bleue* for 3 February 1919; quoted in a French book on the financial liquidation of the War. The quotation appears to have been a misprint, for no number of the *Revue Bleue* was issued on that particular date. On the other hand, in an issue of 3 February 1917, M. Pupin estimated the losses of invaded areas at 10 to 15 milliard francs at the end of 1916. Two years later, the damage had naturally increased in notable proportion, as a result of the great offensives of 1917 and 1918, and of German destruction in the course of their retreat. In 1919, M. Pupin, having revised his previous calculations, arrived at a figure of 15 to 20 milliards at the pre-war rate.<sup>1</sup> Translated into 1919 purchasing power at the rate of 3:5, this figure would have represented some 52 to 70 milliards, between which M. Dubois' figure of 65 milliards fell halfway. So much for the 'unveracities of politicians'.<sup>2</sup>

But this is not all. In 1919, the exchange depreciation of the franc had already started. And although in the early months of 1919 the quotation was still very near par (as a consequence of the 'pegging' of the exchanges maintained by agreement between the Allied Treasuries during the War), the 'purchasing-power parity' in terms of British and French national price-levels revealed a much wider degree of depreciation. In February 1919—at the time of M. Loucheur's statement—the British index<sup>3</sup> stood at 215. The coefficient of depreciation in terms of sterling was therefore  $348:215 = 1.6$ , and the rate of conversion should have been, not the pre-war rate of 25 francs, but a rate of (say) 40 francs—in other words, the 'purchasing-power parity' value of the franc in February 1919 was about 62 per cent of its pre-war value; and this was in fact the rate reached on the exchange market at the end of 1919, after the financial agreements between the Allied Treasuries had been abandoned earlier in the year.

But, what is more, even this rate of depreciation did not, at the time, satisfy Mr. Keynes! 'Allowing for the diminished value of gold', he wrote, commenting in another chapter on the currency situation in Europe, 'the exchange value of the franc

<sup>1</sup> *Richesse Privée et Finances Françaises de l'Avant-Guerre à l'Après-Guerre*, Paris, 1919, p. 63 n. M. Pupin added explicitly that in terms of reconstruction costs his figure would be 50 to 60 milliards. None of these figures appeared in Mr. Keynes's book.

<sup>2</sup> *E.C.P.*, p. 190.

<sup>3</sup> Sauerbeck, standard 1914 = 100.

should be less than 40 per cent of its previous value, instead of the actual figure of 60 per cent, if the fall were proportional to the increase in the volume of currency.<sup>1</sup> Yet, in the preceding chapter, he had simply converted all the French figures at the old par. Such was the process by which this illustrious economist could (no doubt inadvertently) leave the whole world under the impression that the French estimates constituted a swindle on a colossal scale.<sup>2</sup>

We are to-day, however, in the fortunate position of being able to eschew the maze of controversies—so weary, stale, flat, and unprofitable—that lingered in the following years over the probable costs of reconstruction. In an official communiqué issued in 1932 by the French Ministry of Finance, it was stated that the total amounted, at that date, to a nominal sum of 103 milliard francs<sup>3</sup>—not so very far, therefore, from the claim of

<sup>1</sup> *E.C.P.*, p. 228 n. It may perhaps be objected that this was written *at the end of 1919*, while the figures discussed had been given in the early months when the franc was still 'pegged' at par. But even this would hardly have justified Mr. Keynes's method of conversion; for in a meeting held at Paris in February 1919 between the representatives of the American, British, and French Treasuries, he had declared that the real value of the pound sterling was, in his view, 50 francs. (L. L. Klotz, *De la Guerre à la Paix*, Paris, 1924, p. 121.) However prejudiced towards Mr. Keynes may have been M. Klotz, there is no reason to suspect the authenticity of this statement, which corresponds closely with Mr. Keynes's view quoted above.

<sup>2</sup> It is not easy, in view of the complete disorganization of the price and exchange system during that period, to decide which rate of conversion would have been the best. Whenever gold marks were to be expressed in terms of sterling, Mr. Keynes adopted the gold parity of 20:1. If that method had been applied to French figures, the normal course would have been (1) to reduce the figures of 1919 to their pre-war value in gold francs, by applying the coefficient of rise in prices, and (2) to convert the gold francs thus obtained into sterling at the par of 25:1 (col. 7 in table below). Since, however, British prices had also been rising, and the meaning thus conveyed to the British public would have been somewhat misleading, another method would have been to apply the purchasing parity rate to the 1919 nominal figures—either the rate of 40 francs (parity at wholesale prices) or the rates indicated by Mr. Keynes himself, of 50 or 52.5 to the pound. The following table shows the results of these methods, as compared to the figures given in *The Economic Consequences*:

| Estimate quoted | Reconstruction (Millions of francs) | Converted at par (Keynes) | Converted at 40:1 | Converted at 50:1 | Converted at 62.5:1 | Gold francs     | Gold francs at par |
|-----------------|-------------------------------------|---------------------------|-------------------|-------------------|---------------------|-----------------|--------------------|
|                 |                                     | (Millions of £)           | (Millions of £)   | (Millions of £)   | (Millions of £)     | (m'l'ds francs) | (m'l'ns £)         |
| Dubois          | 65,000                              | 2,600                     | 1,625             | 1,300             | 1,040               | 18.6            | 744                |
| Loucheur        | 75,000                              | 3,000                     | 1,875             | 1,500             | 1,200               | 21.5            | 860                |
| Klotz           | 134,000                             | 5,360                     | 3,350             | 2,680             | 2,144               | 38.3            | 1,532              |

<sup>3</sup> See *Le Temps*, 13 February 1932. The conservative character of this figure is hardly suspect; for as it was quickly realized that little or no Reparations were forthcoming from Germany, the French Ministers of Finance, who were at perpetual grips with the problem of budgetary equilibrium, must have exercised some diligence to keep expenditure within bounds—this in spite of the fact that private claims were often revealed as scandalously exaggerated, and led in several instances to notorious profiteering.



127 milliards which had been finally submitted in 1921 by the French Government to the Reparation Commission, and which Mr. Keynes had pronounced 'a vast, indeed a fantastic, exaggeration beyond anything it would be possible to justify under cross-examination'.<sup>1</sup>

Although the figure published in 1932 was a *nominal* total of sums spent at different dates, it is not impossible to compare it with the estimates of 1921; the 1932 communiqué also gave a figure of 175 milliards of francs as representing the capital value with regard to the gold value of the franc at the various dates of payment. Considering that the gold value of the new franc was fixed in 1928 at one-fifth of the 1914 unit, the cost of reconstruction, expressed in 1914 (gold) francs would have represented therefore 35 milliards—that is, almost exactly the gold value of the 127 milliards dubbed by Mr. Keynes in 1922 as 'not less than two or three times the truth'.<sup>2</sup>

So much, therefore, for the contention that the claims for damage were exaggerated.<sup>3</sup> If exaggeration there was, at least it was not all on the same side.

#### (2) *The Burden of Reparation*

Having insisted that current claims were indefensible, Mr. Keynes attempted to estimate the burden that would result from the Treaty's terms. For categories justifiable under the 'Pre-Armistice Contract', the sums would be found 'to exceed £1,600 million and to fall short of £3,000 million'; for other categories (pensions, etc.) the total came to approximately £5,000 million, making a total claim of £8,000 million in all. 'I estimate for this figure', he added, 'an accuracy of 10 per cent in deficiency and 20 per cent in excess, i.e. that the result will lie between £6,400,000,000 and £8,800,000,000.'<sup>4</sup>

In April 1921, the Reparation Commission, after having worked diligently over the documents submitted to it by the

<sup>1</sup> *R.T.*, p. 105.

<sup>2</sup> *R.T.*, p. 114. The 1932 communiqué spoke of the gold value of the franc at the various dates, and it seems therefore proper to reduce the total thus arrived at in gold francs at the rate of 5:1. It may however be objected that French prices had risen by 1928 more than in proportion, to 634. 175 milliard new francs would therefore have represented, not 35 milliards, but only 27.7 milliards of 1914 value. Even thus it would seem that the figure given in 1921 was not so fantastically exaggerated. It must also be remembered that even as late as 1932, the total costs of reconstruction had not yet been completely covered.

<sup>3</sup> The French figures were the main case under review. I have not reconsidered the case of Belgium, where Mr. Keynes had also alleged that claims were exaggerated. But it must be remembered (as Mr. Keynes observed) that Belgium was entitled not only to the whole of her war costs, but to the profits which might have been earned if there had been no war. (*E.C.P.*, p. 114 n.)

<sup>4</sup> *E.C.P.*, pp. 147-9.

various Governments interested, made it known that it had assessed the amount of the damages at 132 milliard gold marks, representing £6,600 million.

Here, then, is a case where Mr. Keynes can claim to have been right, and there is no reason to minimize the accuracy of his prediction: Germany's total liability, as assessed by the Reparation Commission, came within the limits of his own estimates of 1919.

It is not unfair, however, I think, to point out that according to Mr. Keynes himself the essential problem was whether this sum was or was not within Germany's capacity to pay. But even this sum, he contended, was impossible of payment. It is to the examination of this proposition that the rest of this chapter is to be devoted.

It was on his maximum assumption of £8,000 million (160 milliard marks) for total liability that Mr. Keynes had worked out the resulting burden for Germany in the following years. Before May 1921, a sum of 20 milliard marks (£1,000 million) had to be paid without interest. After that date, the debt was to be funded in a system of bonds. The annual payments resulting from these provisions, as calculated by Mr. Keynes, are summarized below:

|   | £<br>Millions | Annuity<br>Gold Marks<br>Milliards |
|---|---------------|------------------------------------|
| From 1921 to 1925: 40 milliards of bonds  |               |                                    |
| at 2½ per cent . . . . .  | 75            | 1,500                              |
| From 1925 onwards: 40 milliards of bonds  |               |                                    |
| at 5 per cent . . . . .   | 180           | 3,600                              |
| After the Commission is satisfied that 40<br>milliards more bonds can be issued . . . . .   | 280           | 5,600                              |
| Annual interest charge on total liability of<br>£8,000 millions . . . . .   | 430           | 8,600                              |
| On the assumption that until 1936 pay-<br>ments cannot exceed 150 millions<br>annually, annual interest after 1936 . . . . .  | 650           | 13,000                             |
| On the same assumption, annuity with<br>sinking fund amortized over 30 years<br>after 1936 . . . . .  | 780           | 15,600                             |
| 'On the assumption, which no one supports<br>and even the most optimistic fear to be<br>unplausible, that Germany can pay<br>the full charge for interest and sinking<br>fund <i>from the outset</i> ' <sup>1</sup> . . . . . | 480           | 9,600                              |

The Schedule of Payments of May 1921, which was to regulate Germany's payments after that date, not only fixed the total of Germany's obligations at 132 milliard marks, but brought substantial modifications to the Reparation clauses themselves. As Mr. Keynes had underlined, the burden of Germany's liability under the Treaty had been greatly aggravated as a result of a provision to the effect that interest at 5 per cent was to be debited on the nominal value of the debt as from May 1921. The preceding table shows how payments were affected, on the assumption that Germany would not be able to fulfil her obligations in the earlier years. Under the 1921 scheme the interest provisions were very considerably abated.<sup>1</sup> For this reason, it is not the Schedule of 1921 which must be considered if we are to judge of the economic feasibility of the Treaty of Versailles, but the situation which would have resulted from the application of the Treaty's provisions to the 132 milliards fixed by the Reparation Commission.

As the figure of 132 milliards (£6,600 million) was substantially below Mr. Keynes's maximum estimate of 160 milliards (£8,800 million), the burden of annuities would have been correspondingly lighter. On the assumption that the first instalment of 20 milliard marks was to be discharged entirely before 1 May 1921, a 5 per cent annuity including sinking fund over thirty years would have been, for the remaining 112 milliards, about 7.3 milliard marks (£365 million). On the assumption that no payments could be made at all before 1921, the same annuity on 132 milliards would have been 8.6 milliard marks (£430 million).<sup>2</sup> These figures represent, therefore, the real burden which would have been imposed upon Germany by the strict execution of the Treaty of Versailles.

Mr. Keynes declared that the annuities resulting from a capital debt of £8,000 million could never be paid by Germany. And as the liability would continually increase with the accumulation of interest, 'until the Treaty is altered, therefore, Germany has in effect engaged herself to hand over to the Allies the whole of her surplus production in perpetuity'.<sup>3</sup>

<sup>1</sup> See *R.T.*, p. 65.

<sup>2</sup> This assumes interest at 5 per cent on the total debt as from May 1921, and is therefore slightly more than was justified by the Treaty's provisions, since the first 40 milliards of bonds were to carry interest at 2½ per cent only until 1926.

<sup>3</sup> *E.C.P.*, p. 154.

(3) *Germany's Capacity to Pay*

Mr. Keynes did not merely imply that the makers of the Treaty had hopelessly miscalculated Germany's capacity to pay; the impression was left, moreover, that it had never been so much as given any consideration. As a consequence of the expectations aroused in public opinion by the European Ministers in their respective countries,—and particularly by Mr. Lloyd George's electioneering speeches—'a scientific consideration of Germany's capacity to pay was from the outset out of court', and 'it was necessary to ignore the facts entirely'.<sup>1</sup>

Yet the problem of Germany's capacity to pay had been, not only duly considered, but publicly mentioned, even before the meeting of the Peace Conference; it was not 'out of court' at the Conference either. A special sub-committee was appointed by the Conference's Committee for Reparation in order 'to study the financial capacity of the enemy states, their means of payment and reparation'. 'It would be useless', said its chairman, at the beginning of the discussions, 'to submit figures unreasonably high, and on the other hand the Committee must not rest upon a needlessly low figure. In making its calculations the Committee must reckon something more indeterminate than capital—viz.: The credit of a hard-working, well-trained industrial population. . . . It might be that the Committee would arrive at a figure that would appear too high to some persons. It would be well to recall that the sums which the Allies had been able to raise by loans during the war, even at moments when things looked most critical, would have seemed absolutely fantastic five years before.'<sup>2</sup>

He then submitted a maximum figure of £24,000 million, arrived at some months before by a special Committee appointed in Great Britain by Mr. Lloyd George.<sup>3</sup> Mr. Lamont, the American delegate, reported the conclusions reached by the experts of his delegation. They estimated that annual payments of \$1,500 million could be obtained over a series of thirty-five years, representing a capital sum of \$57,900 million; but they made 'every reservation as to the possibility of scientifically justifying these figures. . . . The difficulty was, in his opinion,

<sup>1</sup> *E.C.P.*, p. 137.

<sup>2</sup> Burnett, vol. II, p. 622. Minutes of the Second Sub-committee.

<sup>3</sup> See Lloyd George, *op. cit.*, vol. I, pp. 458 ff. 'Could any expert Committee', Mr. Keynes had written, 'have reported that Germany can pay this sum?' (*E.C.P.*, p. 132.) Was not Mr. Keynes then aware of the existence of this Committee?

not so much to raise the money as to get it into the hands of the Allies.<sup>1</sup>

As the experts could not arrive at a compromise, a small Committee was appointed by the Supreme Council to consider what sum could reasonably be fixed in the Treaty. This Committee reported in March a figure of 120 milliard marks, and stressed the fact that Germany's capacity to pay would depend upon the expansion of her export trade.<sup>2</sup>

As we have already seen, the Four found it impossible to reach a compromise over a definite sum. Not even the special sub-committee, in its report, had been able to agree unanimously upon one. They stated that 20 milliard marks in liquid assets could be obtained from the enemy Powers in the first years, and that when their industry and credit were established, they could well 'pay a very considerable sum annually, increasing as the time goes on. . . . It must be remembered that the productive capacity of a nation may, owing to the improvement in the arts and sciences, increase at a rate far more rapid than would now be considered possible. In the estimate considered by the Sub-Committee, allowance has been made for a certain increase of productive capacity on the part of the enemy countries. But it is only necessary to look back a few years to show how much values can vary. Figures which to-day appear out of all proportion to the productive capacity of Germany may be considered as quite moderate in twenty or thirty years.'<sup>3</sup>

The report also recommended that an inter-Allied Commission be created for the purpose of hearing evidence as to the capacity of the enemy Powers to pay, and of fixing the amounts to be paid with due regard to the said capacity. When it was finally decided by the Four that no figure would be included in the Treaty, this method was adopted to assess Germany's indebtedness as well as her capacity to pay. In the meantime, Article 232 invoked Germany's limited capacity to 'justify the necessary limitation of the Reparation claims.

Thus it is not correct to assert that 'a scientific consideration of Germany's capacity to pay was from the outset out of court'. Perhaps Mr. Keynes only meant that the consideration given to the problem was not 'scientific'; and we must now examine

<sup>1</sup> Burnett, vol. II, p. 624. \$57,900 millions would have represented £11,580 millions, or 231,600 million marks. The capitalized value at 5 per cent would have been about 120 milliards. (Vol. I, p. 49.)

<sup>2</sup> Burnett, vol. I, Doc. 144, p. 627.

<sup>3</sup> Burnett, vol. II, Doc. 543, pp. 749, 753.

which of the estimates given at the time have most successfully borne out the test of the following years.

In *The Economic Consequences of the Peace*, Mr. Keynes had estimated at £100 million (2 milliard marks) the sum that could be obtained annually from Germany. On this basis, the maximum limit of her total capacity to pay (including immediately transferable wealth, property in the lost territories, etc.) was reckoned altogether in capital value at £2,000 million (40 milliard marks).<sup>1</sup>

1. *Germany's National Wealth and Income.* The absence, in *The Economic Consequences of the Peace*, of any detailed discussion of Germany's future capital and income is no doubt to be ascribed to Mr. Keynes's apparent conviction that no matter what may have been the internal wealth of Germany, her capacity to pay Reparations was entirely dominated by the possibilities of external transfer.

This explains why the argument drawn from Germany's annual productivity was summarily dismissed. To those who insisted that the annual increment of wealth in Germany before 1914 was estimated at £400 million to £425 million, that Germany could now dispense with some £100 million in armament expenditure, that she could therefore be expected to pay an annual sum of £500 million—Mr. Keynes replied that although the argument may appear 'plausible to reasonableness', it was, nevertheless, 'a fallacy'.<sup>2</sup>

In the first place, Germany's savings had been considerably reduced by the War and the Peace, and 'if they are taken from her year by year in future they cannot again reach their previous level'. The loss of Alsace and Lorraine, Poland, and Upper Silesia would mean a reduction of at least £50 million in surplus productivity; the surrender of ships, foreign investments, banking and commercial connexions would add £100 million to this loss; armament expenditure would be 'far more than balanced' by the annual charge for pensions now estimated at £250 million; the exhaustion of resources caused by the War would reduce future savings by at least 10 per cent—£40 million annually. These factors reduced Germany's annual surplus to less than the £100 million arrived at on other grounds (namely, her external transfer capacity). And to conclude the matter,

<sup>1</sup> *E.C.P.*, p. 186. 'In all the actual circumstances,' he added, 'I do not believe that she can pay as much.'

<sup>2</sup> *E.C.P.*, p. 191.

even if allowance were made for a possible reduction of Germany's standard of living, the existence of a transfer problem would still make the argument fundamentally fallacious.

Let it first be pointed out that the measure of Germany's 'internal' capacity to pay was not necessarily limited by her 'surplus' productivity. This would have been the case only if it was considered necessary to maintain Germany's national capital intact. Not to do this would, of course, have impaired her future production; but it would not have been economically *impossible*; and a mistaken regard for the significance of 'capital maintenance' could lead to errors almost as crude as those of the opposite extreme—such as Mr. Keynes intended to parry when, in 1914, he reassured those who supposed that 'even a war of three years can destroy, for the years which succeed it, the material benefits of the last twenty'. 'The savings of the German people,' he went on, 'however they be stated in terms of milliards, are houses, and railways and the like. Luckily for the material future of their country, not even the Prussian Army can eat rails and embankments or clothe itself in bricks and mortar.'<sup>1</sup> Most financiers would indeed have been surprised at the time by any suggestion that Germany's national debt would increase during the War from 5 to 84 milliard marks, or that the British national debt would increase to some £7,900 million. 'What', he wrote in 1919, 'we believed to be the limits of possibility have been so enormously exceeded, and those who founded their expectations on the past have been so often wrong, that the man in the street is now prepared to believe anything which is told him with some show of authority, and the larger the figure, the more readily he swallows it.'<sup>2</sup>

The achievements of War finance suggested that when national emergency became serious enough to justify recourse to this expedient, capital consumption could go to lengths not hitherto contemplated. Yet there were several grounds for caution. In the first place, the War had already encroached upon German capital: to go any further in the first years might well, as General Smuts had aptly put it, 'kill the goose that is to lay the golden eggs'. Such a policy might not only diminish Germany's productivity to the detriment of her creditors, but

<sup>1</sup> 'The War and the Financial System', *Economic Journal*, August 1914. J. S. Mill had used almost the same words when he wrote, 'Iron goods cannot feed labourers', but he explained how, 'by a mere change of destination of the iron goods, he [i.e. the capitalist] can cause labourers to be fed'.

<sup>2</sup> *E.C.P.*, pp. 190-1.

make her so utterly destitute that her population might soon be doomed to starvation, and the whole economic life of Europe be disorganized. This was altogether the fundamental ineptitude ascribed by Mr. Keynes to the Treaty of Versailles.

This danger had not escaped the attention of the Treaty-makers. But it was the opinion of most that the charges laid upon Germany were not excessive, having regard to her national wealth, even after the losses of war and defeat.

In 1914, Karl Helfferich, the Director of the Deutsche Bank, in a book ringing with legitimate pride in the economic splendour of the German Empire, had estimated Germany's total wealth at more than 300 milliard marks, and her national income at 40 milliards.<sup>1</sup> Another estimate made during the War by A. Steinmann-Bucher was even higher. According to this author, Germany's national wealth in 1914 was 400 milliards, and her annual capital growth was 12 to 14 milliards in the years immediately before the War.<sup>2</sup>

These figures were, naturally, invoked during the Peace Conference. In his book on the Peace Treaty, M. Tardieu explained how far they should be modified to take account of the losses of war and peace.<sup>3</sup> According to his calculations, Germany, with national production brought from<sup>4</sup> 43 down to 31 milliards, and national consumption from 33 to 23 milliards, could expect a surplus of about 8 milliards per year.

As the 20 milliard marks to be paid before 1921 had been reckoned by M. Tardieu among Germany's capital losses, the annuity she would have to pay after that date would, on this assumption, have amounted to 7.3 milliards. This would normally have left Germany free to use any surplus achieved before 1921 to reconstitute her capital. Thus, after 1921, an annuity of 7.3 milliards would, if we accept M. Tardieu's figure, have absorbed less than her annual net increase of capital.

Startling as this result may appear to-day, it seems, however, largely confirmed by the actual development of Germany's national wealth and income in the following years.

<sup>1</sup> Helfferich: *Deutschlands Volkswohlstand, 1898-1913*, Berlin, 1914, pp. 98-9 and 114-15. His findings may be summarized as follows:

| Year   | Aggregate wealth<br>(000,000,000) | Aggregate income<br>(000,000,000) | Income per head | Annual growth of income<br>(000,000,000) |
|--------|-----------------------------------|-----------------------------------|-----------------|--|
| 1895-6 | 200                               | 20 to 25                          | about 410       | 4.5 to 5                                 |
| 1913   | 290 to 330                        | 40                                | about 600       | 10                                       |

<sup>2</sup> A. Steinmann-Bucher: *Deutschlands Volksvermögen im Kriege*, 1916, p. 24.

<sup>3</sup> A. Tardieu: *The Truth about the Treaty*, pp. 332 ff.

<sup>4</sup> This was Helfferich's revised figure.



In 1922, Mr. Keynes attempted to estimate the magnitude of the German national income. As no official figures were available at that time, he was reduced, like M. Tardieu, to extemporizing on the basis of Helfferich's pre-war estimates. Loss of productivity was put at 15 per cent, bringing national income from 43 to 34·85 milliards. This corresponded closely with the estimate made at that time by Dr. Lansburgh, of 30 to 34 milliard gold marks.<sup>1</sup> (It also corresponded, incidentally, to M. Tardieu's earlier calculations.)

Mr. Keynes, however, thought Dr. Lansburgh's estimate too high. To appreciate the weight of the burden which was then thrown on Germany by the Schedule of Payments, he converted the 34·85 million gold marks into paper marks; in view of the rise in prices, an eightfold increase in the *nominal* income of the country seemed 'to be an over-estimate rather than an under-estimate'; on the basis of the above figure of 34·85 milliards, the result in paper marks was 278·8 milliards for national income and 4,647 marks for income per head in August 1921. A figure of 5,000 paper marks for income per head would be, in conclusion, 'about as near the truth as we shall get'.<sup>2</sup>

Now the meaning that was conveyed to British readers by this figure was that, in terms of gold marks, the German national income had been reduced in far greater proportion than the 15 per cent war losses would have involved; it meant that the real income of Germany was not equivalent to 34·85 milliard gold marks, but to considerably less. For while he used a multiplier of 8 to convert this latter figure into 1921 paper marks, Mr. Keynes, when he came to convert again the nominal figure into sterling, reckoned that 20 paper marks were the equivalent of 1 gold mark. At this rate, Germany's national income would therefore have been equivalent to  $\frac{34\cdot85 \times 8}{20}$  or about 14

milliard gold marks. In other words, Germany's real income in 1920 would have been *one-third* of what it was in 1914. And so Mr. Keynes arrived at a sum of £12½ (gold), and after deduction of taxation, of about £7 (gold) for annual income per head, or less than 6d. a day—'the equivalent in purchasing power in Germany of something between 9d. and 1s. in England'. 'Would', he added, 'the whips and scorpions of any Government recorded in history have been efficient to extract nearly half their income

<sup>1</sup> R.T., pp. 80-1.

<sup>2</sup> R.T., p. 83.

from a people so situated? <sup>1</sup> It was with arithmetic of this calibre that the legend of a destitute Germany was engineered after 1918.

The figures published by the statistical services of the Reich several years later tell a different story.

THE GERMAN NATIONAL INCOME <sup>2</sup>  
(1913-37)

| Year     | Nominal Income                    |                       |                        |                       | Income in 1928 Prices             |                       |                        |                       |
|----------|-----------------------------------|-----------------------|------------------------|-----------------------|-----------------------------------|-----------------------|------------------------|-----------------------|
|          | National<br>Income<br>(milliards) | Per<br>cent<br>change | In-<br>come<br>pr. hd. | Per<br>cent<br>change | National<br>Income<br>(milliards) | Per<br>cent<br>change | In-<br>come<br>pr. hd. | Per<br>cent<br>change |
| 1913 (a) | 51                                | —                     | 748                    | —                     | —                                 | —                     | —                      | —                     |
| 1913 (b) | 46                                | 100                   | 766                    | 100                   | 69                                | 100                   | 1,165                  | 100                   |
| 1925     | 60                                | 131                   | 961                    | 125                   | 65                                | 94                    | 1,042                  | 90                    |
| 1926     | 63                                | 137                   | 997                    | 130                   | 67                                | 97                    | 1,071                  | 92                    |
| 1927     | 71                                | 155                   | 1,118                  | 146                   | 72                                | 105                   | 1,149                  | 99                    |
| 1928     | 75                                | 165                   | 1,185                  | 155                   | 75                                | 109                   | 1,185                  | 102                   |
| 1929     | 76                                | 166                   | 1,187                  | 155                   | 75                                | 108                   | 1,170                  | 101                   |
| 1930     | 70                                | 154                   | 1,092                  | 143                   | 72                                | 104                   | 1,119                  | 96                    |
| 1931     | 57                                | 126                   | 889                    | 116                   | 64                                | 92                    | 991                    | 85                    |
| 1932     | 45                                | 99                    | 696                    | 91                    | 57                                | 82                    | 875                    | 75                    |
| 1933     | 47                                | 102                   | 713                    | 93                    | 60                                | 86                    | 916                    | 79                    |
| 1934     | 53                                | 115                   | 804                    | 105                   | 66                                | 95                    | 1,007                  | 87                    |
| 1935     | 59                                | 128                   | 877                    | 114                   | 72                                | 104                   | 1,081                  | 93                    |
| 1936     | 65                                | 142                   | 964                    | 126                   | 79                                | 114                   | 1,175                  | 101                   |
| 1937     | 71                                | 155                   | 1,046                  | 137                   | 86                                | 124                   | 1,268                  | 109                   |

(a) 1913 Territory.

(b) Versailles Territory (excluding Saar).

It will be seen, in the first place, that national income in 1913 was rated at 51 milliard marks—considerably higher than even Helfferich's highest computation; and that since income per head within the Versailles boundaries (Saar excluded) was higher than in the whole of pre-war Germany, the territories lost in 1919 were on the whole of *less* than average wealth. It will also be observed that by 1925 the nominal value of Germany's national income was already almost four times the amount at which Mr. Keynes had reckoned it four years before; if the rise in prices is taken into account, the increase would have been nearly *threefold*.<sup>3</sup> It had taken twenty years of peaceful and unprecedented progress, from 1891 to 1913, for the German national income to *double* its size before the war; can

<sup>1</sup> R.T., p. 84. 'The annual income of 5,000 paper marks per head is equivalent in exchange value (at an exchange of 20 paper marks to 1 gold mark) to £12½ (gold). . . . This would have meant a total national income of £762.5 million (15.25 milliard gold marks) against a figure of £2,150 million (43 milliards) in 1914. Did this mean that gold prices had fallen by 60 per cent? Or what? I beg any incredulous reader to refer to the text of this passage for himself. Perhaps I have misunderstood it.

<sup>2</sup> Source: *Statistisches Jahrbuch für das Deutsche Reich*. For further details, see *Das Deutsche Volkseinkommen vor und nach dem Kriege, Einzelschrift zur Statistik des deutschen Reichs*, No. 24, Berlin, 1932. No figures were given for the years 1919-24.

<sup>3</sup> 94 per cent of 45.5 milliards = 43 milliards, against an income for 1921 of (say) 15.25 milliards.

it be seriously maintained that if that income had really fallen in 1921 as low as Mr. Keynes would have had us believe, it could have increased almost three times in the space of four years—and only two years after the Ruhr crisis? Even at the time of the Great Depression of 1929–32, national income did not fall by much more than one-fourth. These figures give us to-day a measure of Mr. Keynes's perspective. They also tell us that, by 1927, the real income of the German people was already higher than before the war; such was the extent of the ruin brought upon Germany less than ten years after the Treaty of Versailles!

The Versailles 'maximum' annuity of 8.6 milliards would have meant, in 1925, a levy of about 14.3 per cent on the German national income. The 'smaller' annuity of 7.3 milliards would have represented 12.2 per cent. In 1929, the year of highest prosperity, the proportions would have been respectively 11.3 and 9.6 per cent.

It is hard to believe that, under these conditions, Germany would have been reduced to destitution by Reparation payments. Two estimates have been published in Germany of capital accumulation during these years. They show that a further reduction in the level of consumption of some 1 or 2 milliard marks per annum would, after 1925, have left a surplus sufficient to cover even the heaviest possible payment imposed by the Peace Treaty.

NET ACCUMULATION OF CAPITAL IN GERMANY<sup>1</sup>  
(EXCLUDING ALL FOREIGN LOANS)  
(Milliards of Reichsmarks)

| Year  | I  | II  |
|-------|--|---|
|       | Figures of<br>Reichs-Kredit-<br>Gesellschaft | Figures of the<br>Institut für<br>Konjunkturforschung |
| 1913* | 11.9   | —   |
| 1924  | —  | 5.6   |
| 1925  | 6.4  | 5.8   |
| 1926  | 6.3  | 10.1  |
| 1927  | 7.6  | 7.3   |
| 1928  | —  | 7.5   |
| 1929  | —  | 6.8   |

\* Post-war value.

<sup>1</sup> Sources: (i) Reichs-Kredit-Gesellschaft, *Germany's Economic Development in the Second Half of 1927*, Berlin, 1928, p. 15. The publication of these yearly figures was discontinued after 1928. (ii) *Kapitalbildung und Investitionen in der deutschen Volkswirtschaft, 1924- bis 1928* (Vierteljahrshefte für Konjunkturforschung, Sonderheft 22, Berlin, 1931, p. 29).

The net savings of the German people were therefore, during this period, from three to five times as much as the 2 milliard marks per annum calculated in 1919 by Mr. Keynes as the upper limit of Germany's capacity to pay. But the story does not end there. We know, from a speech by Hitler (1 September 1939), that in the six years preceding the present war, Germany spent on rearmament alone a sum of 90 milliard marks<sup>1</sup>—that is, some 15 milliards per year, a little more than twice the 'smaller' Versailles annuity, or a little less than twice the 'larger' Versailles annuity. This was seven and a half times Mr. Keynes's estimate of Germany's capacity to pay.

2. *The Transfer Problem.* That is all very well, the reader will say; now what about the transfer problem? Was not Germany's capacity to make *external* payments the deciding factor? 'The annual surplus which German labour can produce for capital improvements at home', Mr. Keynes had written, 'is no measure, either theoretically or practically, of the annual tribute which she can pay abroad.'<sup>2</sup>

Few questions have provided more food for debate, political and academic, than the vexed transfer problem. The actual detail of the monetary mechanism of transfer raises several cases of serious theoretical difficulty; but yet the barest common sense, I submit, will suffice to understand the broad issue involved in the Reparation question. This may seem strange to all those who, baffled by the intricate subtlety of economic theory, have quailed in deferential awe at the slightest professional frown. But public opinion (as Mr. Keynes once observed) found no difficulty in believing that Hans Andersen's Emperor wore a suit of fine clothes; and we must remember, too, that it was only a little child who first cried out that the Emperor had nothing on.

That Germany could only pay by an increase in exports was never open to discussion. Even if she was to pay her creditors in marks, what the creditors ultimately wanted were real *goods*, to take the place, in some form or other, of those that had been destroyed. Mr. Keynes had well explained that 'Germany can pay in the long-run in goods, and in goods only, whether these

<sup>1</sup> Let it be added that even this considerable effort does not appear to have brought unbearable economic distress to the German people. According to Professor C. Guillebaud, the author of one of the most extensive studies of German national economy published before September 1939, the standard of living in 1937 had approximately reached the level of 1928-9. (*The Economic Recovery of Germany*, London, 1939, p. 207.)

<sup>2</sup> *E.C.P.*, p. 193.

goods are furnished direct to the Allies, or whether they are sold to neutrals and the neutral credits so arising are then made over to the Allies'.<sup>1</sup>

This principle was fully understood at the Peace Conference and was clearly reflected in the Report of the Second Subcommittee. Noting that, before the War, Germany's merchandise exports were generally less than her imports, they indicated that 'in order to reverse this trade balance so that Germany's annual exports may largely exceed its imports, the industrial and domestic life of Germany must adapt itself and cut down imports to the least figure commensurate with the amount of raw materials which she actually requires from abroad for the conduct of her domestic and industrial life; and must turn herself into a nation of exporters, organized for the purpose of paying the reparation claims'.<sup>2</sup>

It was this transformation which Mr. Keynes considered impracticable. Analysing Germany's foreign trade before 1914, he found that, in view of the losses of defeat, little or no increase in exports could be expected, and that even though some compression of imports was possible by lowering the standard of living, many large items were 'incapable of reduction without reacting on the volume of exports'.<sup>3</sup> In conclusion, a surplus of perhaps £100 million (2 milliard marks) was the most that could be expected.

If what actually happened was any indication of what it would have been possible to achieve, Mr. Keynes's conclusions would be very much more than confirmed, and this book would never have been written. No complete returns for Germany's international balance are available for the period prior to 1924, but all the evidence points to a considerable deficit.<sup>4</sup> After 1924, the figures were as shown at the top of page 119.<sup>5</sup>

Up to 1930, imports of merchandise were thus largely in excess of exports, except in 1926, and in 1929, when there was a relatively small credit balance; and Germany's total balance of international payments was, until 1931, constantly and heavily *passive*—in other words, payments to Germany from abroad were *always* in excess of Germany's payments to the outside world. In 1931, this process was sharply reversed.

<sup>1</sup> *E.C.P.*, p. 174.

<sup>2</sup> Burnett, vol. II, p. 752.

<sup>3</sup> *E.C.P.*, p. 185.

<sup>4</sup> Moulton and McGuire have estimated this deficit as some 10 milliard gold marks for 1919-22 inclusive. (*Germany's Capacity to Pay*, New York, 1923, p. 55.)

<sup>5</sup> League of Nations, *Balances of Payments*, 1937, p. 108.

## REPARATION

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|                | <i>Balance of 'visible'<br/>Merchandise Exports<br/>and Imports</i> | <i>Total Balance<br/>of International<br/>Payments</i> |
|----------------|---|--|
|                | <i>(Millions of Marks)</i>  |  |
| 1924 . . . . . | - 1,848   | - 1,954  |
| 1925 . . . . . | - 2,362   | - 3,253  |
| 1926 . . . . . | + 817   | - 739  |
| 1927 . . . . . | - 2,890   | - 4,352  |
| 1928 . . . . . | - 1,250   | - 4,058  |
| 1929 . . . . . | + 31  | - 2,023  |
| 1930 . . . . . | + 1,644   | - 542  |
| 1931 . . . . . | + 2,858   | + 2,266  |
| 1932 . . . . . | + 1,054   | + 434  |

(+ Indicates an excess of Exports over Imports; - an excess of Imports over Exports.)

The significance of these figures will be further explained a little later on. It is clear, at any rate, that during these years, Germany *did not* achieve any surplus of exports over imports. Whether she *could* have done so is of course another question.

It must in the first place be made clear that as far as the economic mechanism of transfer is concerned, there is no inherent difference between such payments as Reparations and 'ordinary' capital movements. That the origin of Reparations is 'political', that they constitute a unilateral 'tribute' instead of the repayment of borrowed capital, does not by itself make any difference whatsoever to the 'transfer problem'. Once the 'tribute' is levied by the Government on its nationals, the problem of transferring it abroad is the same as in any financial transaction.

The notion that it is extremely difficult to reverse in any large degree a country's balance of international payments was developed in greater detail by Mr. Keynes in 1929. If, he argued, a large surplus of capital exports was to be achieved, and if consequently the volume of exports must grow very considerably, this could not be done merely by sending abroad the goods produced and consumed by Germany in normal times. Many such goods may not be wanted in foreign countries; not only must the *prices* of German exports fall in some degree if other countries were to increase their purchases; but she must supply such goods as would increase in sale more than proportionately when the price falls. If the elasticity of demand for German exports was less than unity, that is, if a fall in price led to an increase in demand less than proportionate, the more prices

would fall, the less would finally be the total value of sales. Germany must therefore concentrate on goods possessing high-demand elasticity. This may mean that 'the solution of the Transfer Problem must come about . . . by the diversion of German factors of production from other employments into export industries'.<sup>1</sup>

As far as it went, this argument was impeccable. But Mr. Keynes advanced it one step further. The transfer problem consisted in a transformation of Germany's export trade. The essential point was that such a change could not be brought about without the most extreme difficulties. 'My own view is that at a given time the economic structure of a country, in relation to the economic structures of its neighbours, permits of a certain "natural" level of exports, and that arbitrarily to effect a material alteration of this level by deliberate devices is extremely difficult. Historically, the volume of foreign investment has tended, I think, to adjust itself—at least to a certain extent—to the balance of trade, rather than the other way round, the former being the sensitive and the latter the insensitive factor. In the case of *German Reparations*, on the other hand, we are trying to fix the volume of foreign remittance and compel the balance of trade to adjust itself thereto. Those who see no difficulty in this—like those who saw no difficulty in Great Britain's return to the gold standard—are applying the theory of liquids to what is, if not a solid, at least a sticky mass with strong internal resistances.'<sup>2</sup>

Curiously enough, the difficulties of transfer were never heard of before the Treaty of Versailles—although the movement of capital from one country to another was not unheard of before that time. The *mechanism of transfer* was a subject of academic investigation and discussion, but nothing that happened in that period gave any reason to believe that it was fraught with any particular difficulties. A number of instances drawn from the history of foreign investment in the nineteenth and twentieth centuries could easily be given to illustrate this view.<sup>3</sup>

<sup>1</sup> 'The German Transfer Problem', *Economic Journal*, March 1929, p. 3.

<sup>2</sup> *Ibid.*, p. 6.

<sup>3</sup> The most striking example, with regard to the circumstances of the time, is that of the indemnity of 5 milliard francs imposed by Germany upon France in 1871. Thiers, the French Prime Minister, who was a recognized authority on financial matters, did not at first believe that it could ever be paid: 'Generals not financiers, must have suggested to you this figure', he had complained to Bismarck. Yet the sum was paid within the next four years. Before 1871, France's balance of trade was continually passive. As soon as payments started, the debit was transformed into a surplus, which disappeared as soon as the payments ceased.

But, it will be objected, most of these accumulations were taking place progressively over a long period of time. In the case of Reparations, the problem was how to bring about a sudden and profound change in Germany's balance of payments. Moreover, the sums involved were quite out of proportion to the capital movements of the nineteenth century. It was the unprecedented *magnitude* of the Reparation demands that was at the root of the whole problem.

The best answer to this objection could have been provided as early as 1919 by the story of Inter-ally War Finance. The figures given by Mr. Keynes in *The Economic Consequences of the Peace* showed that between 1914 and 1918, some £4,000 million had been lent abroad by the United States, Great Britain, and France.<sup>1</sup> Great Britain alone, in the course of the War, had supplied her allies with £1,740 million, or an annual average four times the amount of Germany's alleged 'capacity to pay'. The capital exports of the United States in the last two years of the War amounted to nearly £2,000 million, that is, annually, the equivalent of ten times Germany's annual 'capacity' or of the total capital value of her '*ad perpetuum* capacity'. The trade balance of the United States adjusted itself perfectly to this situation. Before the War, it showed a moderate surplus of merchandise over imports—about \$650 million per annum. In the course of the following five years, this surplus increased to over \$3,000 million. After the War, the credit balance fell, between 1920 and 1921, from about \$2,100 million to \$700 million; in 1923, the balance was passive by some \$200 million; it was active again in the following years, varying between a maximum of \$1,000 million in 1928 and a minimum of \$90 million in 1932. In 1934, owing to heavy capital imports from Europe, the balance became suddenly passive, and remained so thereafter until in 1940 the debit balance had reached \$2,800 million.<sup>2</sup>

| (000,000 francs) |      |      |      |      |      |      |      |      |      |
|------------------|------|------|------|------|------|------|------|------|------|
| 1868             | 1869 | 1870 | 1871 | 1872 | 1873 | 1874 | 1875 | 1876 | 1877 |
| -441             | -12  | -20  | -674 | +211 | +274 | +232 | +383 | -357 | -185 |

It may be argued that France made use at the time of a rich reserve of foreign assets, while the foreign investments of Germany in 1919 fell very short of the amount required for Reparation payments. Even if this factor is taken into account, the responsiveness of the balance of trade (which indicates the amount of payments *not* made out of foreign assets) is still remarkable.

<sup>1</sup> *E.C.P.*, p. 254.

<sup>2</sup> League of Nations: *Balances of Payment*, 1938, p. 140, and *World Economic Survey*, 1939-40, p. 233.



It is hardly necessary to multiply these examples any further. They should be enough to show, as M. J. Rueff had indicated in 1929, that 'the notion of a "natural" level of exports is a complete fallacy and cannot legitimately be invoked'.<sup>1</sup> They explain why the sub-committee on Germany's capacity had declared, in their report, that they had thought it proper largely to disregard the figures of 'the pre-war export trade of the enemy countries (especially that of Germany) and to assume that in such industries (as coal and timber just mentioned), the exports of the enemy countries can be vastly stimulated over those of the pre-war period'.<sup>2</sup> But they are perhaps best summarized in the conclusions arrived at by Professor F. W. Taussig, who, in his study of capital movements, had been perplexed, not by the difficulties of readjustment, but by their extraordinary ease. In conformity with the 'classical' theory of adjustments through changes in the national price levels, he had expected that the intermediate stages would take some time. But what he discovered was 'the unmistakably close connection between international payments and the movements of commodity imports and exports. . . . What is puzzling', he wrote, 'is the rapidity, almost the simultaneity, of the commodity movements. . . . The plain outstanding fact is that the exports and imports of goods adjust themselves if not at once, certainly with quickness and ordinarily with ease to the sum total of a country's transactions with other countries.'<sup>3</sup>

Here is a far cry from 'natural levels' and 'sticky masses'. But Professor Taussig, who had spent a lifetime in the study of this subject, had no polemical axe to grind.

Yet, it will be objected, even if this 'automatism' is granted, surely the changes in prices and incomes brought about by the transfer process, in addition to the fiscal burden of Reparation, would have had severe repercussions? Might not the reorganization or even the revolution in production and commerce which was necessary if Germany was 'to transform itself into a nation of exporters' have imposed a heavy strain upon the German people?

The answer is that indeed it might; and that it ought. If the wrong done on such a large scale was to be even partly repaired, it was indeed entirely inevitable that the German people should

<sup>1</sup> 'Mr. Keynes and the Transfer Problem', *Economic Journal*, September 1929, p. 397.

<sup>2</sup> Burnett, vol. II, p. 751.

<sup>3</sup> F. W. Taussig: *International Trade*, New York, 1927, pp. 260-2.

have undergone a radical change in its way of living for some time.<sup>1</sup>

But this being said, the contention that Reparation would have imposed upon the German people an intolerable, inhuman strain does not very well tally with the industrial achievements which were to bring Germany's power to what it had become in 1939-40. It will, I presume, be argued that the case is irrelevant, and that the 15 milliard marks spent annually by Germany on rearmament until 1939 are no measure of her capacity to pay, because the proceeds did not have to be *transferred abroad*. How interesting it would be to ask the people of Warsaw, of Rotterdam, of Belgrade, of London and Coventry, and Denmark and Norway, of the Netherlands, of Belgium, of France, of Greece, of Yugoslavia, of Russia—the armies of Egypt, North Africa and Italy, of the Eastern and Western Fronts, the crews of Allied ships on all oceans, what they think of this particular piece of argument! All have now tasted in a marked degree the quality of German products. The huge transformation involved in the building up of the German war machine did not only mean 'a radical change in the kind of work performed'; the goods thus produced were very literally and very materially 'transferred' and 'exported' abroad. Is it to be seriously maintained that even the vast increase in the production of exportable peacetime goods implied by the Reparation scheme would have met with *greater* difficulties? In 1919 and for many years thereafter, Mr. Keynes had claimed that a transformation on such a scale was well-nigh impossible; but in 1940 he admitted that it had actually been done. 'The question is asked everywhere', he wrote, 'how Germany was able to make so vast a preparation and accumulate great stocks with no outside resources to draw upon and a vast number of

<sup>1</sup> It is worth noting that Mr. Keynes was not averse to the use of German labour for the reconstruction of the devastated areas. Only by such methods, he thought, could Germany's capacity to make Reparation be increased above his original estimate; but this scheme would depend for its success on the attitude of the populations in the regions concerned. (*E.C.P.*, p. 187.) Mr. Keynes does not appear to have considered that the hardships imposed by the forced transfers of human beings would in all probability have exceeded whatever 'strain' Germany might have endured in adjusting her economy to the needs of Reparation payments. It is possible that a wholesale transfer of German workers to the devastated zones would have given the best economic results; even the German Delegation had made an offer in this sense in their counter-proposals. But the question had been previously considered in the Council of Four, and rejected, as smacking too much of slavery. 'Forced labour', said President Wilson, 'would be unprecedented unless one went back thousands of years.' (Baker, vol. II, p. 392.)

men under arms. Even after allowing for the restrictions on current consumption, the enormous potential productive power of modern industry is the only answer.<sup>1</sup> Here, at long last, after twenty years of economic and financial shibboleths, we were given the mysterious clue to Germany's productive capacity: 'the enormous potential productive power of modern industry'. Would that this remarkable discovery had been made some time before July 1940.

I am aware that, in 1919, Mr. Keynes had made the express reservation that 'if the Allies were to "nurse" the trade and industry of Germany for a period of five or ten years, supplying her with large loans, and with ample shipping, food, and raw materials during that period, building up markets for her, and deliberately applying all their resources and goodwill to making her the greatest industrial nation in Europe, if not in the world, a substantially larger sum could probably be extracted thereafter; for Germany is capable of very great productivity'.<sup>2</sup> It may even be added that this was almost precisely what the Allies did; but they did it only piecemeal, and certainly not on a scale contemplated by Mr. Keynes in this particular case. In 1929, when the 'nursing' had reached its climax, Mr. Keynes still believed that even the greatly reduced demands of the Dawes Plan would be very difficult to fulfil. It would be curious if his opinion to-day were that Germany became effectively the greatest industrial nation in Europe because the Allies had deliberately applied all their resources and goodwill to that purpose.

But still another suggestion comes to mind. Do not some of Mr. Keynes's more recent theories lend unexpected but powerful support to the view that the payment of Reparations would in itself have actually helped Germany to become the greatest industrial nation in Europe? One of the main tenets of his *General Theory* is that, as long as full employment is not reached, investment expenditure, even for unproductive purposes, will create employment and income, and thereby contribute finally to increase the wealth of the community. Productive investment would no doubt be preferable; but even unproductive expenditure is 'better than nothing'.<sup>3</sup> The community is

<sup>1</sup> 'The United States and the Keynes Plan', *The New Republic*, New York, 20 July 1940, p. 153.

<sup>2</sup> *E.C.P.*, p. 188-9.

<sup>3</sup> *The General Theory of Employment, Interest and Money*, London, 1936, pp. 128-9.

enriched, not so much by the assets which it is the immediate purpose of the new investment to create, but by the *additional employment* and income set up in the course of the initial investment expenditure. It is, in other words, the secondary effect which is really the most important to the community as a whole.<sup>1</sup>

In 1919, Mr. Keynes had not yet arrived at these conclusions. But if it is true now, it was not less true then—and what a retrospective vista does it not open! A charge of 7 or 8 milliard marks per annum on the German budget for Reparation was, in itself, a net loss to Germany's economy, but no more so, in the strictest sense, than the armament expenditure of later years; neither in itself added to the *immediate* enjoyments of the German people. But if it is true, as was often maintained, that Germany's rearmament expenditure before 1939 contributed, in spite of its 'unproductive' character, to the creation of employment and income, why then should Reparation expenditure, if only financed by 'borrowing', have had a less beneficial effect? It is hard to see any difference, from the point of view of Germany's immediate welfare, between these two categories of expenditure. If it is contended that Rearmament helped to enrich the German people after 1933, Reparations would, for the same reason, have enriched them after 1919. Such beneficial effects were, in point of fact, ascribed in 1940 by Mr. Keynes to the American rearmament programme. 'Your war preparations,' he wrote, 'so far from requiring a sacrifice, will be the stimulus, which neither the victory nor the defeat of the New Deal could give you, to greater individual consumption, and a higher standard of life. You can still invest more *and* spend more.'<sup>2</sup> Rearmament, in other words, conceived as a sort of *glorified boondoggling*, was to enable the American people not merely to have their defence cake and eat it, but actually to have some extra cake as well. They were to have 'Guns *plus* Butter'.<sup>3</sup> If so, why then was it not possible, after 1919, to have Reparation for the Allies *plus* butter for Germany? Here is a problem fit to test the ingenuity of the Keynesian school.

If, however, the reader is still not satisfied—if it is still objected

<sup>1</sup> *The General Theory of Employment, Interest and Money*, London, 1936, p. 113 ff.

<sup>2</sup> *The New Republic*, 29 July 1940. This argument, as Mr. Keynes pointed out, was valid as long as there existed a margin of unemployed resources. Such a margin existed in Germany after 1919.

<sup>3</sup> This was the editorial comment on Mr. Keynes's article.

that any comparison with the 15 milliards spent annually before 1939 is irrelevant because they were not really 'transferred' in the strictest sense—then, surely, the tributes levied by Germany upon the occupied countries of Europe must supply the final answer. The indemnities imposed upon Norway, Denmark, the Netherlands, Belgium and France under the guise of 'occupation costs' totalled annually, after 1940, nearly 10 milliard marks.<sup>1</sup> 'Frenchmen,' wrote Mr. Keynes in 1921, 'having fed to satiety on imaginary figures, are nearly ready, I think, to find a surprising flavour and piquancy in real ones.'<sup>2</sup> Although they did not exactly *feed* on it, they certainly did find a most peculiar flavour and piquancy in 400,000,000 francs a day. But 'occupation costs' do not tell the whole story, for loot in German-occupied countries has taken a remarkable variety of forms. According to official German figures, the total contribution of occupied countries to the German budget amounted in 1940-1 to 12 milliard (£1,000 million) and in 1941-2 to 16.2 milliard marks (£1,350 million).<sup>3</sup> And according to the calculations of the British Ministry of Economic Warfare, the total financial burden supported by the occupied countries came to £1,700 million.<sup>4</sup> Even if the largest possible allowance is made for the rise in prices in the last twenty-five years, this sum represents at least ten times Germany's annual 'capacity to pay'—'transfer problem' notwithstanding.

3. '*We do not mean to take their goods . . .*'. If there was nothing either in the structure of Germany's productive system or in the mechanism of international payments which made Reparation an economic impossibility, there still remains one last argument: if Germany could pay 'in goods and in goods only', would not the wholesale importation of these commodities in the creditor countries cause more harm than good, by competing with the products of the home industries?

The reluctance to take German goods in payment had been expressed by Mr. Lloyd George in the very earliest period of the Reparation discussions. 'They must pay', he said in a private conversation, in October 1918, 'to the uttermost farthing. But

<sup>1</sup> See T. Reveille: *The Spoil of Europe*, New York, 1941, p. 104.

<sup>2</sup> *R.T.*, p. 188.

<sup>3</sup> See H. W. Singer: 'The German War Economy', *Economic Journal*, June-September 1942, p. 201. The figures are given in sterling, the rate of conversion adopted being 12 marks to the pound.

<sup>4</sup> Statement by Mr. Dingle Foot, Parliamentary Secretary, House of Commons, 26 October 1943. The rate of conversion was 13½ marks to the pound.

the question is how can they be made to pay beyond a certain point. They can pay only in gold or goods. We do not mean to take their goods, because that would prejudice our trade. . . . I said to Hughes the other day, "Shall you take their goods? We shan't!" He did not know what to reply.<sup>1</sup>

Arguments derived from the fear of German competition were frequently heard in the course of the Conference. But when they were expressed in the special Sub-committee on Capacity to Pay, they were met by the decisive objection in the words, often quoted thereafter, of the Italian delegate, *Signor d'Amelio*, when he put the question, "Do we want marks or do we not?" which he considered might be put in another form: "Are we going to buy from Germany?"<sup>2</sup> And in its report, the sub-committee, while conceding that the development of exports in the enemy countries may 'lead to the creation in Germany of an organization so highly developed and so skilled as to be calculated in the future to have considerable and perhaps unfavourable influence upon the markets of the world', came nevertheless to the conclusion that *there was no other method of payment*; and that, in proportion as the payments were diminished, such dangers would be, not reduced, but increased. 'It must be remembered that if but a comparatively small sum be demanded of the Germans, which, with their great assiduity, perseverance and thrift, they are able to repay within a short term of years, they will the sooner be in a position to resume their former commercial tactics and will no doubt work even harder to build up their own wealth than to restore what they have so wantonly destroyed.'<sup>3</sup>

In 1919, Mr. Keynes had also hinted that there may be something in this type of argument. He showed that the principal articles of Germany's pre-war trade were competitive with British export goods. 'If, therefore, the volume of such exports to overseas or European destinations is very largely increased the effect upon British export trade must be correspondingly serious. . . . Unless . . . the present Allies are prepared to encourage the importation of German products, a substantial increase in total volume can only be effected by the wholesale swamping of neutral markets.'<sup>4</sup> Thus the mercantilist hoof was already showing.

But the time had not yet come when Mr. Keynes was to grow

<sup>1</sup> Lord Riddell's *Intimate Diary*, 1933, p. 3.

<sup>2</sup> Burnett, vol. II, p. 691.

<sup>3</sup> *ibid.*, p. 752.

<sup>4</sup> *E.C.P.*, pp. 178, 182.

sceptical of his own earlier beliefs in the merits of free trade. In *A Revision of the Treaty*, being still under the influence of his 'classical' upbringing, he analysed the problem at greater length, and showed with all desirable clarity why 'the suggestion that it is necessarily injurious to receive goods for nothing is not plausible or correct',<sup>1</sup> and how there was 'very little advantage, but on the other hand some loss and inconvenience, in the Allies receiving these goods direct, instead of Germany selling them in the best market and paying over the proceeds.'<sup>2</sup>

Now the effects of a surplus of imports coming as a consequence of Reparation receipts do not differ from those of ordinary commerce—except, of course, that the goods received constitute a net gain to the national economy concerned, because no exports have been needed to pay for them. It is nevertheless true in a sense that if these goods are competitive with those of some industries at home, these particular industries, as Mr. Keynes indicated, 'are bound to suffer'.<sup>3</sup> But suffer in what sense? In most cases the sales of which they are thus deprived *could never have been made if it had not been for the damages which the Reparation payments are intended to make good*. It is quite wrong, therefore, to pretend that they 'suffer' from the payment of Reparations. They suffer not: they are forbidden to *profit* from the sufferings of their fellow men.

The same holds good for 'neutral' countries—that is, those who are prevented by Reparations from increasing their sales to the devastated countries. Some industries may suffer from the permanent changes in the direction of international commerce. But in the first place, as Mr. Keynes did not fail to remark, many of them would have been 'subjected to strong competition from Germany' in any case, whether or not Reparations were extracted.<sup>4</sup> In the second place, the country which feels the effects of a 'triangular' adjustment is no worse off than it would be as a consequence of any ordinary increase in the *total* volume of its foreign trade; if (say) the United States were to import more goods from Germany as a result of this process, it would also export more goods to the creditor countries—or elsewhere—for the same reason.

The position of Great Britain after the War partook both of those of the 'creditor' and of the 'neutral' country. The ship-building industry could complain that the delivery of German ships was reducing it to unemployment; when German deliveries,

<sup>1</sup> *R.T.*, pp. 152 ff.    <sup>2</sup> *R.T.*, p. 90.    <sup>3</sup> *R.T.*, p. 154.    <sup>4</sup> *R.T.*, p. 157.

such as coal, went to another country, the complaint of the injured industry would naturally gain even more sympathy from the general public. It is often contended that the persistence of unemployment in Great Britain after the last War was largely due to the effects of the Reparation system; and it has not always been sufficiently realized abroad that the lingering destitution of the 'distressed areas' constituted a national calamity comparable in degree, if not in kind, to the disasters suffered by the devastated areas in Northern France. It is conceivable that the suspension of Reparation payments to other countries than Britain, and even, to a certain extent, to Britain itself, might have helped, by reducing foreign competition, to bring prosperity back to some of these stricken industries. This is not to say, however, that post-war unemployment was a product of the Reparation scheme, and I am not aware that Mr. Keynes ever asserted that it was. Unemployment came from deeper and more permanent causes, national and international, which the payment of Reparations did little to aggravate. It is not denied that the ravages of the War gave rise to a demand which, in the absence of Reparations, would probably have been met, in certain cases, by British instead of German industry.<sup>1</sup> But, to repeat, these would thus have reaped a windfall gain which they could never have expected if the War had not taken place, and which could only have come out of the pockets of the general taxpayer in the countries deprived of Reparation payments.

But the decisive argument, in Mr. Keynes's view, was not 'the damage to particular interests (which would diminish with time), but the unlikelihood of permanence in the exaction of the debts, even if they were paid for a short period'.<sup>2</sup> As a consequence of the adjustment made necessary by the flow of Reparation payments, the balance between the various industries in different countries would be 'destroyed', and such specific factors of production as could not be smoothly diverted from one employment to another would lose their utility for some

<sup>1</sup> It was only in so far as the prices of German goods were lower than would otherwise have been the case that the damage done by their competition could be ascribed to the operation of Reparation payments. This fall in prices was to a certain extent the result of the transfer process itself, and could have been more marked in the case of deliveries in kind, where prices were not governed by general market conditions. But it is clear that even in the absence of Reparations, the cost structure of British industry would still have rendered it subject to competition in British and in foreign markets.

<sup>2</sup> *R.T.*, p. 160.



time. Thus, 'the *organisation*, on which the wealth of the modern world so largely depends, suffers injury. In course of time, a new organisation and a new equilibrium can be established. But if the origin of the disturbance is of temporary duration, the losses from the injury done to organisation may outweigh the profit of receiving goods without paying for them.'<sup>1</sup> In other words, it was only because Reparations would *not*, for political reasons, be collected for any long period of time that the *temporary* readjustment would do more harm than good.

If the premiss that Reparations would not be paid was accepted, this reasoning was, to some extent, plausible. But it did not mean that Reparations were economically impossible or even harmful, but only that they might become economically injurious in so far as they were politically unenforceable for any length of time. It would seem that this was an argument, if there ever was one, for enforcing Reparations to the full.

In the second place, the 'destruction' of economic equilibrium which was being ascribed to Reparations would have taken place in any case; in fact, *it had taken place already*. The war, with its destruction, its loss of life, its huge diversion of economic activity, had made it inevitable. The special demands born from the effects of war, which Reparation payments were intended to meet, would have had to be met in any case; they would, in themselves, have created this major disturbance in the channels of economic activity throughout the world. But in the absence of Reparations, the only difference would have been to make the ruined countries pay instead of Germany, and there is no reason why the resulting disturbance should have been less severe.

Lastly, it is hardly credible that even the disturbance in question could have been so harmful. Before 1914, neither the 'young' capital-importing countries, nor the 'old' creditor countries who were getting the return from their investments overseas, were in the habit of complaining of the ill effects of foreign payments.<sup>2</sup> And when, after 1924, foreign capital poured into Germany, the Germans did not, that I know of,

<sup>1</sup> *R.T.*, p. 166.

<sup>2</sup> As was observed by Prof. F. D. Graham, the Dawes annuity of 2,500 million Reichsmarks, which Germany was to pay after 1923, represented about twice the amount of capital absorbed annually by Canada before 1914, 'not only without serious harm to its industries, but indeed to their very great stimulation'. The combined population of Germany's creditors was about forty-five times that of Canada in 1900. 'Is it possible to maintain,' continued Prof. Graham, 'that such an importation will bring about the general prostration of industry in the receiving countries?' ('Germany's Capacity to Pay and the Reparation Plan', *American Economic Review*, June 1925, p. 216.)

complain that their industries were being ruined. 'Is it not surprising', wrote Professor B. Ohlin in 1929, 'that one has heard so little of transfer difficulties during the last five years, when one single country has had a net import of capital (over and above its own payments to other countries) of six or seven milliards of marks? That country is Germany.'<sup>1</sup>

We are left, therefore, with the damage to *particular* interests. But it was not enough to observe, as did Mr. Keynes, that 'since the losses will be concentrated on the capital and labour employed in particular industries, they will provoke an outcry out of proportion to the injury inflicted on the community as a whole'.<sup>2</sup> He should have added that the 'damage' caused to particular interests by the payment of Reparations would have been wholly out of proportion to the damage suffered by the community as a whole if Reparations were not paid. In laying stress on the first, Mr. Keynes, consciously or not, was reversing the tradition, inherited, in the words of Alfred Marshall, from the older generation of economists, by encouraging against the claims of 'the silent and patient many' those of 'the pushing and clamorous few'.

Enough, it is hoped, has been said to show that any inconvenience caused by the receipt of Reparations was outweighed, and much more than outweighed, by benefits which happened, incidentally, to be also a legitimate due. But if the foregoing arguments are still not clear, and if any doubt subsists, surely the very facts of the Second World War (as well as of the first one) should supply the final answer. Between 1914 and 1918 the European Allies borrowed from the United States some £2,000 million, and received the equivalent in goods; they did not worry, at the time, about any 'swamping' of their markets. From 1940, Germany received from the countries she occupied a vastly greater value in goods and services; but it did not appear that Germany was troubled by the 'disturbance' which these deliveries might have caused to the balance of her economy. But what shall we say of Lease-Lend? Nearly \$50,000 million has already been appropriated by Congress, representing goods to be delivered to the United Nations overseas; this sum is far in excess of the highest demands ever made upon Germany under the Treaty of Versailles; it is the equivalent of nearly five times the capital value of Mr. Keynes's estimate of Germany's capacity to pay *ad perpetuum*. I have

<sup>1</sup> *Economic Journal*, June 1929, p. 177.

<sup>2</sup> *R.T.*, p. 166.

not heard that any one in Great Britain complained that this unprecedented mass of imports would 'destroy economic equilibrium'. After having strained at the Reparation gnat, Lord Keynes swallowed—and presumably (like the rest of us) relished—the Lease-Lend camel. That these goods were desperately needed was plain to every one—to the most sophisticated economist as well as to the man in the street. Only the German submarines proved a hindrance to their delivery. The Lease-Lend system is not only the best possible demonstration of the insignificance of the 'transfer problem'; it should (if anything could) be sufficient to explode the time-honoured myths about the inherent evils of an 'adverse' balance of payments.

There were times when economists made it a point of honour to challenge these public crudities. *Mais nous avons changé tout cela*. After having wisely remarked that 'it is better not to use bad arguments',<sup>1</sup> Mr. Keynes made an honest effort 'to disentangle the true from the false' in the 'popular belief' that Reparation payments may be positively harmful. What a pity that he did not maintain everywhere this reluctance to flirt with economic fallacy! In 1919 he hinted at the dangers of competition by German goods. In 1922 he went further: 'If Germany succeeded, would not', he asked, 'this vast expansion of exports, unbalanced by imports, be considered by our manufacturers to be her crowning crime?'<sup>2</sup> But there was no reason to contradict them. Quite the contrary: for he found it 'very useful politically' to be able to 'enlist on the side of revision all the latent Protectionist sentiment which still abounds.'<sup>3</sup> 'Heaven forbid that I should discourage them! It is only too rarely that a good cause can summon to its assistance arguments sufficiently mixed to ensure success.'<sup>4</sup> Whether or not the 'cause' was such a good one, Mr. Keynes, at any rate, could hardly have learnt this maxim from his old master, who thought that 'it is not less wrong and generally it is much more foolish to palter with truth for a good than for a selfish cause'.

<sup>1</sup> *R.T.*, p. 152.

<sup>2</sup> *R.T.*, p. 74.

<sup>3</sup> *R.T.*, p. 91.

<sup>4</sup> *R.T.*, p. 92.

*Reparation Payments*

Why, then, it will now be asked, was it so difficult to secure the enforcement of Reparations? Did not the following years confirm the prediction that 'the claims against Germany were impossible of payment', and that 'the economic solidarity of Europe was so close that to enforce these terms might ruin every one'?

A brief reconsideration of Reparation payments should supply the answer.<sup>1</sup> The history of Reparations divides itself into three distinct chapters. From 1920 to 1924, the execution of the Treaty was in the hands of the Reparation Commission. From 1924 to 1930, Reparations were governed by the Dawes Plan. From 1930 to 1931 they were governed by the Young Plan, then suspended, and finally cancelled altogether in 1932.

1. *The Reparation Commission.* The Treaty had prescribed that a Commission would fix the total amount of the Reparation debt. It was then to draw up a schedule of payments and to control its execution over a period of thirty years, which could be prolonged if necessary.

The German delegation protested vehemently against this scheme. 'German democracy is thus annihilated at the very moment when the German people were about to build it up after a severe struggle. . . . The Commission, which is to have its permanent headquarters outside Germany, will possess incomparably greater rights than the German Emperor ever possessed; the German people under its regime would remain for decades shorn of all rights, and deprived, to a far greater extent than any people in the days of absolutism, of any independence of action, of any individual aspiration in its economic or even in its ethical progress. These comments', added Mr. Keynes, after having analysed at length the functions of the Commission, 'were hardly an exaggeration.'<sup>2</sup>

Yet the Allied Reply had had little difficulty in doing justice to them. 'The observations of the German delegation', said the

<sup>1</sup> The facts of the Reparation story are entirely of a public character and ought to be known to the whole world. But the merit belongs to Mr. G. Borsky and to Lord Vansittart for having recently rescued them from a limbo of uneasy silence. (*The Greatest Swindle in the World*, New Europe Publishing Company, London, 1942. See also Lord Vansittart: *Lessons of My Life*, London, 1943.)

<sup>2</sup> *E.C.P.*, p. 201.

Note of 16 June, 'present a view of this Commission so distorted and so inexact that it is difficult to believe that the clauses of the Treaty have been calmly or carefully examined. It is not an engine of oppression or a device for interfering with German sovereignty. It has no forces at its command. It has no executive powers within the territory of Germany; it cannot, as is suggested, direct or control the educational or other systems of the country. Its business is to ask what is to be paid; to satisfy itself that Germany can pay; and to report to the Powers, whose delegation it is, in case Germany makes default. . . .' 'This', wrote Mr. Keynes, 'is not a candid statement of the scope and authority of the Reparation Commission.' And he went on to explain how the terms of the Treaty could open the way to an interpretation much wider than that assumed in the Allied Reply. What he omitted to say was that in a reply by the Conference's Committee on Reparation to a request from the German delegation for further elucidation, it had been stated that the Allied Reply of 16 June would have binding force as interpretative of the Articles on Reparation.<sup>1</sup> Candid or not candid, the interpretation given in the Note was therefore an authoritative one, and was invoked as such before the Commission later on.<sup>2</sup>

Now if it were true that the Commission 'was to possess incomparably greater rights than the German Emperor ever possessed', etc., etc., how strange that Mr. Keynes, when he came to demonstrate that Germany could not meet the coal demands of the Treaty, should have suggested that the powers of the German Government would probably be inadequate to restore the length of the working day in the mining industry to its former figure of eight hours!<sup>3</sup> If the German Government could not, surely the Commission, with its exorbitant powers,

<sup>1</sup> This reply had been approved by the Council of Four. (Miller, vol. XIX, p. 287.)

<sup>2</sup> Let it be added that the discussions which had taken place in the Council of Four over the drafting of that section confirm this restrictive interpretation of the Commission's powers. Thus Mr. Lloyd George thought that the original drafting of the paragraph that enabled the Commission to demand payment 'in the form of properties, chattels, commodities, business rights', etc., etc., was 'too stiff'. 'It would give the Commission power practically to take any property or material to which it took a fancy.' President Wilson agreed. 'What he wanted was to avoid even the appearance of a forced Brest-Litovsk Treaty'. So the provision was modified accordingly. (Burnett, *op. cit.*, vol. I, pp. 1000 ff.) Such instances could be multiplied. If my guess is right, this particular meeting (27 April) must have been precisely the one described by Mr. Keynes in his famous second chapter. Perhaps his mind was too deeply engaged in a contemplation of Clemenceau's shoe-buckles to pay attention to such details.

<sup>3</sup> *E.C.P.*, p. 83.

could? Thus on the one hand we were told that the Commission would be 'in many different particulars the arbiter of Germany's economic life';<sup>1</sup> but on the other we were warned not to expect that the German miners could work more than seven hours a day.

The truth is that time and again the Commission had been instructed to spare the social, economic, and financial structure of Germany. It was to return to Germany out of her payments before 1921 the sums necessary to meet 'such supplies of food and raw materials as may be judged by the Governments of the Allied and Associated Powers to be essential to enable her to meet her obligations'. (Article 235.) In considering the Allied claims, it was to give the German Government a just opportunity to be heard, though not to take part in the Commission's decisions. (Annex II, part 10.) It was required to hear, if the German Government so desired, evidence and arguments on the part of Germany on any question connected with her capacity to pay. And in periodically estimating this capacity, the Commission was to satisfy itself that in general, the German scheme of taxation was 'fully as heavy proportionately as that of any of the Powers represented on the Commission'.<sup>2</sup> In other words, the charges supported by Germany were to be *at least* equal to those supported by the Allies—but it was not specified that they should be greater. So *this* was the measure of the burden imposed upon Germany! *This* was 'the policy of reducing Germany to servitude for a generation'! Let us now see how it was actually carried into effect.

The period which starts with the coming into force of the Treaty and ends with the adoption of the Dawes Plan subdivides itself into three intervals. The first ends with the acceptance by Germany of the *Schedule of Payments of May 1921*. The second with the occupation of the Ruhr in January 1923. The third with the application of the Dawes Plan in 1924.

In January 1920 the Reparation Commission entered upon its tasks. Its first mission was to secure, in execution of Article 235, a payment of 20 milliard marks before 1 May 1921. 'The pay-

<sup>1</sup> *E.C.P.*, p. 200.

<sup>2</sup> The discussion of this clause by the Council of Four on 23 April shows that their intention was to enable the Commission to relieve Germany, if it was thought proper, once it was established that taxation was proportionately as heavy as in the most heavily taxed country represented on the Commission, but not before. This principle was so obviously just that it was embodied five years later in the Dawes Plan, which Mr. Keynes, as we shall see, described at first as 'an honourable document'.

ment', said this Article, 'should be made in such instalments and in such manner (whether in gold, commodities, ships or otherwise) as the Commission may fix.' In order to show how the Treaty gave to the Commission 'dictatorial powers over all German property of every description whatever',<sup>1</sup> Mr. Keynes had placed upon it the most extreme interpretation. 'They can under this Article,' he wrote, 'point to any specific business, enterprise, or property, whether within or outside Germany, and demand its surrender. . . . For example, they could pick out—as presumably they will as soon as they are established—the fine and powerful German enterprise in South America known as the *Deutsche Ueberseeische Elektrizitätsgesellschaft* (the D.U.E.G.), and dispose of it to the Allied interests. The clause is unequivocal and all-embracing.'<sup>2</sup>

One of the first acts of the Commission was to ascertain the extent of its own powers under Article 235. There is no indication that it even considered the possibility of disposing of all kinds of German property whatsoever. All it did was to debate whether the foreign securities in the possession of German nationals (apart from those that were already specifically affected by the Treaty) could be demanded. Four legal experts answered in the affirmative. The American expert, Mr. Hugh A. Bayne, entered a dissenting opinion. One of the most convincing arguments adduced in its support was a reference to a passage in the Allied Reply of 16 June 1919. 'Outside the Empire', said the Note, 'the Allied and Associated Powers have abstained from claiming the transfer of German property and interests in the neutral countries.' This, wrote Mr. Bayne, settled the meaning of the Treaty, and would render it improper to contend that 'under Article 235 the Reparation Commission has the power to compel the surrender of German interests in neutral countries'.<sup>3</sup>

'The difference of opinion disclosed in the legal service', adds the Commission's report, 'was reproduced in the Commission itself.' And as under the Treaty unanimity was necessary for interpretation of the Treaty's text, the Commission could not demand these securities.<sup>4</sup>

So the fate of the D.U.E.G., which had inspired Mr. Keynes with such doleful forebodings, was undisturbed. And it happened, incidentally, that the use to which its assets were put

<sup>1</sup> E.C.P., p. 71.

<sup>2</sup> E.C.P., pp. 71-2.

<sup>3</sup> Reparation Commission, V, *Report on the Work of the Reparations Commission from 1920 to 1922*, p. 137.

<sup>4</sup> *ibid.*, p. 13.

did not turn out to be exactly in furtherance of Allied interests. The company was thoroughly reorganized in 1920; its most important installations in South America were transferred to a new firm, the Hispano-American Electric Company, founded by a certain number of Spanish banks. The preferred stock and all the bonds were then refunded to the holders in paper marks; and 120,000 new shares were attributed, as a commission, to the founders of the new company. Their value, amounting to more than 120 million gold marks, represented so much capital exported from Germany under the nose of her creditors.

To return to the Commission: all that it could do was to inform Germany that it was necessary for her to use all 'neutral securities' in the possession of the Government or of her nationals in payment for the indispensable food supplies and raw materials to which Article 235 entitled her; and to declare that it would consent to no sum of money being deducted from the 20 milliard gold marks to pay for these supplies unless the German Government was immediately to take all steps necessary to acquire the securities in question and apply them to meeting Germany's requirements.<sup>1</sup> As for the rest of the 20 milliards, Germany was left literally to raise the money in her own way. All that the Commission did was to address a letter to the German Government requesting to be informed as soon as possible of how it proposed to carry out Article 235.

There is no record, in the published documents of the Commission, of any reply to this letter. Meanwhile, Germany had not yet paid to the Commission one single cent in cash.<sup>2</sup> But in January 1921 the German Government submitted to the Commission a memorandum purporting to demonstrate that the value of deliveries in kind effected since the Armistice amounted already to more than 20 milliard marks. The Commission replied that a number of the items involved were not liquid or capable of being made liquid in the near future; that it made all reservations on the evaluation of the other items; and that the final account under Article 235 could not, in these

<sup>1</sup> Reparation Commission, IV, *Statement of Germany's Obligations*, p. 14. Even though these securities were not delivered, yet 3·8 milliard marks were deducted from the 20 milliard debt in order to pay for Germany's food and raw material supplies.

<sup>2</sup> Apart from the 3·8 milliards spent by Germany for her own supplies. The only cash payments made to the Commission prior to May 1921 amounted to some 84 million marks (£4·2 million) and came not from Germany, but from France and Denmark, as credits for the value of property ceded under the Treaty. (Reparation Commission, IV, *Statement of Germany's Obligations*, pp. 5 ff.)



conditions, fail to reveal a deficit of at least 12 milliard marks. On 14 March the German Government answered, maintaining its former position. The Commission persisted. It reminded Germany that she had to pay the balance before 1 May; and that she must pay before 25 March *at the latest without fail* (things had come to a point where the Reparation Commission did not refrain even from the use of italics!) a first instalment of one milliard gold marks. After a further exchange of letters, unbrightened by any cash payments, the poor Commission found that 'there was nothing left but to notify the Allied Governments formally that Germany was in default in respect of her obligations under Article 235 of the Treaty to the extent of at least 12 milliard gold marks.'<sup>1</sup>

Thus did the first task of the Commission come to an end.

It met with more success in the second, which was the fixing of Germany's total obligations. On 27 April 1921 the Commission made it known, as we have seen, that the total liability came to 132 milliard marks,<sup>2</sup> in accordance with Mr. Keynes's calculations; and the Supreme Council of the Allies worked out a Schedule of Payments which was accepted a few days later by Germany, after an ultimatum including the threat to occupy the Ruhr valley had been sent by the Supreme Council.

The provisions of the Schedule of Payments fell into three parts: (1) a delivery of bonds in three portions, A, B, and C, the details of which are now of little interest as they were never carried into any practical effect (it would be unfair not to mention Mr. Keynes's remark at the time, that these details were 'not likely . . . to be operative, and need not be taken very seriously'<sup>3</sup>); (2) the constitution for the supervision of Germany's payments of a Committee of Guarantees to which were assigned, said Mr. Keynes, 'the various wide and indefinite powers accorded by the Treaty of Peace to the Reparation Commission';<sup>4</sup> Germany's payments were, in addition, regulated by special provisions. She was to pay each year 2 milliard marks plus a sum equivalent to 26 per cent of the value of her exports, or alternatively an equivalent amount as fixed in accordance with any other index proposed by Germany and accepted by the

<sup>1</sup> Reparation Commission, IV, *Statement of Germany's Obligations*, p. 23.

<sup>2</sup> In the course of the discussions, the German Government had submitted estimates of 7.3 milliards for damages to France and 2 milliards to Belgium.

<sup>3</sup> R. T., p. 60.

<sup>4</sup> R. T., p. 62; this comment was made in spite of the express provision to the effect that the Committee was 'not authorised to interfere in German administration'.

Commission. Payments were to be made by quarterly instalments, but one milliard was to be paid within the first 25 days. 'The probable burden of the new settlement in the near future', wrote Mr. Keynes, 'is probably not much more than half that of the Treaty.'<sup>1</sup> But although it provided a transition from 'foolish expectations', it could not be more than 'a temporising measure' which was 'bound to need amendment'.<sup>2</sup> 'Some time between February and August 1922 Germany will succumb to an inevitable default. This is the maximum extent of our breathing space.'<sup>3</sup>

The reader shall be spared a detailed account of the harassing epistolary tournament that followed between the imploring Reparation Commission and the dodging German Government. With the aid of short-term foreign credits, the first milliard prescribed by the Schedule was duly paid in August 1921. (This was the first *cash* payment made for Reparation since the Treaty had come into force.) The Committee of Guarantees, after a visit to Berlin, found little that was encouraging to report. Although the German Government complained that the difficulty was to collect foreign bills for the external payments, the exportation of private capital continued practically unchecked. Public expenditure and budget deficits were increasing. Germany's 'food policy, which could be justified immediately after the raising of the blockade, has been continued on a large scale and still figures in the budget for several milliards'.<sup>4</sup> And the Committee expressed fears that the German Government might declare that it was unable to make the next payments.

Nevertheless, in November 1921, Germany paid another instalment of 500 million marks. But the following month, in reply to a letter from the Commission entreating them to take the necessary steps for the next instalment, the German Government declared that it would be unable to pay it, and, for the first time, officially requested a moratorium.

Greatly annoyed, the Commission expressed 'its surprise' that the German Government should not even have mentioned a time limit to the extension requested, or an indication of the security proposed in the meantime; nevertheless, a provisional postponement was soon granted. This was confirmed a little later, after the Conference of Cannes had reduced Germany's obligations for 1922 to a total of some 2·2 milliard marks. As a condition

<sup>1</sup> *R.T.*, p. 65.                   <sup>2</sup> *R.T.*, p. 67.                   <sup>3</sup> *R.T.*, p. 71.  
<sup>4</sup> Reparation Commission, 111, *Official Documents*, p. 38.

of the postponement, Germany was asked to undertake a thorough reorganization of her finances, under the supervision of the Commission.

This decision was greeted in Germany with an outburst of indignation. The principle of supervision, claimed Chancellor Wirth in a bitter speech, was *incompatible with the right of self-determination or with the honour of a nation*. A reply to this effect was accordingly dispatched to the Commission.<sup>1</sup>

The Commission noted 'with surprise and regret' that its proposals were rejected. But while it still insisted on the necessity of increased taxation, it *hastened to reassure the German Government* that as far as supervision was concerned, its disquietude was quite unjustified. The German Government accepted the Commission's apology and noted with satisfaction that there existed no intention of trespassing upon Germany's sovereignty. And so monetary inflation, tax evasion, public expenditure, and capital flight continued as fast as ever; and in July 1922 the German Government asked for a complete postponement for the rest of the year, adding, by the way, that the Allies had better not expect any payments in 1923, or in 1924 either.

Thus Mr. Keynes's prediction of 'inevitable default' was, in a way, verified.

On 31 August the unhappy Commission saved its face. It announced that it would accept German Treasury bills for the next instalments, and Germany was thus freed of all cash payments for the rest of the year.

Greatly encouraged, the German Government now decided that the time had come for positive demands. In November 1922 it insisted that Germany should be relieved of all Reparation payments for the next three or four years, with a view to stabilizing the mark; in return, it declared itself ready to issue internal and foreign loans, as soon as an improvement in the mark exchange should have restored Germany's credit.

M. Poincaré, the French Premier, who, as is well known, had no sense of humour, was not amused. At a Conference held in London, he announced his intention to occupy the Ruhr if the German defaults were to continue. On 26 December the Commission was asked by its chairman, M. Barthou, on behalf of the

<sup>1</sup> See Carl Bergmann: *The History of Reparations*, 1927, p. 121. According to this authority, the speech in question had been drafted by Rathenau.

French delegation, to declare Germany in default on deliveries of timber. Sir John Bradbury admitted that the delivery had not been made, but he questioned whether this delay constituted a 'default' as contemplated by paragraph 17 of Annex II. 'Since,' he concluded, 'in the tenth year of the war, Troy fell to the stratagem of the wooden horse, history recorded no similar use of timber. The situation was at present somewhat different; it was the fifth year of the peace, and the city under attack was not Troy, but Essen.'<sup>1</sup> By a vote of three to one, Germany was declared in default of her obligations under the Treaty.

Another Conference met at Paris. Mr. Bonar Law, the British Prime Minister, proposed a plan whereby Germany's debt would be reduced to 50 milliard marks; M. Poincaré declared that this scheme would destroy the Treaty of Versailles. Mr. Bonar Law answered that to insist upon the application of the Treaty was destroying Germany's credit. No agreement could be reached. On 4 January the Conference adjourned. On 9 January the Reparation Commission, by a vote of three to one, declared Germany in voluntary default in respect of coal deliveries. On 11 January French and Belgian troops occupied the Ruhr district, and Germany ceased all Reparation deliveries.

The occupation of the Ruhr met with sharp disapproval in Great Britain, where the general belief was that no useful purpose could be served by applying military coercion to enforce demands which were economically 'impossible'. In France, while there was a good deal of opposition to M. Poincaré's venture, it was still generally believed that Germany was not incapable, but unwilling to pay. The deadlock continued throughout the year, in spite of active diplomatic correspondence between the two Governments.

In Germany, wrath was naturally widespread. A policy of 'passive resistance', marked by strikes and sabotage, was actively organized by the industrialists and the Government. This attitude brought a series of conflicts with the occupying authorities, and led to coercive measures, including the expulsion of a large number of recalcitrants into non-occupied Germany. Economic life in the Ruhr district was disorganized until a Franco-Belgian engineering mission (the 'MICUM') took over control of transport and production. In September 1923 the German Government abandoned the policy of passive

<sup>1</sup> Reparation Commission, v, *The History of Reparations*, 1927, p. 253.

resistance, and came to an agreement with the MICUM for the resumption of production and of certain deliveries in kind.

The limited material yield that was brought by the occupation of the Ruhr has often been taken as the proof that 'force can settle *nothing*' in economic affairs. The experience of Europe after 1939 has perhaps taught us *differently*; for it is irrelevant to argue that the German 'New Order' 'failed' in the face of the resistance of the peoples of Europe. It is true that if these peoples had not resisted, Germany's task would have been easier; but when the 'New Order' failed it was because Germany was met by superior force, and the severity of the efforts necessary to bring about this defeat is the measure of the success with which Germany used force to 'settle' her dominion over Europe. If the occupation of the Ruhr was only partly successful, it was because the coercive policy carried out by France was, compared to Germany's 'New Order', an evidently half-hearted one, and also because no unity between the Allies had been achieved. Had this unity existed, not even the *application* of force would have been necessary.

It is also generally alleged that the occupation of the Ruhr, as the culmination of a period of reckless efforts to enforce the Treaty of Versailles, precipitated the final annihilation of the mark and the 'collapse' of the German economy. This afforded complete proof, in the eyes of the public, of Mr. Keynes's claim that the Reparation demands were impracticable, and that any attempt to enforce them would end in ruining Germany and the whole of Europe.

The depreciation of the German mark has often been ascribed to the adverse effect of Reparation payments upon Germany's exchanges. It cannot be denied that even in the absence of internal inflation, the strain placed upon the balance of payments by the remittance of large sums abroad would, under a paper standard, have affected the exchange rate. But in the first place, this external depreciation would not in itself have depressed the internal purchasing power of the mark, if a continuous increase in the volume of the currency had not been taking place simultaneously, and it would have stopped after a new position of equilibrium had been reached. External depreciation could have gone far, no doubt, if the payments had been large; yet it cannot be seriously maintained that the payment of *less than 2 milliard marks*, which was all that Germany

ever paid in cash between 1919 and the end of 1923, could have had this effect.<sup>1</sup>

The Reparation charges added to the budgetary deficit which it was the purpose of inflation to cover; in this sense, Reparations did contribute to the German inflation. But compared to other expenses, the Reparation charges were small. Before the signing of the Treaty, the deficit amounted already to some 10 milliard gold marks; from 1920 to 1923, the deficits totalled some 18.7 milliards; while all expenses under the Treaty represented 6.5 milliards.<sup>2</sup> As was the case in all belligerent countries, monetary inflation had started during the war; in October 1918 the volume of fiduciary circulation was nearly four and a half times as large as in 1914. After 1919 the mark depreciated continuously. When all Reparation cash payments ceased in July 1922, the rate was about 500 to the dollar. It was after that period, and particularly in 1923, when the German Government was financing 'passive resistance' by a massive issue of notes, that the mark depreciated until in November 1923 the rate was 4,200,000,000,000 to the dollar. The currency was then stabilized at the rate of 1,000,000,000,000 paper marks for 1 'rentenmark'. Thus, the German inflation, which had started before Reparation payments had begun, reached its wildest proportions after they had ceased.

The depreciation of the mark was essentially due to inflation, a malady from which all countries in Europe suffered as a consequence of the War, and the evil effects of which had been brilliantly exposed by Mr. Keynes.<sup>3</sup> The victors were not immune from it; the value of the German mark was reduced by more than 99.9 per cent, but the value of the French franc was finally reduced by more than 80 per cent. Thus inflation could take place even in the absence of Reparations. If, on the other hand, Reparations had been paid to the full, inflation could still have been avoided. After 1933 Germany was able to finance a much heavier public expenditure without any considerable depreciation of her currency, by means of an energetic

<sup>1</sup> Deliveries in kind, being unpaid-for exports, no doubt also affected the balance of payments, even though they involved no foreign exchange operations; but if the balance of payments was then heavily passive, it was because imports into Germany continued unchecked—which would not have happened if the ordinary effects of transfer depreciation had alone operated and which shows that Germany's needs in foodstuffs and raw materials were not denied satisfaction.

<sup>2</sup> See C. Bresciani-Turroni: *The Economics of Inflation*, London, 1937, p. 93.

<sup>3</sup> *E.C.P.*, pp. 220 ff.

policy of taxation, forced loans, and exchange control. Similar measures could have prevented inflation in Germany after 1919. The stabilization of the mark was achieved with great success in 1923, *during the period of the Ruhr occupation*. It could have been achieved no less easily before that time if the German Government had been ready to put a stop to the issue of notes.

This being said, the annihilation of the mark was undoubtedly a catastrophe; the German middle classes were beggared, and the resulting social instability had much to do with the success of National Socialism in later years. But while inflation affected the distribution of wealth, it did not destroy national wealth as a whole. Even if it is reckoned that, in spite of the increase in capital represented by the progress of industrial equipment during that period, the capital structure of Germany was put out of equilibrium, it is clear that Germany was not seriously impoverished by inflation. We often hear of the 'collapse' of the German economy. What is meant by a 'collapse' is at best questionable. The collapse of a bank, of a commercial firm, even of the finances of a state—all these have a very definite significance, as the holders of German bonds found to their own cost. But as long as the physical resources of a nation are not impaired, it is idle, even in the case of the gravest disturbances of economic life, to speak of the 'collapse' of the national economy. One year after the extinction of the mark, the real income of the German people was already 97 per cent of what it had been in 1913, and the value of their savings was about three times as large as Mr. Keynes's maximum estimate of their capacity to pay. To what particular category of 'collapse', then, belongs that which is followed by immediate prosperity?

2. *The Dawes Plan*. In December 1922, Secretary of State Hughes had suggested that if statesmen could not agree, the task of working out a solution should be given to financial experts of different countries, and that he did not doubt that Americans would be willing to serve on such a commission. The proposal was renewed by President Coolidge in October 1923. And in November the Reparation Commission announced that it had decided to create two Committees of experts, 'in order to consider, in accordance with the provisions of Article 234 of the Treaty of Versailles, the resources and capacity of Germany'. One would examine 'the means of balancing the budget and the measures taken to stabilize the currency'; the other, 'the means

of estimating the amount of exported capital and of bringing it back to Germany'.

The two Committees submitted their reports in April 1924. The first Committee, constituted under the genial chairmanship of General Charles G. Dawes, proposed that the German currency be stabilized on a gold basis, and made known the amount of the charges which it considered compatible with the balancing of the budget. In the first two years, the annuities should be respectively of 1,000 million and 1,220 million marks; in a transitional period, they were to rise to 1,200 and 1,750 millions; in the fifth year there would be a 'standard' payment of 2,500 millions, and thereafter the payments could be increased according to an index reflecting the variations of Germany's prosperity. The plan, as we have seen, retained the principle that Germany's fiscal charges should be commensurate with those of her creditors. Its execution was to be supervised by an organization of trustees (for the German railways, for certain industrial debentures, and certain controlled revenues), under the authority of an Agent General for Reparation Payments.

The most original feature of the plan was the solution given to the transfer problem. 'There is', said the report, 'an important difference between Germany's capacity to pay taxes, and Germany's capacity to transfer wealth abroad.' Accordingly, a transfer committee was to obviate the dangers to currency stability arising from excessive remittances; the annuities were to be paid in marks by the German Government to the Agent General's account at the Reichsbank, and the Committee, composed of 'five persons skilled in matters relating to foreign exchange and finance', was to decide how much could be transferred without endangering the currency. The Dawes Committee also recommended that a loan of 800 million marks be granted to Germany for the purpose of establishing the Bank of Issue and the currency system on a new basis.

The Dawes Report has generally been considered as a remarkable document, and such, at first, was the opinion of Mr. Keynes. 'Germany', he wrote, 'can scarcely expect better terms than these. . . . If the plan is worked with skill and good faith, it seems to protect Germany from the dangers of oppression and ruin. . . . The Report is the finest contribution hitherto to this impossible problem. It breathes a new spirit and is conceived in a new vein. . . . Though it compromises with the impossible and even contemplates the impossible, it never prescribes the impos-



sible. This façade and these designs may never be realized in an edifice raised up in the light of day. But it is an honourable document and opens a new chapter.<sup>1</sup> The merit of the plan, in his eyes, was that even if the demands made upon Germany were to reveal themselves as excessive, the necessary safeguards were provided within the plan itself 'in the event of optimistic forecasts going wrong'.

The proposals of the Dawes Report were embodied in the agreements signed a few months later between Germany and her creditors. This time Germany was acting under no ultimatum and the agreement was freely concluded. But in the meantime, for some unexplained reason, the opinion of Mr. Keynes had changed. In the first place, the plan did not, in spite of the loan, allow Germany the respite she needed for the replenishment of her working capital. In the second place, 'the Dawes plan pretends to erect a system which is not compatible with civilization or with human nature. It sets up foreign control over the Banking, the Transport, and the Fiscal Systems of Germany, the object of which will be to extract from the German people the last drop of sweat. . . . No reparations will ever be obtained from Germany except such moderate sums, well within her powers, as she will voluntarily pay. The Dawes Scheme pretends to attempt more than this. Therefore it will fail.'<sup>2</sup>

The Dawes Plan worked to perfection. During the following five years, the annuities were paid regularly and transferred to the creditors without any difficulty. But then a new factor had come into play: Germany's massive and continuous foreign borrowings.

As soon as the mark had definitely been stabilized in 1924 foreign capital began to pour into Germany. Between 1924 and 1930, the importation of long-term capital amounted to more than 9 milliard Reichsmarks, and the short-term credits to some 12 milliards. To these sums must be added direct investments in real property, German securities, etc. It was reported in December 1931 that according to the figures submitted by the

<sup>1</sup> 'The Experts' Reports. I. The Dawes Report', *The Nation and Athenaeum*, 12 April 1924, pp. 40-1.

<sup>2</sup> 'The Dawes Scheme and the German Loan', *The Nation and Athenaeum*, 4 October 1924. Mr. Keynes did not believe that the machinery of control had been conceived in a spirit of oppression, but rather to perfect the demonstration that 'when the breakdown comes, every possible precaution had been taken, and that the breakdown was, therefore, due to nothing else but the inherent impossibility of the task which had been set'.

German authorities, the total foreign capital in Germany amounted to nearly 30 milliard marks.<sup>1</sup> This sum, however, does not represent the *net* inflow of capital, as a certain amount of capital was also exported out of Germany at the same time. It was calculated in August 1931 that the net inflow between 1924 and 1930 amounted to some 18 milliards.<sup>2</sup> This corresponds fairly closely to the estimate which has been given above<sup>3</sup> of the total debits of the German balance of payments during that period; it explains why this balance, at a time when Germany was paying Reparations, was constantly *passive*. In other words, the net importation of foreign capital by Germany during the period of the Dawes Plan was more than twice the amount of her Reparation payments, and the gross importation was more than three times that amount.

It is for this reason that the transfer safeguards provided by the Dawes Plan were never put into operation; there was always a considerable excess of foreign exchange at the disposal of the German Government, and the stability of the mark was never endangered. But, at the same time, the effect of the borrowings meant that the ultimate problem of German payments was being postponed. Reparations were being paid, literally, with the money of foreign investors, not with the savings and taxes of the German people.

It is not surprising, therefore, that Germany showed such signs of prosperity during that period. We have already noted the progress of her national income. The relative charge represented by Reparation payments is given below:

| Year | National Income<br>(Milliards) | Reparation Payments<br>(Milliards) | Per cent |
|------|--------------------------------|------------------------------------|----------|
| 1925 | 59.9                           | 1.1                                | 1.8      |
| 1926 | 62.6                           | 1.3                                | 2.1      |
| 1927 | 70.7                           | 1.8                                | 2.5      |
| 1928 | 75.4                           | 1.8                                | 2.4      |
| 1929 | 75.9                           | 2.5                                | 3.3      |
| 1930 | 70.2                           | 1.6                                | 2.3      |

Thus, the heaviest burden imposed upon Germany by the Dawes Plan represented 3.3 per cent of her national income.

<sup>1</sup> Report of the Young Plan Advisory Committee. (See *The Economist*, Supplement, 2 January 1932.)

<sup>2</sup> See C. R. S. Harris: *Germany's Foreign Indebtedness*, London, 1935, pp. 8-9.

<sup>3</sup> *supra*, p. 119.

Such was the scheme that was 'to extract from the German people the last drop of sweat'.

It is unnecessary to dwell at any length on the increase of Germany's wealth during that period. The signs were obvious to every visitor, and they persisted even after the depression of 1929-33.<sup>1</sup> It was estimated in 1930 that the total value of new building in Germany since 1924 amounted to more than 40 milliard marks—more than five times the amount of Reparations paid during that period.<sup>2</sup> At the same time, consumption increased continuously, and by 1926 Mr. Keynes was of the opinion that the German worker had already 'very nearly recovered his pre-war real wages'.<sup>3</sup>

That the real problem was thus being postponed was repeatedly stressed by Mr. Keynes. 'Reparations and Inter-allied Debts', he wrote in 1926, 'are being mainly settled in paper and not in goods. The United States lends money to Germany, Germany transfers its equivalent to the Allies, the Allies pay it back to the United States Government. Nothing real passes—no one is a penny the worse.'<sup>4</sup> But what would happen when the foreign loans ceased? That was the question; and, for this reason, it is true that the German payments under the Dawes Plan were not in themselves a proof that the system was workable. But it is enough, as we have already observed, to consider the net amount of capital imports into Germany during that period to see that large transfers could be effected without injury either to the capital-exporting or to the capital-importing country; for Germany did not, during that period, complain that the inflow of capital might 'disturb' the balance of her economy. On the contrary: when the long-term loans ceased in 1929, she continued to borrow at short term and throughout the following crisis she was constantly asking for more.

### 3. *The Young Plan and the End of Reparations.* The Dawes

<sup>1</sup> 'You could search far and wide through Berlin's sea of houses or Hamburg's huge harbour district, but you could never find a slum or anything approaching one,' wrote an American journalist, relating the impressions of his arrival in 1936. (Howard K. Smith: *Last Train from Berlin*, New York, 1942, p. 9.) This could not have been due to the housing policy of the National Socialists, who had been there for only three years, but to a legacy from the palmy days of the Weimar Republic—that is, from the Versailles period.

<sup>2</sup> Estimate of the Institut für Konjunkturforschung. See *Report of the Agent General for Reparation Payments*, 21 May 1930, p. 284.

<sup>3</sup> 'Germany's Coming Problem: The Prospect of the Second Dawes Year', *The Nation and Athenaeum*, 6 February, 1926, p. 636.

<sup>4</sup> *The Nation and Athenaeum*, 11 September 1926.

Plan had been conceived as a provisional settlement. It had left untouched the question of Germany's total liability, which remained in principle that fixed by the Schedule of 1921, a total which the Dawes annuities would never have been sufficient to discharge. In 1929 the creditors assembled again, and after a series of negotiations that led to agreements at The Hague, adopted the plan of a new Committee of Experts presided over by Mr. Owen D. Young.

The Young Plan was to be the final solution of the Reparation problem. Germany's obligations were again considerably reduced. Although the plan provided only for annual payments and did not expressly fix the capital value of the debt, the present value of the fifty-nine annuities provided for was about 37 milliard marks; the annuities, which were to be paid until 1938, varied in amount with time, and totalled 121 milliards. Another original feature of the plan was that the system of transfer protection was modified: Germany was to find the foreign exchange herself, but a fraction of the annuity (the 'conditional' fraction) could be postponed if circumstances required it. On the other hand, a new German loan was to be issued, this time of 1,200 million marks. The Reparation Commission, which had faded into oblivion since 1924, was finally suppressed, and all payments were to be made through the new Bank of International Settlements, to which were assigned the administration and the 'commercialization' of Germany's debt in future.

The Young Plan was short-lived. While it was being discussed, the Great Depression had already begun. It grew in violence in 1930 and 1931. Prices fell, production slowed down, unemployment increased throughout the whole world. In Germany these effects were particularly severe. By the end of 1931 the index of industrial production had fallen from 100 to 66—in other words one-third of the industrial life of Germany had stopped. Unemployment (including part-time) rose to a figure of 5 million. In May 1931 the financial crisis had been precipitated by the failure of the Austrian Credit Anstalt. The withdrawal of foreign credits took alarming proportions, and in 1931 the balance of payments was suddenly reversed, showing a net surplus of 2.3 milliard marks. By June, the Reichsbank was facing withdrawals at the rate of 200 million a week, and the Stock Exchange deteriorated rapidly. On 29 June President Hoover issued his proposal for a one-year moratorium of all Reparations and inter-Allied debts. After somewhat difficult

negotiations (for France, who had been told, after so many successive abatements, that the Young Plan was *positively* the last settlement, and that the unconditional part of the annuity could never be postponed, would not easily consent to a new revision which boded ill for the future) the moratorium was accepted by all parties. Reparation payments were suspended. They were never resumed.

It appeared, therefore, that once Germany ceased to receive foreign loans, the crisis became inevitable. The reversal of the balance of payments certainly did not point to any 'stickiness'; but although this process was by no means *impossible*, it was so violent as to provoke a catastrophe to Germany's national economy—and even to the whole financial world; so that in the eyes of the public, the forebodings of Mr. Keynes were once again 'confirmed'.

There is no doubt that, in view of the gravity of the financial crisis, the postponement of Reparation payments could be justified. Yet the notion that the crisis of 1931 was caused mainly by Reparation payments, or that it indicated that such payments would be *impossible in future*, will hardly bear examination.

The crisis of 1931 was essentially a 'run' on the German banks, and to a large extent a run away from them. The strain brought upon the financial system and the balance of payments was not only due to the withdrawal of foreign credits, but also to the massive flight of German private capital. In August 1931 the amount of German assets abroad was estimated at more than 9 milliards,<sup>1</sup> and additional exports of short-term capital had taken place on a large scale in the course of the crisis. Compared with this figure, or even with a fraction of it, the 800 million paid for Reparations in the first half of 1931 do not suggest that they were the major factor of the crisis. If a strict exchange control had been established by the German Government, the strain on the balance of payments would not have been so heavy. But the measures taken at that time—even the increase in the bank rate—were quite insufficient. German capital was allowed to flee abroad, and it found there a refuge from whence it was later safely repatriated (at least in part), for no obstacles were placed by the countries of refuge to their return. On the other hand, all foreign credits in Germany were 'frozen'; no more withdrawals could take place, and the

<sup>1</sup> Estimate of the Wiggin Committee.

stability of the mark was thus assured. Taken earlier, such measures would have stopped the flight of capital. Exchange control was used with some success after 1933 to build up Germany's war economy; but the German Government's reluctance to use this method merely to allow the payment of Reparations to continue was entirely understandable.

That the financial system was, for a short time, brought to a standstill was no evidence of the economic 'collapse' of the country. Financial crises have been known to all times, and the moratorium of 1931 was hardly different in kind, if not in degree, from the methods used by the City of London to surmount the periodical crises of the nineteenth century. It was hardly different from the measures taken in the United States in March 1933, when all the banks were closed by Governmental order, and the gold standard suspended. Economic recovery followed more or less quickly in all cases. The Young Plan's Special Advisory Committee, which had been summoned in December 1931 to recommend the measures to be taken, had been well inspired when it had observed that 'notwithstanding the exceptional character of the present crisis, there is no instance in economic history of a crisis, no matter how great, which was not followed by periods of stability and prosperity. . . . In past years, Germany has built up an immense and powerful economic equipment, capable of yielding a great return. The restriction of markets and the fall of prices have prevented her from utilizing this equipment to the full. The activity of her factories is now necessarily reduced, but although it is impossible to fix a date for the recovery of stability which is still threatened to-day, it is none the less certain that this stability will ultimately be restored with the help of the measures suggested. . . .'

To argue from the crisis to the final impossibility of Reparation payments, therefore, would be 'the humbug of finance' at its best.

It is unnecessary to describe here the negotiations which led, in July 1932, to the Lausanne agreements. Reparations were finally cancelled. Germany agreed to deliver to the Bank of International Settlements bonds for a total of 3 milliard marks, not to be issued before three years; any amount remaining unsold to be cancelled after fifteen years. Should any of my readers be interested in this type of investment, I feel confident that the Bank will be pleased to sell him—while there is still

time—as many bonds as he desires, up to 3 milliard marks, with the special compliments of Dr. Hjalmar Schacht.

Thus did Reparations come to an end. An examination of how much Germany did actually pay will constitute a fitting epilogue to their melancholy story.

4. *The Reparation Account.* According to the books of the Reparation Commission, the total of Germany's payments, from 1918 to 1931, amounted to some 21 milliard marks; the German Government, on the other hand, asserted in a communiqué of 1932 that Germany had paid some 68 milliards. The details of these accounts can be conveniently summarized as follows:<sup>1</sup>

|   | <i>Reparation<br/>Commission</i> | <i>German<br/>Government</i> |
|---|----------------------------------|------------------------------|
|   | <i>(Million Marks)</i>           |                              |
| I. Payments made between 11 Novem-<br>ber 1918 and 31 August 1921 . . . . . | 9,637·8                          | 42,059·0                     |
| II. Payments under the Dawes Plan . . . . .                                 | 7,553·2                          | 7,993·0                      |
| III. Payments under the Young Plan . . . . .                                | 2,800·0                          | 3,103·0                      |
| IV. Other Payments . . . . .  | 778·9                            | 14,608·0                     |
| Total . . . . .   | 20,769·9                         | 67,763·0                     |

Germany therefore claimed that she paid more than three times the amount credited to her in the books of the Reparation Commission. How can such a fantastic divergence be explained? Was it not evident, it was argued, that even after taking into account a certain amount of exaggeration on the part of Germany, the Reparation Commission, which represented Allied creditors and could not be a really impartial body, erred on the side of its own interests?

Let us examine the nature of these divergences. In the case of payments made under the Dawes and Young Plans, the difference is small, but deserves special mention: it represents the value of the service on the Dawes and Young loans. In other words, the German Government, after having first used the proceeds of the loans for the initial Reparation payments (or for the stabilization of its currency) entered again the interest on these loans as Reparation charges.

The main difference is accounted for by the other payments. In the first place, the German Government entered a certain number of items which the Reparation Commission did not even

<sup>1</sup> For further details, see *Le Temps*, 13 February 1932; M. Antonucci: *Le Bilan des Réparations et la Crise Mondiale*, Paris, 1935, pp. 424 ff.; Borsky, *op. cit.*, p. 45.

retain. Thus, it entered as a Reparation delivery the value of German ships seized during the War. It entered under 'destruction of war material' a sum of 8.5 milliards, which included the scuttling of the fleet at Scapa Flow. It entered 1.2 milliards, the value of the work performed by German prisoners of war—but did not enter on the debit side the work done by many more Allied prisoners and by civilians deported into Germany during the War. The cost of 'industrial disarmament' (?) was also entered as 3.5 milliards. It is only to be wondered that the whole of Germany's War costs were not included as Reparation payments.

The remaining and most important divergence is found in the payments made between the Armistice and the coming into force of the Dawes Plan. As these were made almost exclusively in kind (there is no substantial divergence over cash payments, which amounted in all to some 1.7 milliards), there arose a difficult problem of valuation. The endless disputes to which this problem gave birth provide, in the writer's opinion, one of the strongest possible arguments against the system of payments in kind, and they rank among the best examples of the dangers attending any system of exchange which attempts to do without the lubricant of money. It is possible and even probable that the real value of these deliveries to the Allies was in several cases inferior to the sacrifice they represented to the German economy, and we have already concurred, in that respect, with the criticisms addressed by Mr. Keynes to the clauses of the Treaty dealing with German private property. But even when this factor is taken into account, the facts of Germany's exaggeration are still patent.

Thus, the value of the merchant fleet was estimated by the Reparation Commission at 711.5 million marks, and by the German Government at 3,436 millions. It would appear that even the Commission's figure was an over-estimate; for Helfferich had valued the entire merchant fleet before 1914 at one milliard marks, and only half of this tonnage was delivered under Versailles. It may be added that the German Government paid as compensation to shipowners in Germany a sum even smaller (550 million marks) than the credit given by the Reparation Commission. This did not prevent the German merchant fleet increasing by 2,800,000 tons in the next two years.

Again, the item of public property in the ceded territories was valued by the German Government at more than three times



the estimate of the Reparation Commission (9,670 against 2,780 millions). The case of the Saar mines is particularly interesting. They had been estimated by Hefferich at 300 million marks before the War; the Commission entered the same estimate, the German Government a figure of 1,018 millions; but after the Saar plebiscite, the German Government, which, under the Treaty, was to pay back in gold the value of the mines to the French Government, offered a sum of 900 million francs—or about 150 million marks—and this sum was, of course, accepted. Such examples could be multiplied.<sup>1</sup> In the absence of any further proof to the contrary, we are therefore, I believe, justified in adopting Mr. Borsky's conclusion that the statement of the Reparation Commission was on the whole an accurate one, and that the German estimates 'were not merely characteristic exaggeration, but also an attempt to render the whole scheme ridiculous in the eyes of the world and thus to hoodwink its critical faculty.'<sup>2</sup> This attempt was entirely successful.

It is therefore interesting to consider what was the real burden supported by Germany during this period. We have already seen that, after 1924, Germany borrowed some 30 milliard marks abroad. But this is not all. Before 1923, a vast quantity of German bank notes and balances were bought by foreigners, at a time when the German exchange was rapidly deteriorating, in the ingenuous expectation that the mark would some day recover to par. It was estimated in 1924 that Germany had profited by the sale of mark credits and notes by an amount of from 7.6 to 8.7 milliard marks. 'What Germany has appeared to pay in Reparations,' observed Mr. Keynes at the time, 'is nearly equal to what the foreign world has subscribed in return for worthless marks. . . . A million foreigners, we are told, have acquired bank balances in Germany, and each of these accounts has cost its owner on the average about £400. It is these lively

<sup>1</sup> They will be found, with many instructive details, in Mr. Borsky's study, quoted above. See also, M. Antonucci, *op. cit.*, pp. 424 ff. For a German source, see Heinecke: *No More Reparations*, 1932, pp. 23-6.

<sup>2</sup> Borsky, *op. cit.*, p. 53. H. G. Moulton and C. E. McGuire, who made in 1923 an interesting analysis of the valuation problem, came to the conclusion that the Reparation Commission's estimates were too low (though not so low as the German Government pretended) and that the value of Germany's losses (as distinct from the value to the Allies of Germany's payments) between 1918 and 1923 amounted to 25,791 million marks. (See their *Germany's Capacity to Pay*, New York, 1923.) This figure was adopted by Mr. Keynes at that period. ('How Much has Germany Paid?' *The Nation and Athenaeum*, 27 October 1923.) In the absence of detailed justification from the accounts concerned for every item, however, there is no reason to accept this figure rather than that of the Commission.

gentlemen who have paid the bill so far.'<sup>1</sup> Not a single cent, therefore, had really been paid by Germany before 1924. There remain the loans made to Germany after that date. The quasi-totality of these investments was lost in consequence of German defaults, more or less propped up by bank moratoria, standstill agreements, exchange clearings, and other such contrivances, all powerfully assisted by the running accompaniment of Dr. Schacht's suave exhortations:<sup>2</sup>

'I weep for you,' the doctor said,  
'I deeply sympathize.'

But Germany swallowed up 'those of the largest size', and interest was paid in shells, bombs, bullets, torpedoes—and other 'sinking' funds.

Thus a total of some 35 to 38 milliard marks had been received by Germany from abroad between 1920 and 1931, as against the 21 milliards she had paid for Reparation.<sup>3</sup> Such was Germany's burden after the Treaty of Versailles.

## v

*The Politics of Reparation*

Mr. Keynes had predicted that the Reparation clauses could never be carried out. They never were. This outcome has earned him the glory of a prophet. It is perhaps fair that others should have some share of these laurels. Foch, for instance, had expressed his own opinion to M. Klotz in no equivocal terms: 'With the Treaty you have just signed, sir', he said, 'you can expect with certainty to be paid in monkey tricks.' Neither was Foch alone, in France or elsewhere, in harbouring such misgivings.

Following events, as we have seen, confirmed several of the Marshal's presentiments. It would appear there here, too, his

<sup>1</sup> 'The Experts' Reports. II. The McKenna Report'; *The Nation and Athenaeum*, 19 April 1924, p. 77.

<sup>2</sup> 'I have the greatest compassion', said Dr. Schacht on 29 October 1934, 'for the foreign holders of German bonds who, believing what they were told in their countries, thought they were making a good investment by subscribing to German loans, and are now compelled to forgo interest. Nevertheless, I cannot see any way to help them, except by telling them: one can pay one's debts only when one is making money.'

<sup>3</sup> If we adopt the figure of Moulton and McGuire for the 1918-23 period, the total paid would come to a little more than 37 milliards.

apprehensions were correct. Reparations were not outside the range of economic *possibility*. Had they been literally enforced, they would no doubt have put the screw on Germany up to the topmost pitch. For having suggested that Germany be *squeezed till the pips squeaked*, Sir Eric Geddes was exposed by Mr. Keynes to the superciliousness of a pharisaical posterity; it is too often forgotten that the man whose efficiency and drive had overcome, in the face of administrative prejudice, some of the deadliest 'bottlenecks' of the war, and who himself had made Britain's own pips squeak in the process, was probably entitled to view the limits of financial possibility in a more sanguine light than many others. In fact, a large part of what appeared to increase the burden to such heavy proportions consisted in the provisions relating to interest, and the Treaty had given sufficient powers to the Commission to reduce the rate according to circumstances; Clemenceau himself had conceded that the Allies might have to forgo interest altogether. Reparations were not paid because Germany, as was quite natural, did not want to pay them, and—which was perhaps not *quite* so natural—the Allies showed themselves incapable or unwilling to take jointly the necessary measures which could have made Germany pay.

The whole question, therefore, boiled down to political expediency.

Now expediency, political or otherwise, is not a negligible factor in human affairs, and there would have been nothing dishonourable in taking account of it squarely in the making of the Peace. Thus, when the Draft Treaty came up for final reconsideration, it was to expediency that Mr. Lloyd George, at the meeting of the Imperial Cabinet, had explicitly drawn the attention of his colleagues. The terms imposed, he said, 'must be expedient as well as just. Justice was a question which the Germans were at liberty to raise, but expediency was a matter for the Allies to consider and not the Germans. . . .'<sup>1</sup> And almost at the same time, Mr. Hoover was raising the question at the meeting of the American delegation.

'Mr. Hoover: Apart from all questions of justice, how far does the question of expediency come in?'

'President Wilson: In order to get them to sign, do you mean?'

'Mr. Hoover: In order to get them to sign. It strikes me that that is a more important thing than the question of justice or

<sup>1</sup> Lloyd George: *The Truth about the Peace Treaties*, vol. 1, p. 701.

injustice, because the weighing of justice and injustice in these times is pretty difficult.

'*President Wilson*: Yes, nobody can be sure they have made a just decision. But don't you think that if we regard the treaty as just, the argument of expediency ought not to govern, because, after all we must not give up what we fought for? We might have to fight for it again.

'*Mr. Hoover*: But we look at expediency in many lights. It may be necessary to change the terms of the reparation in view of getting something, rather than to lose all. And it is not a question of justice; justice would require, as I see it, that they pay everything they have got or hope to get. But in order to obtain something, it may be expedient to do this, that and the other.'<sup>1</sup>

Expediency, therefore, could have been understood as requiring that Reparation demands should not be too heavy. In such a case, Mr. Keynes had shown a strong sense of political expediency in 1919. Yet, strangely enough, the criticism most frequently levelled against his book in early days was that it lacked all sense of political necessity. But, later on, it was his critics who were to be chaffed for their subservience to political opportunism and their disregard of economic laws. 'One may', wrote Lord Stamp, several years afterwards, 'distinguish political from economic wisdom by saying that the latter will and must ultimately prevail, but that it is too hard and unpalatable for a world that will not "come off" its wishes until relentlessly pulled by the force of events. It may be political "wisdom" to flatter the public mind with slightly weaker and weaker doses of what it likes and slightly stronger and stronger doses of what it will have to get used to. . . . If that be the sense of political wisdom, then Keynes's book wholly lacked it.'<sup>2</sup> Clearly 'political necessity' could have more than one meaning.

I have endeavoured, for my part, to show that the demands of the Treaty of Versailles were not economically impossible. Whether they were *politically practicable* is of course another question. It could be contended that the economic and financial achievements of wartime were no longer obtainable in peacetime; that it was *politically impossible* for the Allies to enforce these demands upon the German people. We have seen, for instance, that Mr. Keynes did not believe that the German

<sup>1</sup> Baker, vol. III, p. 501.

<sup>2</sup> Sir Josiah Stamp: 'The Economic Consequences of the Peace', *Foreign Affairs*, October 1934, p. 106.

Government would have the power to increase the length of the working day. He feared, in 1919, that excessive demands might provoke revolution in Central Europe. He explicitly declared that there were cases where 'particular claims, however well founded in sentiment or in justice, must yield to sovereign expediency'.<sup>1</sup> And he claimed, a few years later, that neither the collection of War Debts nor the enforcement of Reparations was 'serious politics' in the long run.<sup>2</sup>

*The Economic Consequences of the Peace*, therefore, did not 'wholly lack' a sense of 'political wisdom'. It was probably impolitic to run the risk of incurring Germany's resentment if one was not prepared to take the consequences. It was certainly impolitic to overlook the indisputable fact that Germany's nuisance value was greater than that of her victims. But then it is hard to see how this political wisdom on the international plane was very different, in moral essence, from (say) the subservience of politicians to the wrath of their electorates. It was only much later that 'realism' was frankly invoked to justify the 'appeasement' of Germany. But then Mr. Keynes protested that it was 'to fraternize with what is vile'.

In 1919, the Allied and Associated Powers, rightly or wrongly, had not believed that to compromise with justice would be an act of political wisdom. 'Justice', they said in their Reply to the German delegation, 'is the only possible basis for the settlement of the account of this terrible war. Justice is what the German delegation asks for and says that Germany has been promised. Justice is what Germany shall have. But it must be justice for all. There must be justice for the dead and wounded and for those who have been orphaned and bereaved that Europe might be freed from Prussian despotism. There must be justice for the peoples who now stagger under war debts which exceed £30,000,000,000 that liberty might be saved. There must be justice for those millions whose homes and land, ships and property German savagery has spoliated and destroyed.

'That is why the Allied and Associated Powers have insisted as a cardinal feature of the Treaty that Germany must undertake to make reparation to the very uttermost of her power; for reparation for wrongs inflicted is of the essence of justice. . . . Somebody must suffer for the consequences of the war. Is it to be Germany, or only the peoples she has wronged?

<sup>1</sup> *E.C.P.*, p. 89.

<sup>2</sup> *R.T.*, p. 165.

'Not to do justice to all concerned would only leave the world open to fresh calamities. If the German people themselves, or any other nation, are to be deterred from following the footsteps of Prussia, if mankind is to be lifted out of the belief that war for selfish ends is legitimate to any State, if the old era is to be left behind and nations as well as individuals are to be brought beneath the reign of law, even if there is to be an early reconciliation and *appeasement*,<sup>1</sup> it will be because those responsible for concluding the war have had the courage to see that justice is not deflected for the sake of convenient peace.'

But Mr. Keynes was not satisfied. 'I cannot', he wrote, 'leave this subject as though its just treatment wholly depended either on our own pledges or on economic facts. The policy of 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 civilised life of Europe. Some preach it in the name of Justice. In the great events of man's history, in the unwinding of the complex fate of nations Justice is not so simple. And if it were, nations are not authorised, by religion or by natural morals, to visit on the children of their enemies the misdoings of parents or of rulers.'<sup>2</sup> Amen. But what was to be *the alternative*? Could Mr. Keynes tell us *how* the innocent was to be saved? *Delicta majorum immeritus lues*. . . What happened was that the misdoings of a nation were visited on the children of its victims.

<sup>1</sup> Italics mine.

<sup>2</sup> *E.C.P.*, pp. 209-10.

## Chapter Six

### EUROPE AFTER THE TREATY

It is hard to be patient with men who point to the economic dissolution war has wrought and say: 'There are the fruits of your peace.'—**ALLYN A. YOUNG**

#### I

As the years went by, Mr. Keynes was able to follow in some detail the fulfilment of his own prophecies, and to draw, from time to time, the attention of the public to the process. 'So far', he wrote in 1921, 'the forecasts, which I was rash enough to make 18 months ago, have been borne out by the event.' First, the claims against Germany had been evaluated by the Reparation Commission at a total lying between the two limits of his own estimates. Second, 'the Treaty provided for certain specific deliveries from Germany prior to May 1, 1921, and these were estimated in Paris at a prospective value of £1,000 million. I criticized this', continued Mr. Keynes, 'and put the value at a maximum between 330 and 430 million; this was exclusive of current deliveries of coal', which now proved broadly correct. Thirdly, he had predicted that Germany's total output of coal would fall at least as low as 100,000,000 tons; this was exactly the figure for the year 1920. Lastly, the prediction that there would be a two-thirds majority for Germany in Upper Silesia was also confirmed by the plebiscite.<sup>1</sup>

We have already had occasion to acknowledge the correctness of Mr. Keynes's estimate of Germany's final liability. So far, so good. The next item calls for some reservations. Article 235 of the Treaty, as we have seen, had prescribed a payment of 20 milliard marks (£1,000 million) before 1 May 1921. The Treaty had also, quite independently, provided for certain specific deliveries, the value of which was to be credited to Germany in the discharge of that initial sum. But nowhere was it provided that these deliveries would cover it completely; on the contrary, one of the very features to which Mr. Keynes had taken the strongest exception was that the payment of the 20 milliard marks could be requested by the Reparation Com-

<sup>1</sup> Letter to *The Times*, London, 2 May 1921.

mission 'in such manner as they may fix, whether in gold, ships, securities or otherwise', implying thereby that the specific deliveries mentioned elsewhere would probably not be sufficient to cover that initial payment. As we have seen, the Commission did not even take the necessary steps to secure this payment; thus the foreign securities of Germany, for instance, which ranked at £100 to £250 million in Mr. Keynes's 1919 estimate of £330 to £430 million<sup>1</sup> were not even demanded. It was therefore most irrelevant to take the figure of £400 million published by the Commission in 1921, which represented the value of *all* the deliveries made by Germany up to that date, as comparable with the £330-430 million calculated in 1919 by Mr. Keynes of certain assets, some of which were never delivered.

The third forecast was not so very accurate either. The figure of 100 million tons mentioned in 1919 related to output exclusive of lost territory and of consumption at the mines.<sup>2</sup> The 100 million tons produced in 1920 were, as Mr. Keynes had indicated, inclusive of consumption at the mines; but he did not indicate so clearly that they were exclusive of *all* Upper Silesian territory. Now in 1920 partition had not yet taken place, and Germany's total coal output was then 131 million tons. But even if the loss of Polish Upper Silesia was reckoned, the total output, exclusive of lost territories, was not 100, but 107.5 millions, since a substantial part of Upper Silesia was to be retained by Germany in the end. Perhaps I labour the point; but if Mr. Keynes had thought it worth while to draw the public's notice to this particular piece of prophecy, he might at least have got his figures right, the more so as his fourth forecast related to the Upper Silesian plebiscite, the result of which was to leave part of the district to Germany. While this prediction, again, was correct, it was not one that pointed to any economic impossibility in the enforcement of the Treaty, but to a possibility which the Treaty, in the very provisions for the plebiscite, had precisely taken into account—while Mr. Keynes's argument about this part of the Treaty had assumed that the whole of Upper Silesia would be lost, and indicated that to the extent that this assumption proved erroneous, 'the conclusions must be modified'.<sup>3</sup>

'All my other forecasts', Mr. Keynes had added, 'still lie in the future.' The future having now receded into past, we are to-day in a position to verify the full extent of their fulfilment.

<sup>1</sup> *E.C.P.*, pp. 168, 171.

<sup>2</sup> *E.C.P.*, p. 83.

<sup>3</sup> *E.C.P.*, p. 78 n.



In *The Economic Consequences of the Peace*, Mr. Keynes predicted that the Treaty, if it was carried into effect, 'must impair yet further, when it might have restored, the delicate, complicated organisation, already shaken and broken by war, through which alone the European peoples can employ themselves and live'.<sup>1</sup> Europe would be threatened with 'a long, silent process of semi-starvation, and of a gradual, steady lowering of the standards of life and comfort'.<sup>2</sup> Ten years after the Treaty, European production was well above its pre-war level, and European standards of living had never been higher.<sup>3</sup>

He predicted that the iron output of Europe would decline as a consequence of the Treaty.<sup>4</sup> In the ten years that followed the Treaty, the iron output of Europe, which had fallen considerably during the War, increased almost continuously.<sup>5</sup> In 1929, Europe produced 10 per cent more iron than in the record year 1913, and would no doubt have produced still more had not the producers combined to restrict output for fear of injuring prices by overproduction.

He predicted that the iron and steel output of Germany would diminish.<sup>6</sup> By 1927, Germany produced nearly 30 per cent more iron and 38 per cent more steel than in the record year 1913, within the same territorial limits.<sup>7</sup>

He predicted that the efficiency of the German coal-mining industry lowered by the War, would remain low as a consequence of the Peace.<sup>8</sup> By 1925, the efficiency of labour, which had dropped seriously in the meantime, was already higher, in the Ruhr coal industries, than in 1913; in 1927 it was higher by nearly 20 per cent; and in 1929 by more than 30 per cent.<sup>9</sup>

He predicted that a pre-war level of output could not be

<sup>1</sup> *E.C.P.*, pp. 1-2.

<sup>2</sup> *E.C.P.*, p. 277.

<sup>3</sup> The general index of European production compiled by the Berlin Institut für Konjunkturforschung (Sonderheft No. 31, 1933, p. 66) shows that European production (U.S.S.R. excluded) had regained its pre-war level around 1925 and was above that level by 20 per cent in 1929.

<sup>4</sup> *E.C.P.*, p. 91.

<sup>5</sup> With one exception, in 1921. The output of pig-iron and ferro-alloys in Europe (U.S.S.R. excluded) was as follows (000,000 tons):

| 1909-13 | 1913 | 1920 | 1921 | 1922 | 1923 | 1924 | 1925 | 1926 | 1927 | 1928 | 1929 |
|---------|------|------|------|------|------|------|------|------|------|------|------|
| 39.2    | 45.7 | 22.5 | 18.7 | 25.9 | 25.9 | 33.2 | 36.5 | 35.2 | 45.6 | 45.4 | 50.3 |

<sup>6</sup> *E.C.P.*, pp. 89-92.

<sup>7</sup> See Reichs-Kredit-Gesellschaft, *Germany's Economic Development in the Second Half of the Year 1930*, Berlin, 1931, p. 6.

<sup>8</sup> *E.C.P.*, p. 92.

<sup>9</sup> Reichs-Kredit-Gesellschaft, op. cit., p. 15. Output per underground labourer was 1,161 kilogr. in 1931; in 1920 (after a reduction in working hours from 8 or 9 to 7 or 7½) output was 830 kilogr.; in 1921, 809 kilogr., and increased constantly after 1924, reaching 1,558 kilogr. in 1929.

expected in the German coal industry.<sup>1</sup> In 1920, 1921, and 1922, coal output was well above the average level of the five years preceding the war, within the same territorial limits. It fell sharply in 1923, and was slightly below pre-war average in 1924. It was above that average in 1925; and in 1926, it was already higher than in the record year 1913.<sup>2</sup>

He predicted the Germany 'cannot export coal in the near future, . . . if she is to continue as an industrial nation'.<sup>3</sup> In the first year following the Treaty, Germany exported (net) 15 million tons of coal; and in 1926 she exported (net) 35 million tons, or *twice* the amount of the average (1909-13) pre-war exports of *all* her pre-war territories.<sup>4</sup>

He predicted that the German mercantile marine 'cannot be restored for many years to come on a scale adequate to meet the requirements of her own commerce'.<sup>5</sup> The total German tonnage was a little above 5 millions in 1913. It was reduced in 1920 to 673,000; but in 1924 it already approached 3 million tons; in 1930 it was well above 4 million, and German liners were the wonder of the transatlantic world.

He predicted that 'after what she has suffered in the war and by the Peace', Germany's annual savings would 'fall far short of what they were before'.<sup>6</sup> The monthly increase in German savings bank deposits was 84 million in 1913; in 1925 it had become 103 million; and in 1928 it was nearly 210 million.<sup>7</sup>

He predicted that Germany's annual surplus would be reduced to less than 2 milliard marks.<sup>8</sup> In 1925, the net accumulation of domestic capital was estimated at 6.4 milliards, and in 1927 at 7.6 milliards.<sup>9</sup>

He predicted that in the next thirty years, Germany could not possibly be expected to pay more than 2 milliard marks a year in Reparation. In the six years preceding September 1939, Germany, by Hitler's showing, had spent each year on rearmament alone about seven times as much.<sup>10</sup>

<sup>1</sup> *E.C.P.*, p. 83.                      <sup>2</sup> *supra*, p. 86.                      <sup>3</sup> *E.C.P.*, p. 84.  
<sup>4</sup> *supra*, p. 86.                      <sup>5</sup> *E.C.P.*, p. 61.                      <sup>6</sup> *E.C.P.*, p. 191.  
<sup>7</sup> Reichs-Kredit-Gesellschaft, *Germany's Economic Development in the First Half of the Year 1931*, p. 27.  
<sup>8</sup> *E.C.P.*, p. 192.                      <sup>9</sup> *supra*, p. 116.  
<sup>10</sup> There is, of course, nothing new about these facts. Several of them were pointed out by a witty and clairvoyant observer, R. C. Long (*The Mythology of Reparations*, London, 1928, pp. 103-4).

II

Here, if not before, the reader's patience comes to an end. What point can there be in all this pedantic splitting of statistical hairs? Will any amount of figures detract from the broad fact that the German people were thrown by the Treaty of Versailles into misery and despair, and that Mr. Keynes's apprehensions were very much more than confirmed?

In 1919 Mr. Keynes had quoted at length a Note addressed by Count Brockdorff-Rantzau to the Supreme Council, in which the Consequences of the Peace were duly outlined. After the diminution of products due to territorial losses, '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. . . . No help, however great, or over however long a period it were continued, could prevent these deaths *en masse*. . . . Those who sign this Treaty will sign the death sentence of many millions of German men, women and children.' 'I know', added Mr. Keynes, 'of no adequate answer to these words.'<sup>1</sup>

Yet there *had* been an answer. It had been sent, a few days later, by Clemenceau in the name of the Supreme Council. 'This report', it said, 'appears . . . to contain a very inadequate presentation of the facts of the case, to be marked in parts by great exaggeration, and to ignore the fundamental considerations arising both out of the incidence and the results of the War, which explain and justify the terms that it is sought to impose.' The total population of Germany, the note went on, would be

<sup>1</sup> *E.C.P.*, pp. 214-15.

reduced by about six million persons in the non-German territories which it was proposed to transfer. 'It is the needs of this reduced aggregate that we are called upon to consider.' The note insisted that there was nothing in the Treaty to prevent either the continued production of commodities in the areas lost by Germany or their importation into Germany as before. 'On the contrary, the free admission of the products of the Eastern districts is provided for during a period of three years. . . .'<sup>1</sup> The German Note complained repeatedly of the necessity to import certain products from abroad in future. 'It is not understood why Germany should be supposed to suffer from conditions to which other countries contentedly submit. It would appear a fundamental fallacy that the political control of a country is necessary in order to procure a reasonable share of its products. Such a proposition finds no foundation in economic law or in history. . . . There is not the slightest reason to believe that a population is destined to be permanently disabled because it will be called upon in future to trade across its frontiers instead of producing what it requires from within. A country can both become and continue to be a great manufacturing country without producing the raw materials of its main industries. . . . There is no reason whatever why Germany, under the new conditions, should not build up for herself a position both of stability and prosperity in the European world.'<sup>2</sup>

But perhaps Mr. Keynes did not think this was an *adequate* answer.

Twenty-one years later, the German Army was entering Paris. With steady stride they came, the sturdy youths, marching along the streets of the half-deserted city to the tunes that had carried them across Europe. 'Erika . . . Heidi, heido . . . Wir fahren gegen England.' . . . Here were the 'starved and crippled' children of 1919. They would soon be scouring across the steppes of Russia, the sands of Libya, the skies of London and of Crete, the waters of the broad Atlantic. . . . At the sight of

<sup>1</sup> This part of the Note referred to the Eastern districts, but the same could, as we have seen, have been said of the other lost territories.

<sup>2</sup> Full text of the Note in Burnett, vol. II, Doc. 366, pp. 27-31. Curiously enough, this opinion was being shared, and expressed, almost at the same moment, by General Groener, then Head of the German Army. 'The aim we must now, in my opinion, set before ourselves', he told a meeting of officers, 'is to hold the 60 million Germans firmly together in one single State, as far as possible a centralized State. . . . When we have attained this, a great deal will have been gained. And if we then go on steadily working, . . . then I do not see why we should not forge ahead again, especially in the economic field. . . .' (Quoted in K. F. Nowak, *Versailles*, London, 1928, pp. 280-1.)

them, the Parisian housewives broke out in angry stupefaction: 'And we were told they were starving!'

Who knows an adequate answer to *these* words?

### III

But was not just this, it will be said, the very danger against which Mr. Keynes had warned us? Was not National Socialism a product of the years of destitution, aggravated by the ravages of the Great Depression, all of which were the consequences of Versailles?

Now the prospect of a Germany roused by the full fury of armed revenge to the conquest of Europe did not find much favour in Mr. Keynes's calculations. Quite the contrary: such fears, he intimated, were rather 'the anticipations of the timid'.<sup>1</sup> If, moreover, the Treaty was to reduce Germany to a state of such complete exhaustion, it was hardly conceivable that she could find very quickly the means of carrying a policy of revenge into effect. The dangers alluded to were of a different order: if the Treaty was enforced, the resulting chaos and destitution would create in Europe the seed-bed for anarchy and social revolution. 'If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp. Nothing can then delay for very long that final civil war between the forces of Reaction and the despairing convulsions of Revolution, before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is victor, the civilisation and the progress of our generation.'<sup>2</sup>

The spectre of Revolution stalked across the pages of Mr. Keynes. This was not indeed, at the time, without justification. But here, again, a sense of proportion should have been kept. Whenever it was necessary to blackmail the Allies into a policy of concessions, this bogey was to be Germany's stock-in-trade. The German delegates had already used it in the course of the Armistice negotiations. 'The conditions imposed', they had complained, 'would be *impossible* to carry out; their enforcement would throw Germany into anarchy and famine.' But Foch and his Allied colleagues were not impressed; the Armistice was signed and duly carried out; and the German people—who, as was entirely unavoidable, suffered serious hardship—were not thrown into anarchy or famine.

<sup>1</sup> *E.C.P.*, p. 272.

<sup>2</sup> *E.C.P.*, p. 251. See also E. H. Carr, *Conditions of Peace*, p. 223.

As for the Revolution that was to follow the Treaty, Mr. Keynes, writing two years later, conceded that it had not taken place. 'Two years ago the Treaty, which outraged Justice, Mercy, and Wisdom, represented the momentary will of the victorious countries. Would the victims be patient? Or would they be driven by despair and privation to shake Society's foundations? We have the answer now. They have been patient. Nothing very much has happened, except pain and injury to individuals.'<sup>1</sup>

This would appear to settle the issue. But we are at once met with another objection: was not this reassuring state of affairs precisely accountable, in part at least, to Mr. Keynes's own efforts, and to the fact that the Treaty had *not* been carried into effect?

This argument deserves a little more consideration. It is true, as we have seen, that in 1921 the Reparation provisions had remained largely unfulfilled. Was this enough to warrant Mr. Keynes's interpretation of this truly disconcerting absence of catastrophes? 'It is only a slight exaggeration', he wrote, 'to say that no parts of the Peace Treaties have been carried out, except those relating to frontiers and to disarmament. Many of the misfortunes which I predicted as attendant on the execution of the Reparation Chapter have not occurred, because no serious attempt has been made to execute it.'<sup>2</sup> One would have thought that frontiers were not a negligible part of the Treaty, since one of Mr. Keynes's chief complaints was not only that they had been given too much importance, but that they had been drawn irrespective of economic considerations. Thus, most of the disasters prophesied were to occur as a consequence of the territorial settlement.<sup>3</sup> It was the territorial settlement that was to destroy the delicate organization of European production and trade; it was the territorial settlement which would 'not only diminish the production of useful commodities, but may possibly occupy an immense quantity of human labour in dragging iron or coal, as the case may be, over many useless miles to satisfy the dictates of a political treaty or because obstructions have been established to the proper localisation of industry.'<sup>4</sup> The prospect, to which Mr. Keynes knew of no

<sup>1</sup> *R. T.*, p. 168.

<sup>2</sup> *R. T.*, p. 168. Yet, two years later, Mr. Keynes calculated that the burden to Germany of the Reparation payments made so far exceeded £1,000 million. ('How Much has Germany Paid?' *The Nation and Athenaeum*, 27 October 1923.)

<sup>3</sup> Or, at any rate, of the territorial settlement combined with the commercial and transport clauses, all of which were duly enforced.

<sup>4</sup> *supra*, p. 73.

adequate answer, of millions of German men, women, and children starving to death was evoked by Brockdorff-Rantzau, not as the effect of the Reparation burdens, but of Germany's territorial losses,<sup>1</sup> not as a process extending over many years, but as an almost immediate consequence. The argument that only the non-execution of the Treaty saved Germany and Europe from the dreadful consequences predicted will not, therefore, bear serious examination.

It will not be of very much help, either, to the contention, still prevalent though vague, that the Great Depression of the 'thirties was but another of the Treaty's disastrous repercussions. Those who choose to argue that the Treaty was not really carried out cannot very well pretend, in the same breath, that, after all, it was the Treaty that caused the economic crisis. But considering that the Treaty was, at least in part, actually enforced, what then becomes of this interpretation?

The figures I have given in the last two chapters to illustrate the economic recovery of Germany after the Treaty, cover a period of ten years; that much, I submit, is enough to satisfy anybody that the Treaty that was to destroy the economic organization of Europe, did not in fact have this effect, and did not even prevent economic activity from recovering to levels that were often higher than before 1914, in spite of all the havoc caused by four years of uninterrupted warfare. After 1929, this process was reversed and economic activity fell sharply throughout the whole world. Was this, then, the tidal wave of 1919?

That economic nationalism, with its clumsy resort to state control, to trade restriction, and to currency manipulation was a serious aggravating factor, is hardly open to doubt. It was not, of course, confined to Europe only. But in so far as the Treaties of 1919 had allowed the forces of nationalism to consolidate a structure of autonomous states in Central Europe, they probably contributed in some degree to the severity of the depression, at least in that part of the world. This aspect of the Treaties of 1919, however, although it was referred to several times, was not one of the essential points of Mr. Keynes's analysis, which was concerned with the Treaty of Versailles and the treatment of Germany rather than with the settlement of Central and Eastern Europe. But what is more important, the dangers which were, in his view, to follow from the Treaty did not lie precisely in this direction. What he had feared in 1919,

<sup>1</sup> Also of her merchant feet, which was duly handed over.

as a consequence of the alleged disorganization of the European economy, was a lasting and widespread *diminution* of production; but the crisis of 1929 was one of *over-production*—at least, of relative over-production. Whatever may have been the true causes of this highly complex phenomenon, it is surely a rather simplified solution to refer it back to the Treaty of Versailles. What would be needed is an explanation of how precisely the Treaty was responsible for the cyclical depression of the 'thirties. I have not so far encountered one—not, at any rate, in the writings which Mr. Keynes himself has devoted, in later years, to this vexed problem. If the Great Depression was really a Consequence of the Peace, it certainly was not one that Mr. Keynes (or anyone else, for that matter) had ever led us to expect.

There is, however, one important factor in the Peace Treaty which is often linked more or less directly with the economic and financial breakdown, namely, the Reparation clauses. Here again, however, I do not believe it possible to work out a satisfactory explanation.

The Depression started, as is well known, in the United States, with a sudden, sharp, and persistent fall on the stock market, followed by a fall almost equally severe in commodity prices. Now in so far as the unilateral payments of Reparations by Germany could have thrown the mechanism of world prices out of gear, this would have come about as a result of the transfer process; what might therefore have been normally expected was essentially a fall in *German* prices and a *rise* in the price levels of the creditor countries—the United States included and foremost. How this mechanism can account for the behaviour of American prices after 1929 is not clear. How far the fall in the prices of European debtor countries which took place ten years after Reparations and War debts had been in full progress, and *after* the depression had started in the United States, was due to unilateral payments, is not very much clearer. It is possible, and even probable, that the interruption of capital flow from abroad, and the continuation of Reparation payments, aggravated the financial crisis in Germany after 1930. But the very moderate scale of the payments then involved does not, as we have seen, make it possible to place the responsibility squarely on the Reparation system. Reparation may have been one of the villains of this unpleasant and intricate piece: it could hardly have been more than a second fiddle.



An inquiry into the nature of the economic disasters following from the Treaty does not, therefore, lead us very far, or else it leads us too far. No doubt not all was rosy in Europe during the post-war decade, and economic recovery was not immediate; after four years of unprecedented destruction and disintegration, nobody could have expected it to be. The wearing out of capital equipment, the breakdown of transport, the hypertrophy of national debts and the resulting inflation of the currency—and, above all, the uprooting of millions of human lives—all these were the legacy of War, not of the Treaty. Nor was it explained how the Treaty was to aggravate them. 'It will no longer', wrote Mr. Keynes in his chapter on 'Europe after the Treaty', 'be part of my purpose to distinguish between the inevitable fruits of the War and the avoidable misfortunes of the Peace.'<sup>1</sup>

Why, then, speak of the Economic Consequences of the Peace? We have seen either that most of the threatened consequences did not occur, or that those which occurred were due to other causes, and were therefore not predicted. Yet the impression has almost universally persisted that the economic evils which afflicted Europe in the post-war decades must be imputed to the Treaty. 'It is hard', wrote Allyn Young, 'to be patient with men who point to the economic dissolution war has wrought and say: "There are the fruits of your peace."' <sup>2</sup>

## IV

But still, some will insist, is it possible to deny that Hitler was the product of Versailles? And even if the German people was not reduced to actual starvation, was it not driven into despair? And would not a more generous attitude on the part of the Allies have prevented the rise of National Socialism?

Whether or not a policy of complete forgetfulness would have succeeded in appeasing Germany from the outset will, of course, never be known. What *is* known, on the other hand, is the policy that *was* followed up to the time of the National Socialist Revolution, and the march of events that accompanied it.

After the partial failure of M. Poincaré's policy of 'coercion' in the Ruhr, the Dawes Plan inaugurated, as we have seen, a new phase in Reparation policy, placing upon Germany the most moderate demands, and assisting their execution with an

<sup>1</sup> *E.C.P.*, p. 212.

<sup>2</sup> House and Seymour, *What Really Happened at Paris*, p. 317.

initial loan. In 1924 the French Army evacuated the Ruhr. Less than one year later, Marshal Hindenburg was elected President of the Reich by a coalition of nationalists.

In 1930 the Young Plan was adopted as a final settlement of Reparations, involving a very considerable reduction of Germany's burden. At the same time, the French Army evacuated the Rhineland, five years in advance of the Treaty's original time-limit. Less than three months later, the National Socialist party, until then relatively insignificant, polled 6,400,000 votes out of a total of 35,000,000 and obtained 107 seats in the Reichstag.

In the summer of 1931 Reparation payments were suspended. The following year, Hitler polled 13,400,000 votes against 19,300,000 to Marshal Hindenburg in the Presidential election.

On 9 July 1932 all Reparations were finally abolished at the Conference of Lausanne. On 21 July, Hitler's party obtained 13,700,000 votes and 230 seats at the general election, thus becoming the strongest in the Reichstag.

The disarmament clauses of the Treaty had proved among the sorest to Germany's national pride. In December 1932 equality of rights was conceded to Germany at the Disarmament Conference in a declaration to which the German Government gave its adhesion. Less than two months later, Hitler was called by Marshal Hindenburg to be Chancellor of the Reich.

Thus the policy of 'appeasement' had not started at Munich. Perhaps it was not carried far enough. Let us therefore turn to the 'remedies' offered in 1919 by Mr. Keynes, and find out what opportunities were then missed for the settlement of a Europe that would have been free, prosperous, and secure.

## v

The remedies proposed were grouped under four heads:

(1) THE REVISION OF THE TREATY. Three great changes at least, in Mr. Keynes's view, were necessary to the economic life of Europe. They affected Reparation, Coal and Iron, and Tariffs.

(a) *Reparation*: Germany's total liability was to be fixed at £2,000 million, £500 million being credited against the delivery of her merchant fleet, submarines, war material, ceded State property, etc., the remaining £1,500 million to be paid, without interest, in thirty annual instalments of £50 million, beginning in 1923.

As was pointed out by Mr. J. F. Dulles, this sum had to be halved, according to Mr. Keynes's own formula, in order to obtain the present value of the deferred payments without interest—giving £750 million; that, again, represented half the sum of £1,500 million estimated by Mr. Keynes<sup>1</sup> as the present value of the £5,000 million which the German delegation, in its counter-proposals, had offered to pay.<sup>2</sup> Even though, as Mr. Keynes retorted, the two sums were not comparable,<sup>3</sup> it may still be pointed out that the total present value of his proposal (£500 + £750 = £1,250) represented about half the value of the claims to which he had himself considered the Allies entitled under the strictest interpretation of the pre-Armistice contract<sup>4</sup> and a little more than half his own calculation of £2,000 million for Germany's capacity to pay, which we, in turn, found six or seven times short of what it ultimately turned out to be.

(b) *Coal and Iron.* Coal deliveries were also to be considerably reduced; only the special deliveries to France were to be retained, and even these were to lapse in the case of Germany's losing Upper Silesia as a consequence of the plebiscite. In the latter case, therefore, France was to forgo the expectation of a normal coal supply until the destroyed mines were repaired, while Germany's needs had been previously calculated by Mr. Keynes 'on the basis of a pre-war efficiency of railways and industry'.<sup>5</sup>

It was only with regard to the coal and iron problem that Mr. Keynes had any improvements to offer upon the territorial settlement. These changes, as we have seen,<sup>6</sup> were not very sweeping: 'The arrangement as to the Saar should hold good . . .' with two secondary adjustments. 'The arrangement as to Upper Silesia should hold good.' But, he added, 'the Allies should declare that in their judgment "economic conditions" require the inclusion of the coal districts in Germany unless the

<sup>1</sup> *E.C.P.*, p. 207.

<sup>2</sup> See Mr. Dulles's letter to *The Times*, 16 February 1920.

<sup>3</sup> The German offer had been made under the condition that certain deliveries in kind would not be demanded, and the value of these offsets, according to Mr. Keynes, represented £2,000 million. As Mr. Keynes explained in his reply to Mr. Dulles, this offer was conditional on Germany's retaining certain other advantages (particularly colonies, merchant ships, and commercial reciprocity) so that it was not comparable with his own proposal—although it may be observed that Mr. Keynes's proposal also included certain additional advantages for Germany.

<sup>4</sup> *E.C.P.*, p. 123: The claim 'would assuredly be found to exceed £1,600 million and to fall short of £3,000 million.'

<sup>5</sup> *E.C.P.*, p. 84; *supra*, pp. 84ff.

<sup>6</sup> *supra*, pp. 72, 80.

wishes of the inhabitants are decidedly to the contrary.<sup>1</sup> The wishes of the inhabitants had been duly provided for in the Treaty by the plebiscite, and it is doubtful whether any further 'declaration', unaccompanied by pressure proper, on the part of the Allies, could have done anything to modify them.

In so far, then, as the territorial settlement of Europe was concerned, that was all: the frontiers that were supposed to dislocate industry and to disorganize production were, on the whole, 'to hold good'. *Ridiculus mus*. It would be hard, I believe, to find a more significant tribute to the work of political reconstruction accomplished by the Paris Peace Conference. No doubt the result was far from perfect; but, as Lord Balfour had explained, in his answer to a critic in the House of Commons, the manifold economic difficulties encountered in Central and Eastern Europe had started when the war had smashed the Austro-Hungarian Empire. 'They are', he said, 'the result of the War, and if you like to add, they are the result of the application of the principle of self-determination to this part of Europe. My right honourable friend opposite, although he dwelt upon these evils . . . forbore to say what seemed the logical conclusion of his criticisms, that we ought to have pursued political economy and abandoned the rights of populations and left the Austrian Empire in its original form. But he did not say that and I imagine he does not think it. Then what is the use of criticism?'<sup>2</sup>

(c) *Tariffs*. Although he apparently did not believe it possible or desirable to modify the new boundaries, Mr. Keynes proposed to retrieve their economic disadvantages by the establishment of a Free Trade Union, under the League of Nations, of countries undertaking to impose 'no protectionist tariffs whatever'<sup>3</sup> against one another. Germany, Poland, the new states which formerly composed the Austro-Hungarian and Turkish Empires, and the Mandates, were to be 'compelled' to adhere to it for ten years—after which adherence would be voluntary. Other states could adhere voluntarily from the outset.

It has been generally recognized that the division of Central Europe into several entirely autonomous states was, from the economic point of view at least, one of the most objectionable features of the 1919 Treaties; even though this was the work of

<sup>1</sup> E.C.P., p. 247.

<sup>2</sup> House of Commons, 12 February 1920.

<sup>3</sup> E.C.P., p. 248. This did not exclude prohibition of certain imports, sumptuary revenue, or revenue duties, etc.

the peoples 'concerned' rather than that of the Conference, there is no doubt that the Conference could have used its powers to assuage the situation by inducing, or even compelling, these new states to some closer form of economic or even political federation. The Tariff Union proposed by Mr. Keynes could have constituted such a solution, and it was in this respect highly commendable—in so far, at least, as it affected the states arisen out of the Austrian and Turkish Empires. But his proposal went much further; for these states were to be 'compelled' to adhere to a Union where Germany would also be included.

Now the mere inclusion of any particular nation in such a free trade union would not, by itself, have necessarily injured its economy, and here also it is necessary to maintain a sense of proportion. Yet, was it not likely that in a system so constituted, the small and younger states of Central and South-Eastern Europe would have been gradually overwhelmed by the economic supremacy of Germany, who would thereby have been provided with the means of realizing her former dream of 'Mittel-Europa'?<sup>1</sup> This possibility was expressly taken into account by Mr. Keynes.<sup>2</sup> But such a danger could be avoided, in his opinion, if the other states (namely, the United Kingdom, Egypt, India, Belgium, Holland, Scandinavia, Switzerland, France, and Italy) also joined the Union. In other words, Mr. Keynes's remedy for the economic troubles of the Old World was little short of universal free trade. So it was for having failed to establish at short notice a state of affairs that even Adam Smith had thought altogether utopian, and which not even liberalism at its nineteenth-century zenith had been able to bring about, that the peacemakers were accused of destroying the economic life of Europe.

In later years, Mr. Keynes was to grow more diffident of the virtues of free trade. 'Let goods', he wrote in 1933, 'be home-spun whenever it is reasonably and conveniently possible, and, above all, let finance be primarily national. . . . I am inclined to the belief that, after the transition is accomplished, a greater measure of national self-sufficiency and economic isolation among countries than existed in 1914 may tend to serve the

<sup>1</sup> Even Friedrich Naumann, who, in his celebrated book *Central Europe* (published in English translation in 1916) had contemplated a customs union as a necessary step towards the political unity of Central Europe, had not recommended complete free trade between the two Empires, but merely a common external commercial policy combined with internal mutual preference.

<sup>2</sup> *E.C.P.*, p. 250.

cause of peace, rather than otherwise.<sup>1</sup> Such reflections would indicate that an all-embracing Free Trade Union might not, after all, have proved a satisfactory cure for the maladies of Central and Eastern Europe; and that the difficulties that had been facing the peacemakers in 1919 were enough to recommend them to the patience and to the toleration of their critics.

(2) THE SETTLEMENT OF INTER-ALLIED WAR INDEBTEDNESS. The foregoing proposals, however, could not be enough by themselves; for Mr. Keynes saw quite clearly that were the European Allies not to secure the expected Reparations from Germany, their economic and financial position would be hopeless, unless they could find an escape in some other direction. He proposed therefore that Great Britain should waive altogether her claims for cash payments in favour of Belgium, Serbia, and France; and that all inter-Allied indebtedness should be finally cancelled.

The first proposal did honour to the very best traditions of British political generosity, and should have been enough to show how wide of the mark were some of the critics who had asserted, at the time that Mr. Keynes had acted under 'pro-German' motives. Unfortunately, the practical assumptions upon which such a policy rested for its success were not warranted. In the first place, the policy itself was hardly justifiable in view of Germany's real capacity to pay, for there was no reason to inflict upon the British taxpayer (or, for that matter, upon the American taxpayer) a burden which could, in equity, have been shared to an appreciable degree by the German budget. But the essential obstacle was that since it ultimately depended on a solution for War debts that was never to find acceptance, this policy was soon to reveal itself as impracticable: for unless the United States was to forgo its due from the loans made to the Allies during the War, the Allies, having relinquished part or all of their Reparation claims, would be left high and dry.

It is not my purpose to discuss here the vexed problem of inter-Allied War debts. In Mr. Keynes's scheme, this problem should have been treated as a component part of the Reparation settlement. The United States, having withdrawn from the Treaty of Versailles, consented afterwards to substantial abatements on the War debts in favour of its former associates, but always insisted (as it had every right to) that War debts and Reparations were to be kept on entirely different planes. One

<sup>1</sup> 'National Self-Sufficiency', *Yale Review*, June 1933, vol. xxii, p. 758.

statesman, perhaps, had his aims been acceptable at the time to the American people, could have proceeded along a different path, and induced the United States to take a more active share in the financial reconstruction of Europe; as it was, this statesman did not succeed, and his efforts did not perhaps always find support from the quarters wherefrom he might have been most entitled to expect it.

(3) AN INTERNATIONAL LOAN. The same may be said of Mr. Keynes's proposal for an international loan. Various schemes to this effect had already been advanced in the course of the Peace Conference for the financial rehabilitation of Europe. One, submitted by Mr. Keynes, contemplated the issue of £1,500 million worth of German and other European bonds, to be guaranteed by the Allied and Associated Governments. This plan, however, did not find favour with President Wilson, who explained that he would not be able to secure from Congress authority to place a federal guarantee upon bonds of European origin.<sup>1</sup> The project put forward by Mr. Keynes in his book was not quite so ambitious, and he indicated that much could already be done with a loan of £200 million to begin with, together with a guarantee fund of £200 million further for currency stabilization.<sup>2</sup> Here again, the main burden, as he indicated, was ultimately to fall upon American investors; but the picture of Europe provided by Mr. Keynes was hardly fit to encourage them to such a venture. Indeed, he was quite frank about it: 'If', he wrote, 'I had influence at the United States Treasury, I would not lend a penny to a single one of the present Governments of Europe.'<sup>3</sup> In fact, nothing short of 'the replacement of the existing Governments of Europe' was the 'almost indispensable preliminary'<sup>4</sup> of his proposed remedies.

Mr. Keynes's plea did not, unfortunately, find favour with the American public—at least on this particular point. 'It would be hard', Professor Shotwell writes, 'to find in the literature of controversy a work in which the author has so completely ruined his own case as in this instance. For the caricature which Keynes drew of the unscrupulous scheming of dishonest claimants was sufficient to deter any honest-minded American from ever having anything to do with such a world of tricksters as he made out the leaders of the Conference at Paris to be.'<sup>5</sup> Granted

<sup>1</sup> Baker, vol. III, p. 344.

<sup>2</sup> E.C.P., p. 269.

<sup>3</sup> E.C.P., p. 267.

<sup>4</sup> E.C.P., p. 249.

<sup>5</sup> James T. Shotwell: *At the Paris Peace Conference*, New York, 1937, p. 26 n.

the accuracy of the European picture which Mr. Keynes had presented to his readers, his arguments were quite plausible; they also proved convincing, at least to some extent.

(4) THE RELATIONS OF CENTRAL EUROPE TO RUSSIA. In a book essentially concerned with the Treaty of Versailles, Mr. Keynes could not be expected to give an analysis of the whole European situation. In his concluding pages, however, he emphasized the *futility and inconstancy of the policy then followed with regard to Russia*, and denounced the 'crazy dreams' and 'childish intrigue' that were, in his opinion, at work to promote such a 'scatter-brained conception' as the establishment of independent states like Poland and Rumania, implying that these nations were to be propped up by France as puppets of military hegemony.<sup>1</sup>

Whatever may have been the errors and inconsistencies of Allied policy towards the Russian Revolution in 1919, these were the unhappy product of circumstances, and there was nothing in them, at any rate, that permanently prejudiced the future relationship between Russia and Germany. In fact, the Treaty of Versailles, which abolished the Treaties of Brest-Litovsk, left Germany free to organize her relations, commercial or otherwise, with Russia as best she pleased, and she did not fail to do so at Rapallo three years later.

But there was perhaps some reason to fear, as certain Allied quarters then did, that Germany might profit from the disintegration of Russia and establish her domination in the East. Such possibilities, as Mr. Keynes pointed out, accounted for an incoherence of Allied purpose which he had no difficulty in exposing. But in his eyes these fears found little justification. The prospects of 'a new military power, establishing itself in the East, with its spiritual home in Brandenburg, drawing to itself all the military talent and all the military adventurers, all those who regret emperors and hate democracy, in the whole of Eastern and Central and South-Eastern Europe, a power which would be geographically inaccessible to the military forces of the Allies', were, in his opinion, 'the anticipations of the timid'.<sup>2</sup> To him, the solution of the Eastern European problem

<sup>1</sup> 'Poland . . . is to be strong, Catholic, militarist, and faithful, the consort, or at least the favourite, of victorious France, prosperous and magnificent between the ashes of Russia and the ruin of Germany. Rumania, if only she could be persuaded to keep up appearances a little more, is a part of the same scatter-brained conception. . . .' (*E.C.P.*, p. 273.)

<sup>2</sup> *E.C.P.*, pp. 271-2.



apparently not too difficult: 'It is in our interest', he wrote, 'to hasten the day when German agents and organisers will be in a position to set in train in every Russian village the impulses of ordinary economic motive.'<sup>1</sup> Did it occur to him that these agents and organizers might possibly have set in train some currents that would not be purely economic? that the 'timid', in the occurrence, were Masaryk, who had explained that the object of German aggression was the East, because 'if they ruled the East, they would easily settle the bill against France and England, and later against the United States'?<sup>2</sup>—or Winston Churchill, who feared that Germany might in the near future become the supreme influence in Russia, and had warned the Supreme Council that 'should Russia fall into her clutches, Germany would thereby become stronger than ever'?<sup>3</sup>—or Woodrow Wilson, who explained to his countrymen that as soon as Germany could swing Russia, 'that is also her road to the East and to the domination of the world . . .'. 'If you do not close it,' he said, 'you have no choice but some day or other to enter into exactly the same sort of war as we have just gone through'<sup>4</sup>—or, again, Sir Halford Mackinder, who, in a far-seeing book (from which Germany was soon to learn) had declared that 'Who rules East Europe commands the Heartland: Who rules the Heartland commands the World-Island: Who rules the World-Island commands the World'?<sup>5</sup>

But to Mr. Keynes the very probability of Germany's Eastern designs was hardly a cause for alarm; they should have been enough, he thought, to allay the anxieties of France. 'That she has anything to fear from Germany in the future which we can foresee, except what she may herself provoke, is a delusion,' he wrote two years later. 'When Germany has recovered her strength and pride, as in due time she will, many years must pass before she again casts her eyes Westward. Germany's future now lies to the East, and in that direction her hopes and ambitions, when they revive, will certainly turn.'<sup>6</sup>

With this triumphant prophecy our story ought probably to

<sup>1</sup> *E.C.P.*, p. 275.

<sup>2</sup> T. G. Masaryk: *The New Europe*, London, 1918, p. 38.

<sup>3</sup> At Paris, 15 February 1919; 'Foreign Relations of the United States, 1919', *Russia*, p. 62.

<sup>4</sup> Address at Cœur d'Alène, Idaho, 12 September 1919; address at St. Louis, Mo., 5 September 1919.

<sup>5</sup> Sir H. J. Mackinder: *Democratic Ideals and Reality* (Pelican edit., 1944, p. 113).

<sup>6</sup> *R.T.*, p. 186.

close. Did a Peace which provided the vanquished with such opportunities for recovery really deserve the epithet 'Carthaginian'? There have been two settlements in history to which this qualification applies. The first was an actual peace treaty between Rome and Carthage. The second was not a treaty: Carthage was burned and razed to the ground, and surely this treatment can bear no comparison with that meted out to Germany in 1919. It is therefore to the first peace that we must turn for a parallel.

After her defeat at Zama, Carthage lost practically all her vessels of war, and all her overseas possessions; she had to abandon large slices of her metropolitan dominions to her neighbours; and to pay to Rome an indemnity of four thousand talents. So it was not altogether out of place to call the Treaty of Versailles a Carthaginian Peace.

Whether the first Carthaginian Peace showed excessive vindictiveness on the part of the victor is, on the other hand, a matter of opinion. That of Mommsen, who was as good a German (and a pan-German) as any, and whose opinion, on this subject at least, is as good as any, was that 'the noble-mindedness and statesmanlike gifts of the great antagonists were no less apparent in the magnanimous submission of Hannibal to what was inevitable than in the wise abstinence of Scipio from an extravagant use of victory'.

History, we may assume, has not said its last word on the Treaty of Versailles. But, meanwhile, our immediate future runs a serious risk of being shaped according to current views of the past, and popular prophecy, in this respect, is likely to find more favour than ponderous history. As for Mr. Keynes's, I grant that his motives were pure, his convictions sincere, and that even his values may, after all, have been right. But many of his facts, at any rate, were wrong; and of this I believe I have given satisfactory evidence. 'The prophets prophesy falsely, and the priests bear rule by their means; and my people love to have it so: and what will ye do in the end thereof?'

## Chapter Seven

### PEACE

The affairs of the world can be set straight only by the firmest and most determined exhibition of the will to lead and make right prevail.—WOODROW WILSON: *Last public address, broadcast on Armistice eve, 10 November 1923*

#### I

MANKIND is not a philanthropic institution. Congenitally ordained to prey upon his fellows, interminably tempted and interminably deceived, man, even if designed for some facetious purpose, is not, at any rate, fitted for happiness by his natural estate: to this day, the whole creation groaneth and travaileth still. There have been times in which this state of affairs was taken more or less for granted. When it appeared that nothing but a conspiracy between privilege and superstition was blocking the way to the infinite perfectibility of the human race, and when the advance of science and the accumulation of wealth promised an endless progress of material welfare, the torrential forces of *temporal* hope broke out. But Time is an infernal ironist; and the invariable rebuffs inflicted upon the appetites, the ambitions, and the aspirations of man could not fail to call out in desperate response the full resources of his natural ferocity; for man was not made to stand indefinitely on his hind feet.

What we are now witnessing is probably the fulfilment of this adventure. The poet who had warned Europe that the road ahead lay from humanity through nationality to bestiality had forecast the terminal point well enough; but with such a starting point, the danger of wandering from the right road is not very far away; and from then on, there is no thoroughfare. Ever and anon into the hearts of men sounds the enchanting whisper: 'Ye shall be as gods.' But humanity-worship is so profoundly inadequate to the true aspiration of man, and so incompatible with the natural organization of mankind, that it must end almost fatally in some form or other of individual or collective self-worship, and indeed it ends not infrequently in devil-worship pure and simple. Notwithstanding the monu-

mental and unwieldy safeguards introduced as so many barriers to hold man's instincts in check—all civilizations have probably had in common this inexplicable secret, that they assigned him some ulterior end; and it was precisely in so far as they did this that they also sometimes succeeded in being most *humane*.

Thus, in contrast with the systematic mass-murders of our times, the very deeds of the Inquisition appear suffused with the charity, almost with the kindness, of men who were acting in the utmost conviction of duty to save immortal souls. To-day, extermination has no other object but the benefit of exterminators. It is often wondered how such things are *still* possible in the twentieth century: but these things *are* the twentieth century. They are consubstantial with it. They bear, so to speak, its trade mark and its seal. Burke, as we are frequently reminded to-day, said that he did not know the method of drawing an indictment against a whole people: but against whom should an indictment be drawn for the murder of a whole people? Those who died in the extermination camps of Eastern Europe, being 'subjected to wrong under multitudes' were, as the same Burke had foreshadowed, deprived of all external consolation. 'They seem deserted by mankind, overpowered by a conspiracy of their whole species.'

It was President F. D. Roosevelt, I think, who said that the Second World War was between those who believe in mankind and those who do not. Maybe. But it cannot be denied that in the achievement of worldly success, at least, those who thus placed their belief fought for a long time at some disadvantage. Let us by all means pity our fellow-men, admire them, respect them, love them; but man is hardly an object to be *believed* in; and it must be to something better than mankind that men invested with the dignity of Christians owe an irreplaceable faith.

But Faith, together with Hope, has in our days taken other avenues; these have led us not only to a disproportionate expectation of ends, but to a corresponding disregard of the necessary means. How superb was Mr. Keynes's chaffing of the Wilsonian dogma because it guaranteed 'frontiers but not happiness'<sup>1</sup> Yet the Founding Fathers themselves had not dared to guarantee more than the *pursuit* of happiness; and their successor probably did not conceive how it would be possible, the world being what it was, to guarantee even this

<sup>1</sup> *R.T.*, p. 11.

without first having guaranteed frontiers. Perhaps we know, to-day, what happens to those whose frontiers have been overrun. And as for happiness, its flight has everywhere been so fast and furious that nothing short of the whole organized forces of the State is now being permanently arrayed for the unrelenting race. One hundred and fifty years ago, Saint-Just, echoed by the distant roar of the cannonade, proclaimed before the French Convention that happiness was a new idea in Europe; to-day, with the ghost of happiness in the paroxysmal throes of vanishment, this New Era, having turned out to be little else than a brief and uneasy interlude, is drawing speedily to a close.

Thus the wheel has turned full circle. After all, it is in the very nature of *revolution* that it should: the progress of the world across infinite space is also one of eternal revolution. Life must go on—round and round, through infinite time. And as throughout the world social institutions become more and more progressive, economic institutions more and more dynamic, and political institutions more and more streamlined, we should no doubt look forward, in the near future, to a continuous amplification and acceleration of this exhilarating process—very literally, to an increase in 'revs.' . . . We have already seen how much ground can be covered in one's lifetime. Tomorrow, perhaps, Lord Keynes, following an illustrious precedent,<sup>1</sup> will present us with some brand new programme of Full Indemnities from Germany, a Return to the Gold Standard, and the Humbug of Full Employment. . . . Why not, indeed? But the performances of this fascinating conjurer succeed one another at a pace too breath-taking for me to follow them with all the attention they deserve. Let us then leave Mr. Keynes and his works, and turn, in brief contemplation, to the future—to what it may hold, and to the instruments with which our hands may still find some power to shape it.

## II

It is not intended to offer here any detailed blueprint of universal or even European peace; needless to say that for such a task the present writer feels himself quite unequipped; furthermore, we are fast approaching times when to be even a good European will have become but another form of insularity. But the writer also believes that more good will come, in the

<sup>1</sup> See *R.T.*, p. 11.

long run, from the patient and progressive exchange of views by the men engaged in the practical tasks of reconstruction—from that 'conspiracy of mind with mind' which time alone can achieve—rather than from the confronting, at short notice, of programmes ossified, as it were, into some rigid whole. On the other hand, cases will no doubt arise also for striking the iron while it is hot, and for seizing at the right moment opportunities which are as unpredictable as they are fleeting. Nevertheless, some guiding principles will, as always, be necessary; and in this spirit it is hoped that the following contribution to the general discussion may ultimately be found helpful.

As follows naturally from catastrophic experience, there is now abroad throughout public opinion a deep desire to profit from the lessons of the past, and to avoid a repetition of mistakes committed last time; there is also, however, a serious danger that this disposition, healthy and commendable in itself, may have started along the wrong track and lead us astray once again. The spirit of reaction against the Congress of Vienna which was prevalent at Paris twenty-five years ago was partly misguided. As Professor Brogan has suggested, it might not be a bad idea to begin by discovering *what* was done at Versailles before deciding not to do the same. It is hoped that the present book may contribute to this discovery.

The current habit, since the outbreak of war in 1939, has been to proclaim that whereas economic problems were most absurdly neglected or mismanaged in 1919, they should this time take precedence over all others in the task of post-war reconstruction; and that political problems, such as territorial readjustments, are unimportant or at best secondary—in short, that we must first take care of economics and that politics will then take care of themselves. So potent, on the other hand, is the hold of the Reparation legend over lay and professional opinion, that it has long been accepted almost as a foregone conclusion that this time, whatever developments the War might bring, the Allies would be well advised to dispense with Reparations from Germany altogether. To what lengths this state of mind has been carried may be judged from the opinion put forward by a leading financial publication, shortly after the conquest of Poland: 'It would . . .' wrote *The Economist*, 'be necessary to be long-sighted in the matter of indemnities. There is, for example, the clearest case in equity for exacting reparation for the destruction of Warsaw. But it would probably pay

the Allies better to pay for the reconstruction themselves than to inject the poison of Reparations once more into the relations between Germany and her Western neighbours.<sup>1</sup>

It should not be very difficult to imagine what effect statements such as these, magnanimous and well-intentioned though they surely were, may have had upon the German mind. They amounted to telling Germany: 'Go, and sin again! Kill, burn, bomb, levy, plunder, ravish, deport, devastate, massacre: whatever you may do, you will be held to no account. Since Reparations are out of the question, we shall take care of the damage ourselves and you will go scot free in any case. Heads you win; tails you don't lose.'

So Germany, cocksure as she was of final victory, but confident anyway in the impunity that seemed promised to her by the record of the last twenty years, *scourged Europe from end to end*; and in this enterprise, the German people, as a whole, has been, as was only natural, a willing, active, and satisfied partner—as long as things went well.<sup>2</sup> It is unnecessary, and it is in any case quite impossible at this juncture, to give any accurate description of the state to which Europe has been reduced by four or five years (more than five in the case of Poland) of German occupation. Even though the damage done has not been everywhere equally spread, even though large regions may survive the ordeal comparatively unmolested, the revolution of terror, misery, and degradation that Germany has brought to millions of human lives must leave Europe in a plight that is hard to describe fairly. The figures of financial tribute, plain and accurate as they are in their stupendousness, tell only, as we have seen, one part of the story; to them must be added a continuous plunder of wealth that has gone largely unrecorded; the destruction and devastation that are the inevit-

<sup>1</sup> *The Economist*, London, 21 October 1939. 'These three principles,' added the article, 'no annexations or partitions of German lands, no indemnities, no arms inequality—would command, to-day, a very large body of support in Great Britain.'

<sup>2</sup> 'The great mass of workers, peasants and petty industrialists', recorded a well-known American in 1940, 'are conscious that if Hitler succeeds with his New Order, as they are confident now he will, it will mean more of the milk and honey of this world for them. That this will of necessity be obtained at the expense of other peoples—Czechs, Poles, Scandinavians, French—does not bother the German in the least. On this he has no moral scruples whatsoever.' (William Shirer, *Berlin Diary*, 1941, p. 582.) 'When I talked with Kharkov citizens during and after the trial,' wrote another, 'I found nothing but contempt for the pleas of the accused that they were the victims of the Nazi system. Harsh as the German law was against the Russians, in occupied Kharkov its interpretation by the average German added further to their misery.' (*The Times*, London, 31 January 1944.)

able products of the operations of war, particularly of aerial bombing; the systematic scorching practised by Germany upon the countries from which she is forced to retreat; the incalculable harm that has been methodically inflicted on human beings, millions of whom have been uprooted from their homes; and last, but not least, the prolonged undernourishment of the largest part of occupied Europe;<sup>1</sup> not to count, of course, all the lives that have been lost in battle, and all those which the German genius for *Ausrottung* has quietly, progressively, and scientifically blotted out.

The consequences of this state of affairs, if unremedied, are plain enough: Germany, even though she will herself have endured the most appalling sacrifices, may yet have added another milestone to her achievement of ascendancy in Europe, for she will have systematically weakened or destroyed her neighbours in such a way that their recovery must inevitably lag behind her own. Thus, even though she has lost the war in the military and the political field, she has already done her best to stave off partially the effects of defeat, and to win the war, as far at least as Europe is concerned, economically and biologically in the long run.

Faced with this situation, which was easy to foresee, merely to use the counterpart of Versailles—to act on the principle that whatever Germany may have done, frontiers must remain untouched and Reparations unpaid—will therefore lead us nowhere; or, rather, it will lead Germany's victims precisely where she wants them to go. But if, on the other hand, we take a more sober and considered view of past mistakes, we may find that even though there can never be a complete remedy for wrongs that remain largely irreparable, even though there may exist no infallible and everlasting cure for the troubles that make for war within our human kind, yet some practical alternatives do exist which it is our plain duty to consider.

<sup>1</sup> Lord Horder has stated that at the end of 1943 the calorie value of daily rations was 1,260 units for Belgium and 1,080 units for France. 'Under-nourishment', he said, 'was a much more serious medical problem than famine because it led to diseases of low resistance, the chief of which was tuberculosis, and to a state of affairs in a race or a nation which found its remedy not in that generation or even in the next, but possibly even in the third.' (House of Lords, 15 March 1944.) It may be added that western Europe has been comparatively fortunate in comparison to eastern Europe in this respect.



III

Albert Thomas, the late Director of the International Labour Office, is reported to have asked Mr. Henry Ford once what he thought of the Russian problem. 'There isn't any,' was the reply. 'In the last six months I delivered 275,000 dollars' worth of tractors to Russia and got paid every cent.'<sup>1</sup>

If, as is sometimes suggested to-day, we are to take this ingenuous view of the various 'problems' of the world, their solution ought not to be unduly difficult. It would be difficult, rather, to understand why *they have not all been solved long ago*. It is a particularly widespread fashion to insist that since economic needs must take precedence over older-fashioned political and national traditions, since the troubles of Europe are mostly economic in origin, the constitution in Europe of 'large units' where mass production would not be impeded by restrictions between its areas should be our predominant aim. Thus, as Professor E. H. Carr has explained, 'Naumann with his *Mittel-Europa* proved a surer prophet than Wilson with his principle of self-determination.'<sup>2</sup> But then, it may be added, Hitler proved an even better one than either of these; for if the aim of welding Europe into one single economic whole were really to outweigh all others, then the war waged for over five years at such a cost of life and treasure, against the 'integration' of Europe under Germany, would be not only criminal but insane.

It is not inconceivable that a day may come when the world will be brought under the rule of a single planetary Empire. Until then mankind will continue to be divided into separate nations, or groups of nations, and the 'problem', in the meantime, will not be to establish a peace that may always easily be obtained by acquiescence in the will of the strongest, but to maintain as long as possible such conditions as will give to the freedom of each its legitimate due. 'Large units', in this respect, will be conducive to *peace and freedom, not by any inherent virtue, but in proportion to circumstances only—to their internal composition and to the relation towards their neighbours big or small—and these in turn will be found to be usually a product of geographical circumstance*. 'Large units' and econo-

<sup>1</sup> Quoted in Phelan: *Yes and Albert Thomas*, p. 167.

<sup>2</sup> *The Twenty Years' Crisis*, p. 294. 'The victors of 1918', adds Professor Carr, 'lost the peace' in Central Europe because they continued to pursue a principle of political and economic disintegration in an age which called for larger and larger units.'

mic prosperity have not been wholly unknown in the past; yet the blessings that have followed have not been unmingled. In 1914, full in an era of economic prosperity unprecedented in the annals of mankind, 'large units' proved a very meagre foundation for the peace of Europe. To use an argument about the economic 'balkanization' of Central and South-Eastern Europe after 1919 as an explanation of the breakdown is therefore a little short of the mark.

Now the present book was never intended as an apologia for the Treaty of Versailles; but while the economic defects of that settlement were, for the most part, illusory or exaggerated, the present writer shares the opinion of those who have maintained that the political defects were the really decisive ones. It may have been a mistake, from the economic point of view, to allow or even encourage the break-up of the Danubian Monarchy into several sovereign states; but these states were always free, had they found it to their interest, to organize themselves into some sort of economic federation,<sup>1</sup> and in so far as they failed to do this, the economic loss thus caused has been sustained primarily by themselves. How much more serious to the rest of the world, on the other hand, have been the *political* consequences of the division of Central and South-Eastern Europe! There, as has in fact frequently been pointed out, lay the cardinal vice of the system—in the constitution of a Europe where a strong and centralized Germany of some 70 millions remained surrounded by a string of small states, who had to rely for the preservation of their independence upon the assistance of faraway Powers; to put it shortly, in the failure, and one might almost say in the deliberate failure, to establish a true *balance of power*. For Wilson himself, intent though he was upon the rejection of this type of diplomatic system, had foreseen that the Europe which he had thus left, largely by his own doing, was not one that could be expected to stand by itself—that without the support of *outside Powers*, Germany would yet have her will upon it. 'All the nations that Germany meant to crush and reduce to the status of tools in her own hands have been redeemed by this war,' he had explained, 'and given the guarantee of the strongest nations of the world that nobody shall invade their liberty again. If you do not want to give them that guarantee, then you make it certain that . . . the attempt will be made

<sup>1</sup> An attempt to encourage such a formation was made by the Government of M. Tardieu in 1932.

again, and if another war starts like this one, are you going to keep out of it?'<sup>1</sup> Now the League of Nations was designed to ensure precisely this kind of support. But the Powers concerned proved themselves unwilling, undecided, or unprepared to face their responsibilities in time. The truth is, that the spirit in which the League had been conceived presumed too much of them. As has been well said, 'it was not the League that failed, but the nations'.<sup>2</sup> And if Wilson was guilty of one illusion, that illusion was mankind.

'If', said the President, 'this treaty should be refused, if it should be impaired, then amidst the tragedy of the things that would follow every man would be converted to the opinion that I am now uttering, but', he added, 'I do not want to see that sort of conversion. I do not want to see an era of blood and chaos to convert men to the only practical methods of justice.'<sup>3</sup> Is it conceivable that we should rest our hopes again upon some renovated scheme of mutual assistance? Such systems may look well on paper; but paper, as Catherine of Russia said, is not so ticklish as the human skin—and this is the raw material supplied in the last resort to the ingenuity of statesmen. When the time comes to build again a world organization, they will do well to take care to reckon, as Sir Halford Mackinder had warned them twenty-five years ago, with 'realities'—not merely with economic realities, but with physical and geographical, with human and with political realities; in their calculations, the size of continents, the width of seas, the shape of coastlines, the position of rivers, mountains, plains and deserts, of islands, canals and straits—and, above all, of the numbers and character of peoples, must enter as much as the figures for wheat, coal, or petroleum output; their first task, before they can lay down the durable foundations of world organization, will be to consider the materials out of which it is to be built.

This brings us to the size and shape of nations, and to the problem of frontiers—which is little else, in the last resort, than the problem of *defining* each nation's own being. To-day more than ever before, frontiers remain, in the words of Lord Curzon, 'the razor's edge on which hang suspended the modern issues of war or peace, of life or death to nations'. For Great Britain, as well as for transoceanic peoples, there is a very peculiar essence in frontiers which happen to be also highways, since the guaran-

<sup>1</sup> Address at St. Louis, Mo., 5 September 1919.

<sup>2</sup> T. E. Jessop: *The Treaty of Versailles, Was it Just?* 1942.

<sup>3</sup> Address at Coeur d'Alène, Idaho, 12 September 1919.

tees of isolation from the world function at the same time as the means of communication with it. That is why the frontier problems of maritime nations can no more be compared to those of continental nations than the sharpness of the bows of ships, as T. E. Lawrence might have said, can be compared with the sharpness of razors. Yet, that frontiers must, this time as before, constitute the first if not perhaps the chief object of the peace settlement cannot be for a moment in doubt. In fact the latest war, which started with the violation of one frontier, was essentially a war *for frontiers*, at least on the United Nations' side: for the Atlantic Charter, which affirms the right of all peoples to choose the form of government under which they will live and which promises the restoration of sovereign rights to those who have been forcibly deprived of them, has thus defined the true aim of the war—to make each nation free, to roll the enemy back from the lands he invaded and appropriated, to see that he is kept in his proper place in future, and to ensure that each nation remains respected in its own.

As far as this problem is concerned, the present writer will be satisfied if only he succeeds in helping to bring back to it the public attention, too long diverted, and most unfortunately diverted, from its proper perspective. The reluctance to deal with concrete territorial issues, characteristic of so much literature on post-war reconstruction, may no doubt be excused by the extremely vexing difficulties presented by the nationality tangle in Central and Eastern Europe; but the happiest way of getting a problem solved is hardly to pretend that it does not exist. A more helpful formula, which has lately come very much into fashion, consists in declaring that what should be altered is not so much the location of frontiers as their significance.<sup>1</sup> The present writer has much sympathy with this view, but he finds it hard to reconcile with the insistence, that is so often found associated with it, on an ever increasing nationalization of economic life. For whatever increases the economic significance of the State will inevitably increase the economic significance of frontiers. How, in the present trend of economic policy, it is possible to make insignificant frontiers coexist with all-pervading states is utterly beyond the present writer's powers of imagination.

Thus it is perhaps no accident that Russia should be the nation which from the outset has had a well-defined territorial

<sup>1</sup> See for instance, Carr, *Conditions of Peace*, p. 246.

programme, which has been the first to raise the frontier problem, and which appears to feel as little hesitation about the peace settlement with Germany as she has shown in prosecuting the war against her. It is, in fact, only with the appearance of Russia's territorial plans that these problems, until then relinquished to a timid neglect, have started to be considered seriously by the public in Great Britain and America. Is it not remarkable that the State in the foundations of which the economic philosophy of history has played such a part, and which controls so overwhelmingly the economic life of its peoples, should also have been the first among the United Nations to insist upon the readjustment of its frontiers for political and strategic reasons?

In the east of Europe, therefore, the elements of a solution appear to be ready for enforcement, and the resurgence of Russia as a great Power will make all the difference as against the lopsided Europe of 1919. The Gordian knot of nationality in Pomerania and East Prussia, which the peacemakers had been loath to untangle, is to be sharply cut. Unless a forcible assimilation of large minority-blocks is operated in that region on one side or the other, nationalities must remain as mixed as they were before, and no satisfactory dividing line will be found. The drastic solution of population exchange, although it must cause widespread pain to the individuals concerned, may yet turn out to be less harmful in the end to the world at large than any that would be only a half-solution. There are several parts of Europe where such transfers, which need nowhere be effected without affording every possible precaution and compensation in favour of the people affected, may constitute a final answer to problems otherwise insoluble. If the test for the application of this type of solution is to be, in the words of Lord Cranborne, that the case must be one where the minority problem 'is likely seriously to endanger peace',<sup>1</sup> can there be any doubt that Pomerania and the Sudetenland have *already most emphatically met it?* Such a solution had been recommended explicitly for East Prussia by Sir Halford Mackinder in 1919: 'Would it not', he had written, 'pay Humanity to bear the cost of a radical remedy in this case, a remedy made just and even generous towards individuals in every respect?'<sup>2</sup> But if any plan of this sort is to succeed it

<sup>1</sup> House of Lords, 8 March 1944.

<sup>2</sup> *Democratic Ideals and Reality* (Pelican edit., 1944, p. 121).

must come as the result of concerted and reasoned action on the part of the responsible Powers—otherwise, procrastination or hesitation will lead to the solution coming about nevertheless, but in the worst possible conditions, as happened in the Greek tragedy of 1922. Twenty-five years ago, the settlement in eastern Europe was essentially the responsibility of outsiders; this time it will depend much more than before upon a balance of purpose between Powers directly concerned, and their work will lose nothing if there still flickers over its conception something of the humane spark which inspired the resurrection of Poland and of Bohemia.

In the west of Germany, it would appear that plans are still undecided. But there, too, the safety of peoples whose weak frontiers have left them open so disastrously to invasion by their powerful neighbour, and whose independence has proved so vital a concern to peoples overseas, must in the interest of all be afforded some adequate means of defence. The promise of outside assistance, unless it is part of some defensive system founded upon overwhelming guarantees against any further renewal of aggression will not suffice. 'It may be admitted as certain', the French had said in 1919, 'that thanks to the solidarity embodied in the Covenant of the League, final victory would rest with us in the case of a new German aggression, but this is not enough. We cannot allow, between aggression and victory, the invasion of our soil, its systematic destruction, the martyrdom of our fellow-citizens in the north and east as in 1914.'<sup>1</sup> To have made the Rhine the western frontier of Germany, as was then proposed, might not have proved a final panacea for the situation; but it is difficult to conceive how any possible inconveniences that might have attended a policy of firm and lasting vigilance on 'the frontier of freedom' could have exceeded those which have actually been experienced after the failure to implement such a policy.

If, as Sir Halford Mackinder more recently suggested,<sup>2</sup> 'strong embankments of power' on either side of Germany are necessary, rather than the precarious method of military occupation of the whole country, co-operation for defence between America, Britain, and France will face the same odds as before unless the 'bridgehead' of France, Belgium, and the Netherlands is assured

<sup>1</sup> *Memorandum of the French Government*, 26 February 1919, Cmd. 2169.

<sup>2</sup> 'The Round World and the Winning of the Peace'. *Foreign Affairs*. July 1943.

of a satisfactory defensive position. It is not possible to say to-day whether a scheme designed to integrate the Rhineland in a western community will find to-morrow the same chances of success as might have been encountered twenty-five years ago by resolute and concerted action on the part of the Allies. But events in the meantime may, on the other hand, have opened many eyes and sharpened many wills—and where there is a will there is a way.

## IV

That Germany should be made incapable of renewing her enterprise of conquest is demanded by the interests of all; that she should be compelled to make the largest possible contribution to the recovery of the countries which have, directly or indirectly, borne the consequences of her actions, is demanded by justice and can offend the legitimate interests of none. Yet it seems almost impossible to-day to raise the question of Reparation without the issue being at once hopelessly befogged by an array of reticences, prejudices, and superstitions. Over this subject, as over many others related to financial reconstruction, there seems to be creeping a sort of prudishness that is queerly reminiscent of (say) the attitude towards sex often associated with the Victorian age. To-day the word Reparation has become almost taboo; even those who admit that the problem cannot be evaded, generally prefer the more prudent vocable Restitution. It is surely a disquieting *state of affairs* that we are becoming afraid of words; and this time, the operation of something like a complex, Freudian or otherwise, may perhaps really be at the bottom of the situation: some deep-set inhibition is paralysing our powers of action, and only the frankest analysis will set them free.

Restitution, indeed, is nothing but a word, and a delusive one at that. Nobody for a moment imagines that it is possible for the despoiled countries to retrieve bit by bit every single piece of property destroyed or taken away. As for the destroyed portions, the question answers itself, and a large amount of wealth has also been destroyed in the act of consumption. As for the durable goods, 'restitution' may prove a suitable method for articles which have remained relatively immune from wear and tear, and which can be moved about without great cost or inconvenience—such as certain types of machinery, locomotives,

rolling stock, etc. In other cases, restitution will achieve only part of its purpose, and only for such objects as works of art and the like can this *method* have any practical significance.

Reparation, therefore, whether we like the sound of it or not, will face us as a problem again this time, and on a scale even vaster than before. It need no more than before be confined exclusively to the invaded countries. Great Britain, for one, is already well aware that she will find her economic position seriously affected by the tremendous effort which the war has imposed upon her: apart from the destruction due to bombing (which will probably be found to represent a minor part of her total loss) the wear and tear of industrial equipment and the general exhaustion of capital resources at home, together with the depletion of assets overseas, must inflict upon her economy after the war a persisting strain that is most eloquently reflected in the deficit of the balance of payments. How precisely to maintain this vital flow of imports, for which so many means of payment are now gone, and without which the national standard of living will have to be appreciably reduced, is among Great Britain's sorest and most urgent problems. To its solution, expansible credit systems, manageable interest rates, flexible exchange parities, and other such financial or monetary knacks, tricks, gadgets, contraptions, and panaceas, however ingeniously contrived, will at best contribute but partly. In former times, the source of these imports was found in the assets provided by exported capital. When these assets had for the most part gone, Lease-Lend deliveries staved off the deficit by taking their place in the meantime, but they were not expected to continue indefinitely. There is therefore no reason why an appreciable contribution to their replacement should not be found in some well organized system of Reparation payments. Even though Great Britain and the United States may forgo their claims, with traditional generosity, in favour of the Continental nations, only the full use of a Reparation system can protect Great Britain and America against the consequences of the prolonged impoverishment of their European allies, and reduce the burden of the contribution which they have already engaged themselves to make to their reconstruction and recovery.

The elements of this problem are, on the whole, fairly simple: the end of the war will find Germany appreciably impoverished, but no more so than most of her neighbours, and indeed, to all appearances, considerably less. Germany, this time, has



suffered greatly under the effects of aerial bombardment, on a scale that prevents any comparison with her situation at the end of the last war, when her main resources were still intact. On the other hand, she will have been relatively immune from the ordeal of war restriction and of blockade, the effects of which will have been largely spent on the buffer constituted by occupied nations. Can it then be supposed that the country which was able to carry on such a formidable assault followed by such a prolonged resistance against a world coalition, will suddenly be found bare of the resources which will have made possible the continuance of the war effort up to the last minute? Germany will still be the most heavily industrialized nation in Europe immediately after the war; and the duty as well as the interest of the United Nations demands that Germany's resources should be used to the utmost capacity to repair the damage done.

How far this capacity will go cannot for the present be estimated with any certainty; yet a rough order of magnitude is not out of the bounds of calculation. Before 1939, Germany was able to find for rearmament alone some 15 billion Reichsmarks a year (about £1 billion). We may suppose that the wear and loss sustained during the war will reduce appreciably Germany's productive capacity, and that her total resources will be further reduced by the territorial losses of defeat. But if suitable measures are adopted to restore this capacity within the shortest possible time, national output could soon be brought to a substantial level, and from this output could then be diverted, under strict Allied control, the stream of supplies needed for the restoration of despoiled countries.

But we are met to-day with a new type of objection. After the last war, what was generally feared was that the Reparation burden might ruin Germany and disorganize the economic life of Europe. Now the boot is on the other foot. Whereas our *object is to keep Germany weak*, will not, it is frequently asked, the imposition of Reparation deliveries help her to develop her economic strength and therefore to become formidable once again? Must we not rather dismantle her heavy industries?

It may be retorted in the first place that Europe, after the war, will find herself very poor—so much, I trust, is generally admitted; and that whatever assets still exist for economic reconstruction should be carefully husbanded and used to this common purpose. Some of the richest of these assets are consti-

tuted by Germany's natural resources and industries. To 'dismantle' German industry would be, therefore, to do exactly what the Treaty of Versailles was alleged to do: the 'systematic destruction' of Germany's economic system would only aggravate the chaos and destitution already caused by war, and add to the impoverishment of the world at large.

Furthermore, it would not even, by itself, afford any security against Germany's future revival as an aggressive Power. Let us suppose that Germany's heavy industry is successfully 'dismantled'; this will, no doubt, delay her recovery for some time; but the natural foundations of her economic wealth—the indestructible powers of the soil—her mines, her river system, her geographical position, the skill and industry of her people, will not be permanently destroyed. If Germany's technical equipment is broken or removed while she is left free to rebuild it, who for one moment doubts that she will do so at the earliest opportunity? If, on the other hand, she is not free to do it, what advantage can there be in destroying wealth that could be kept directly or indirectly under the United Nations' control? What can prevent the United Nations from turning it to their advantage until they have received at least a substantial compensation for their losses?

There is to-day a popular current towards a policy of moral re-education coupled with economic demolition—one that would, in short, respiritualize Germany and deindustrialize her at the same time. The practical chances of success for such a policy appear extremely dubious: there is little that anyone can do to penetrate forcibly within a people's soul; and we shall not prevent the Germans from taking in their hands the material resources of their country as long as we do not keep them in our own, or at least within reach. Yet it should not be impossible to evolve a solution that will make the Germans incapable of further mischief without necessarily destroying them altogether—one that would neutralize their spirit and socialize their industry; that is to say, instead of destroying it, make it useful to society as a whole.

Yet another objection comes to mind, this time more familiar. Will not Reparation deliveries do more harm than good to the recipients? Will they not cause unemployment? This sort of argument has already been discussed in a previous chapter,<sup>1</sup> and need not unduly engage our attention once again. There

<sup>1</sup> See pp. 126 ff.

is, indeed, something ridiculous, something, one might say, almost obscene, in persisting in the use of *reason and persuasion* against a prejudice which is, to all appearances, ineradicable. Let it be emphasized that the present writer is fully aware of that. Still, to take one illustration only, if (say) the British miners object to German coal deliveries being made to the liberated peoples of Europe on the ground that they will be thus deprived of a good market, do they seriously expect that the peoples thus deprived of Reparation will be able or even willing to *pay* for imported coal? 'How,' Mr. Ebby Edwards, General Secretary of the Mineworkers' Federation of Great Britain, is reported to have asked, 'how could we favour the German nation being penalized by Reparation coal after our experience of its reaction on British miners after the last war? Our people went through hell as a result of it, and we will do all we can to prevent it this time.' But who, knowing the spirit of the miners, will expect them to favour the victims of Germany being penalized by not receiving their due? If British miners are desirous of working extra hours in the place of German miners in order to make a gift of coal to these nations, this gesture would no doubt be greatly appreciated—but that is not necessary. If, on the other hand, payment is expected, it would do just as well or even better for the British coal industry to obtain a direct subsidy from the British Government and to keep the extra coal for home consumption (thus amplifying a domestic supply which has been seriously depleted during the war), for the cost of any exports that may take the place of German Reparation coal would ultimately have to be borne by the general taxpayer of the exporting country, if not by the exporting industry itself. This particular instance is valid for the whole of the Reparation problem: if some industries overseas were to count upon the exhaustion of Europe to secure new markets for themselves, they would be likely, sooner or later, to receive a very rude shock.

The same applies naturally to the receiving countries. The object of Reparation is to eliminate as far as possible the effects of plunder and destruction. But if it is true, as is still sometimes suggested, that Reparations are detrimental to prosperity, then this must surely mean that plunder and destruction are conducive to it. If it is seriously believed that German deliveries will exhaust fruitful opportunities for post-war employment, then the course to be followed is clear: not only must the ruined

peoples set themselves to rebuild their homes with their bare hands (and what better prospect can there be of truly *full* employment!) but all additional destruction must, according to this manner of reasoning, add to the general welfare, and every country should lay down a carefully worked out programme of bombing of its own cities, so that 'full employment' may always be secured. But if, on the other hand, we reflect that the problem is on the whole a fairly simple one, which calls first of all for honest and sober thinking, we shall find that whatever inconveniences may be caused to particular interests by any Reparation scheme, it should not be very difficult to reduce them to a minimum, and that they would in any case be far outweighed by the harm that would follow if the damage were allowed to go totally unrepaired by its authors. A Reparation scheme might, indeed, be attended with some maladjustments in the channels of trade; but in view of the state in which Europe finds itself, the absence of Reparations would cause even greater maladjustments.

The methods by which a successful Reparation policy can be carried out should not call for any considerable exercise of imagination either; what is needed, rather, is common sense and perseverance. The success with which Germany recovered her war levies from the conquered peoples should have taught us a useful lesson in this respect. Russia has already made it plain that she will not feel cramped by economic sophistry in the problem of reconstruction: she will, for one thing, force the Germans to rebuild with their own hands what they have devastated and destroyed—she will make them hewers of wood and drawers of water *without any fear of German labour* creating home unemployment, or of German deliveries disrupting home industry. For reasons which it is unnecessary to discuss here, the Western nations are probably unprepared to adopt a similar policy with regard to German labour. The simplest course, and that most advantageous to all parties concerned (Germany included) would be to fix Reparations in money and allow the creditors to utilize the proceeds to the best of their convenience; for there is very little advantage, and on the other hand considerable inconvenience, in the more clumsy system of direct deliveries in kind. But a system of money payments postulates the restoration of a world market and of a world monetary system, all of which objectives, however desirable, are quite outside the prospect of practical realization in the present

state of affairs: for they will not easily fit into a system of economics where free imports are regarded as beggaring the receiver rather than enriching him; where production is carried on for the sake of employment, rather than employment for production; and where the indispensable quality of money is apparently that one should never know one day what value it may possess the next—all of which features are natural to thinkers, economic and other, who will persistently stand on their heads, the reason for this posture being, perhaps, the very same that induced Father William to adopt it again and again after he had cast off the illusions and presumptions of his youth.

We may, in short, devise some system of deliveries on the model (say) of the Lease-Lend programme, and under the concerted supervision of the United Nations, such as will tax Germany's productive capacity for a certain number of years, and diminish to some extent the burden of her victims. To do this will not be, as is sometimes suggested, 'to perpetuate old grievances', but on the contrary, to remove existing ones: for only thus can be implemented the promise of Mr. Churchill that 'Europe will be totally purged of the economic servitude which Nazi Germany has forced upon her'.<sup>1</sup> Until this is achieved, the battle of liberation will be only half-won.

v

To rely almost exclusively instead, as is more or less explicitly done to-day, upon the assistance of the United States of America for the reconstruction of Europe, would appear to imply a fundamental error of perspective. No one will dispute that without the tremendous contribution which America made to the war effort of the United Nations, the war would have been lost, and that the part she undertook to play in relieving the distress of Europe after liberation through such institutions as U.N.R.R.A. is marked by the finest traditions of that generosity which threw so unsparingly the lives and resources of the nation into the struggle over a quarter of a century ago. But there is no reason why Europe, by failing to organize reconstruction fully with her own resources, should add more than is strictly necessary to the strain upon American resources.

This, moreover, is but one aspect of a problem that lies at the root of the whole partnership between Europe and America.

<sup>1</sup> House of Commons, 1 July 1943.

Whatever may have been the deeper national interests that were ultimately at stake in 1917, it is, I think, beyond dispute that the American people were on the whole quite unaware of them at the time. The American soldiers came to Europe in a truly crusading spirit and their President used no mere figure of rhetoric when he spoke of the light that was glowing in their eyes. By a combination of circumstances which appear to-day in a clearer perspective, this enthusiasm was quickly stifled by the conviction that the high ideals championed by America had been betrayed or defeated. So, through the drab and sullen disenchantment which succeeded, Americans took a kind of perverse satisfaction in decrying one of the noblest episodes of their national history, and in picturing themselves as boobs and suckers who had been done in by the old rogues on the other side of the water.

To-day the position is somewhat different; for, as the American Administration unceasingly proclaimed, the American people are aware that the war was for themselves as well a war of self-defence. This, however, does not mean that in the final settlement Europe should pretend to greater claims than before upon America's support. A disposition frequent among Europeans, and shared by a number of sympathetic Americans as well, is to argue that all the trouble after the last war came from America's refusal to join the League of Nations and to participate actively in world affairs. Whatever truth this interpretation may contain should not serve as a pretext for Europe to look for responsibility from outside for the solution of her own problems. To pass the buck to Uncle Sam is an attitude that is neither dignified nor wise; and for Europe to be constantly on the lookout for succour and guidance from America is a policy that America is not likely to tolerate indefinitely and that Europe cannot, anyway, afford for very long; for Europe cannot expect or be expected to subsist by proxy.

The greatest mistake of policy after 1919 lay rather, in the present writer's opinion, in its equivocation. In the course of the Conference the representatives of the smaller Powers were frequently complaining that they were not sufficiently consulted in the drawing of their own frontiers. To which President Wilson once replied that since the Great Powers were responsible for the protection of the frontiers of a weaker people, it was natural that their opinion should have great weight in the determination of these frontiers. So far, so good. But once the

greatest Powers had declined further responsibility, what then of the frontiers? Nothing should have prevented those of the Powers who were ready to assume their responsibilities from redrawing them along different lines, and for having failed to do so in time they have but themselves to blame. As for America's relation to Europe, the problem of the future is whether Europe is to be left so unsteady that it will have to be propped up at arm's length, or whether Europe can dispense with such support because it will be able to balance on its own. In this, it is for America to choose—whether she has a duty to come repeatedly to the assistance of Europe, or whether she has an interest in furthering the settlement of a Europe that will no longer need this assistance.

For obvious reasons, Great Britain bears to Europe a relationship that is much more intimate; in fact, not unlike France until the end of the eighteenth century, Great Britain may be said to have held over Europe, since the nineteenth, a veritable 'magistracy'. But whereas France, in the view of de Maistre, had abused her spiritual ascendancy in a manner 'most guilty', the fault of England, rather, has perhaps been to give sometimes the impression that she would fail to use what was for so long her political and economic pre-eminence—or, even, to fail to use it as would have befitted a nation which had done so much to assist the growth throughout Europe of institutions modelled on her own. Thus the British people who were first and foremost to promote that wonderful economic civilization of the West, where an expanding universe was being more and more closely bound into one great 'mercantile republic', were later to allow or even to encourage the progress of political forces in Europe (and soon afterwards in Asia) that were finally to break it asunder.

To devise the means by which this universe can be knit again into an enduring whole is to-morrow's problem—one in which the position of nations in space and numbers will count as much if not more than the transience of 'ideological' inclinations. The implacable energy with which Russia carried on the war made plain to all the common interest that binds her with the nations of the West in the defeat of the common enemy. This situation had been predicted as early as 1916 by Bainville when he wrote that if, *per impossibile*, the peace were to allow a Great Germany to subsist, the Entente would reconstitute itself sooner or later in accordance with the same physical

law of political attraction against which human wills and individualities could not avail. Thus it was left to experience to expose once more what elemental interest is shared between East and West alike in preventing a Power so irresistibly tempted by its *natural* position to master the heart of Europe, from expanding over the whole body.

However decisive must be the part played by Russia in the final settlement, England, by her geographical as well as by her spiritual position—by her oldest traditions of toleration, justice, and liberty, as much as by her latest vindication of the right—is best fitted to seal the bond between the Old World and the New, and to lead, in this task, the nations of Western Europe. For England, once again, will have saved herself by her exertions, and saved by her example not Europe only, but the world. Moved by this example, America responded to the drive of her great President with achievements no less admirable. The harsh winds of war have driven away many mists; for without the clearness of vision and firmness of soul which combined to overcome the complacent temper of earlier days, these efforts would never have been possible. Yet it is from this wise and heroic spirit that pleas for 'sanity' as against 'war psychosis' would, albeit unwittingly, have us drift away once again, back to some such disposition as was induced, after the last war, by sheer exhaustion of body and spirit—so that 'the desire for a quiet life, for reduced commitments, for comfortable terms with our neighbours' which Mr. Keynes noted in 1921<sup>1</sup> may once again become paramount.

Must it come to this? History has, of course a knack of never repeating itself identically; and yet another trend is already plainly discernible, which may carry us still farther away. Following upon the failure of idealism in 1919, there is now in full swing a revulsion towards the other extreme. *In contraria currunt*. To-day, our new-fangled Machiavellians, animated by all the zest and zeal of neophytes, are plunging headlong into political 'realism', with the delight of a child suddenly allowed to amuse himself with some long-forbidden plaything. Their doctrines, deduced from rigorously 'scientific' observation, lead to the conclusion that what is most *likely* to happen is that the Dragon will eat Saint George every time; that whenever he does, it is just too bad; and that if by some queer mishap he doesn't, there is always the consoling prospect that some Bigger and

<sup>1</sup> R.T., p. 6.



Better Dragon is bound sooner or later to turn up to swallow them both.

Thus it is sometimes suggested (as a counsel of prudence and of foresight) that the problem of peacemaking is to design such terms as will be enforceable fifteen or twenty years hence—that is, when the forces just described will have had time to operate. That certain proposals are founded in abstract justice, runs the argument, is conceded; but the point is that we cannot count upon the trend of opinion to enforce them for any length of time. Recent history teaches us that. This type of argument, in other words, discounts after the victory the very forces of idealism which gave us the courage to fight for it, and acknowledges in advance that some of the essential things which we fight for will anyhow have to be given up.

There is therefore before us a very real prospect that Hitlerism, even though it lost the war in arms, might still stand a chance of winning it in spirit. Indeed, to many, that eventuality appears to-day so inexorable that they despair already of any other issue, and even some of the most reluctant begin to look forward—as Tocqueville, in the last century, had watched the march of democracy—with a sort of 'religious terror' to the illimitable sway of the totalitarian state. Yet we ought to know, by now, how imprudent it is to toy with the apocalyptic mood. How many of us, in June 1940, dared to hope that it would be possible to swing the trend of the times? How many refused, with their whole being, to resign themselves to the 'inevitable'? And yet, at the last minute, fate was forced back by the words of one man and the deeds of a *few*—for even all the people of that little island on the edge of the Continent were no more than a few—and the 'wave of the future' broke down against the reefs of an unconquerable spirit.

But the tide carries more than one wave, and its surge ever returns. There is likely to be a glimpse of things to come in the remark of that New York taxi-driver who said that the war would last longer than the duration. If the spirit that bows not to the forces of history carries on—the spirit of the Marne and of Verdun, the spirit of the Battle of Britain and of El Alamein, the spirit of Bataan and the spirit of Stalingrad—then the glory of Europe will revive. But if the suspicion is allowed to grow among its peoples that the future is to be a continuation of the little game, the rules of which allow Germany to trample periodically over one half or more of Europe, then force Britain's

and America's sons to die far away from home for its liberation, and finally forbid the victims to obtain fair redress on the ground that Reparations are an economic impossibility and large units an economic inevitability--then there is no extremity to which exhaustion and exasperation may not carry them; in their despair, they may no longer know friend from foe, rescuer from oppressor, and then, I dare in my turn to predict, nothing can delay for very long that all-embracing coalescence of the Continent which came so perilously near achievement in 1940, and beside which the offensive and defensive powers of the Hitlerian Reich may well fade into insignificance. Whether to encourage or even tolerate such an outcome is in the interests, economic or otherwise, of anyone on either side of the Atlantic, is for those concerned to decide.

. . . . .

As I write this, in the summer of 1944, and as the War in Europe moves to its final climax, not even the thrill of suspense can turn our cares away from what may follow after a victory so dearly achieved. Will justice prevail over expediency, reason over prejudice, reality over illusion, will over destiny? Will Europe survive? Or must its peoples, for want of the means of resurrection, submit in final agony to continental dominion? The answer rests heavily with forces already on the move, and such as our generation cannot sway. All that it can and must do is to learn from the past, react to the present, prepare for the future. It was to the coming generation that Mr. Keynes dedicated his book twenty-five years ago. This is an answer which comes from that generation.

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