

# 1 *Lessons of Keynes's Economic Consequences in a Turbulent Century*

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The community of nations is badly positioned to meet the existential challenges it faces. The first two decades of the twenty-first century generated economic and political dilemmas that in many ways resemble those the world faced in 1919. As then, disunity provides a weak basis for providing key global public goods and countering collective global threats. For all the subsequent controversy over its facts, analysis, and style – even its geopolitical repercussions – John Maynard Keynes's book, *The Economic Consequences of the Peace*, stands as a prescient warning. A piece of history-writing, and history-making, the book painted a picture of what happens when enlightened multilateralism gives way to national rivalry and inward-looking electoral calculation. These lessons need to be taken to heart today. The stakes for humanity are higher than ever before.

Keynes correctly predicted the drift of the following decades, even if he was “right for the wrong reasons,” as the historian Charles Maier put it. In many ways, we live with the repercussions of 1919 to this day. In this chapter, we review the arc of experience since 1919 from the perspective of Keynes's influence and his changing understanding of economics, politics, and geopolitics during a tumultuous historical period. At decisive moments that punctuated this past century, international economic, financial, and political relations took on particular architectures embodied in specific international institutions and legal treaties. Accompanying these constructions of “global order” was the development of international modes of governance that connected policymakers with advisers. Notable hinge points include the Paris Peace Conference of 1919, the Bretton Woods agreement of 1944, and the end of the Cold War and reunification of Germany three decades ago. There are other key evolutions, particularly the collapse of the Bretton Woods system and the re-emergence of China as a global force in the late 1970s, alongside the deregulation

of financial markets, the emergence of neoliberalism, and the resulting shock waves. Through it all, Keynes, as an economist, a political thinker, an adviser, a government actor, and a general intellectual lodestar – as in 1919 – remained a potent factor.

Setting Keynes within this century-long context draws out the dangers of binary thinking in relation to the year 1919 and his influential text. Historians and economists often present momentous years such as 1919, 1929, 1945, or 1971 as pivot points when the world is made, or unmade. This approach sets up a false dichotomy that contrasts a crisis – or shock – with an imagined prior stability when economic relations and global politics were in a supposed state of equilibrium. Reflecting on the century since *The Economic Consequences of the Peace* draws out that the world did not abruptly swing from one side to the other – from stability and peace to war and depression. Rather, in the past, as now, the world experienced periods, and occasionally decades, of turbulence. Sometimes that turbulence led to new forms of economic thinking, as well as to multilateral cooperation that sought to moderate the choppy waves for the good of states, market actors, and civil society (see, e.g., Papadia and Välimäki 2018). But as the history of Keynes and his 1919 text also exemplifies, the lines between these moments of crisis and the emergence of new paradigms were far from direct.

Putting Keynes at the centre of our analysis not only highlights questions about him and his role, but also points to broader questions about the turbulent world he knew and its evolution since his death in the spring of 1946. How should we judge Keynes's varied contributions: as the expert, the government adviser, the public intellectual, the gadfly? How should we evaluate the ways his experience in 1919 shaped his subsequent professional trajectory? And what explains the persistent influence of his ideas and his personal example? That influence grew from his activities and his writings, notably including the *Economic Consequences*, but it reached far beyond his considerable policy contributions. The role of the expert in shaping policy is a question about Keynes himself, but also, by extension, concerns the roles of academics and advisers. These experts include those Keynes described as “defunct academic scribblers,” but as importantly scholars, scientists, journalists, and others who, already in Keynes's day, functioned as public intellectuals, actively seeking influence over government policies (and, sometimes, financial support from vested interests). In the realm of macroeconomics, Keynes's ideas became dominant, as both inspiration and target, helping to define the political landscape

of the past century. While its specific merits and shortcomings remain contested, *The Economic Consequences of the Peace* is undeniably a seminal document of the twentieth century. The worldview it set out and the intellectual process it catalysed have been essential ingredients in the unfolding of history since 1919.

### Global Order on the Eve of World War I

The global order upended by World War I was one of empires in which laissez-faire capitalism prevailed but was increasingly questioned. Before 1914, new political forces – populism, nationalism, socialist, organized labour, and communist parties – arose to challenge capitalist norms and practices in the major European metropolises of Britain, France, Germany, Austria-Hungary, Italy, Spain, and Russia. There were also rising tensions between empires that played out globally. The declining fortunes of the Ottoman Empire and imperial Spain fanned rivalries over territory, for example. The crumbling of Ottoman authority became salient to the world in 1875 when the empire defaulted on its public debt to European creditors. By the late nineteenth century, Tunisia was a French colony, Egypt a British protectorate, and by the dawn of the twentieth century, Bulgaria and Romania gained independence. If this set the scene for new geopolitical arrangements in Eurasia and North Africa, the US victory in the 1898 Spanish-American naval war fought in the Caribbean and Pacific confirmed that a new ordering was also underway in American and world relations.

Spain lost the last remnants of its overseas empire in a defeat that triggered a fierce debate about the decline of Catholicism as a global force in ways that also tainted French, Italian, and Austro-Hungarian authority. In 1905, rising Japan defeated Orthodox Russia in war and a domestic revolution shook the Tsarist regime. Protestant values and Anglo-Saxon empires, by contrast, seemed ascendant. Following the Spanish-American war, the United States gained island possessions that were strategically important to its navy, in particular, with US interests now spanning the world. Controversial at home, globally these territorial acquisitions signalled a US interest in expansion that completed its move from a former colony to a leading naval imperial power, with economic and political ambitions to match. Rivalry with Japan was only a matter of time.

Momentous changes in the global balance of power were readily evident also at the heart of Europe. If ethno-nationalist claims were challenging the coherence of the Ottoman and Austro-Hungarian empires,

they fuelled the ambitions of the recently unified German and Italian states. German, and notably Prussian, supremacy was measured in economic terms, and often related to military capacity. Like the United States, Germany enjoyed rich natural endowments of hard and soft commodities such as coal, iron ore, and grains that stressed the link between territory, economic strength, and military power in ways that were profoundly consequential for international politics before and after 1914.

More specifically, the German empire challenged the norms and practices of *laissez-faire*, notably in relation to trade. The onset of a global depression in 1873 triggered a move to greater trade protection, with free trading Britain increasingly an outlier in Western trade policy. The newly unified German state, in contrast, assumed a more central role. In 1902, Germany passed a tariff increase to take effect in 1906 as an opening bid for a series of trade negotiations. Many of its trade partners responded by introducing higher *tarifs de combat* as a basis for negotiations. By 1905, Germany had signed treaties with Russia, Italy, Belgium, Austria-Hungary, Serbia, and Switzerland. These were bilateral deals but contained concessions automatically extended to all third parties with most-favoured nation status. Some regarded the German approach as a future model for world economic relations, others as dangerous gamesmanship that risked tariff wars, especially as not all *tarifs de combat* were cancelled in subsequent trade treaties (see Dietzel 1903; Bairoch 1989).

Britain and the United States, the two countries that were the decisive players in shaping the new economic order after 1918, played relatively modest roles in the European system of trade treaties before 1914. Britain had no protective tariffs, and, thus, few bargaining chips. The United States had high tariffs, but the executive branch of its government had few powers to negotiate them down with trade treaties. The two countries did not forget their experience of European protectionism. It shaped Woodrow Wilson's decision to include free trade in his January 1918 Fourteen Points. These, in turn, formed the basis of the Armistice negotiated in November 1918 and of Anglo-American determination to force Germany, Austria, and Hungary to move to free trade in peace negotiations in 1919. As shown in the chapter by Madeleine Dungy, these changes drew comment and interest from Keynes.

Before 1914, British, French, and US power and authority in shaping global order, defined by the arrangement of relations between states, markets, and civil society, lay much more in their importance

in the international financial system. Particularly central were their roles as international creditors and in the fixed exchange mechanism, the gold standard, which they dominated. The gold standard network comprised a group of the world's most prosperous countries, with Britain at the centre, which offered access to major markets of the world without the disruption of currency fluctuations. It facilitated international capital movements by reducing exchange rate risk. It was assumed that the rules governing the gold standard meant it was difficult for governments and financiers to manipulate money for their own ends, and the system was associated with an increased standard of living in the countries that adopted it. Major belligerents in World War I switched from silver or bimetallic currencies to gold in the last quarter of the nineteenth century: Germany in 1872, France in 1878, the United States in 1879, and Japan and Russia in 1897 (Meissner 2005). These developments – like free trade – were associated with international cooperation and harmony. Membership was contingent, however, and could be suspended in a crisis. And no crisis came bigger than World War I.

### War and Peacemaking

The war meant free trade, too, was readily abandoned, notably by Britain. The move was central to British military strategy. The British government orchestrated a blockade against the Central Powers. The Allied blockade was designed to prevent all goods, including food and agricultural supplies as well as more overt war materiel, from entering Germany, Austria-Hungary, Bulgaria, and Turkey. Britain also implemented a series of political, bureaucratic, military, and naval manoeuvres to convince neutral countries to cease trading with the Central powers. The operations of the blockade created a network of administrative bodies that underpinned Allied relations, and greatly increased the need for economic and statistical expertise.<sup>1</sup> The blockade unleashed other contradictory impulses as its operations both

<sup>1</sup> The classic studies of the blockade's operation are Bell (1937) and Marder (1961). Lambert (2012) has recently re-energized scholarly debates regarding the importance of economic warfare and the blockade to the course and outcome of war. For an incisive and extended critique of Lambert's argument, see Coogan (2015). Mulder (2022) offers a comprehensive account of the role of economic sanctions in the 1914–1945 period.

helped globalize the war and break up global markets that had become increasingly integrated and specialized in the preceding century.<sup>2</sup> Nor did the blockade end with the war in November 1918. It remained in force until the conclusion of peace negotiations in Paris the following year, with catastrophic effects on commodity supplies, notably food desperately needed for the civilian populations across Central and Eastern Europe (M. E. Cox 2019).

At the same time, the war increased Western European dependency on US commodity markets, notably in relation to foodstuffs, and on US capital in ways that had a transformative effect on the global economy and international relations. Nor did this dependence end with the Armistice in November 1918. Under the direction of future Secretary of Commerce and Republican President Herbert Hoover, the United States took the lead in organizing aid, notably food and medical supplies, to war-shattered Europe (Riley 2017). By February 1922, allied debts to the United States amounted \$10,512 million. France alone owed \$3,555 million and Britain \$4,427 million. Each, in turn, had loaned money to its imperial allies. The net effect did more than transform the United States from a debtor to a creditor nation; it was now the world's banker.

America's role in the world economy was transformed, a change matched, in the first instance at least, by President Wilson's ambition in international relations. His plan for a new intergovernmental organization, the League of Nations, signalled a momentous break with the nineteenth-century notion that a "balance of power" would pacify the European continent and prevent its military domination by a single state or group of powers. After 1919, there was an attempt to establish procedural rules on which stable and legitimate cooperation would depend.

Power politics remained inherent to the work of the League, although economists and historians too often ignore a step that contemporaries in 1919 found radical: in founding the League, the Paris peacemakers multilateralized the practice of international relations at a stroke. It proved difficult to negotiate multilateral arrangements such as the 1936 Tripartite stabilization pact within the League, partly because

<sup>2</sup> In these circumstances, globalization did not disappear, but it was transformed to meet the imperatives of the global war economy (see Tooze and Fertik 2014).

the United States failed to join (though it regularly sent experts to its conferences and meetings).<sup>3</sup> At the same time, the legal norms and practices developed by the League were foundational for new institutions of global governance founded in 1945 (Clavin 2013). By 1989, the move from bilateral treaties to a multilateral world order seemed a given, but the unfolding history of the twenty-first century suggests that one can take neither multilateralism, nor the institutional bodies that support it, for granted (Ruggie 1993).

Although Keynes did not engage directly with the League project, he was involved in a number of related initiatives. Notably, at one point, he hoped to pin the credit-raising initiatives tracked in the chapter by Harold James and Andrew Koger to the League's coat tails.<sup>4</sup> In *The Economic Consequences of the Peace*, Keynes stressed the systemic breakdown at the heart of Europe that peacemakers missed because of their fixation with the politics of ethno-nationalism and territorial carve-ups.<sup>5</sup> As he would put it later, "The Wilsonian dogma, which exalts the divisions of race and nationality above the bonds of trade and culture, and guarantees frontiers but not happiness, is deeply embedded in the conception of the League of Nations as at present constituted" (Keynes 1922, p. 14). The principle of self-determination inspired many, but disappointed more, when it became clear that it would apply only to white, Western populations and in often contradictory ways. If it reunited ethnic Poles who had fought on different sides of the war in a new Polish republic, it also banned union between ethnic Germans of the former Austria-Hungary and the new Weimar Republic. Victorious nationalists, such as Thomas Masaryk, the highly respected Slovak president of the new Czechoslovak republic, may have portrayed the new states in Eastern Europe as a victory against the "Caesarism" of Europe's former empires. Yet, Czechoslovakia was not alone among the new states in harbouring its own imperial ambitions (Lemmen 2021, pp. 343–362).

Keynes's cynical view of Wilsonian idealism was understandable. While dismantling the empires of the losers, the global order instituted

<sup>3</sup> On the Tripartite Agreement, see the chapter by Max Harris.

<sup>4</sup> Keynes to Florence Keynes, April 17, 1919, and Austen Chamberlain to Lloyd George, April 17, 1919, in Johnson and Moggridge (1978, pp. 428–436).

<sup>5</sup> See the chapter by Elise Brezis on the role of new balance of power relationships in steering domestic political consensus, especially workers' attitudes, on the pursuit of national sovereignty.



in Paris reasserted the imperial rights of the victors. In 1919, the British Empire reached its greatest territorial extent. Britain, under the mandatory regime of the League of Nations, took charge of territories such as Palestine, Transjordan, and Iraq (Pedersen 2015 and the essays in “AHR Reflections: One Hundred Years of Mandates.” *American Historical Review* 124 (December 2019): 1673–1731). At the same time, British Dominions became sovereign members of the League with Australia and New Zealand also gaining mandatory authority in the Pacific (Duffy 2019). The United States, too, toyed with the idea of mandatory authority.

Keynes was famously more animated, however, on the financial settlement and its implications. The chapters by Peter Clarke, Michael Cox, and Guilherme Sampaio touch on the long-running and well-known controversy over Germany's ability to pay the magnitude of indemnity that seemed probable after the peace conference.<sup>6</sup> More broadly, Keynes feared that reparations, legitimated by the Allies' insistence on a legal war guilt clause, would combine with other demands flowing from the Treaty to embitter international relations going forward, especially within Europe. The Treaty would also promote economic fragmentation. In Keynes's words, it would “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” (1919, pp. 1–2).

But there were also the sins of omission. In a passage foreshadowing similar challenges that would arise a quarter century later in 1945, Keynes wrote:

The Treaty includes no provisions for the economic rehabilitation of Europe,—nothing to make the defeated Central Empires into good neighbours, nothing to stabilise the new States of Europe, nothing to reclaim Russia; nor does it promote in any way a compact of economic solidarity amongst the Allies themselves; no arrangement was reached at Paris for restoring the disordered finances of France and Italy, or to adjust the systems of the Old World and the New.... It is an extraordinary fact that the fundamental eco-

<sup>6</sup> Simon Hinrichsen's chapter elucidates the debate through a novel comparative analysis of fifteen episodes of enforced war reparations between 1800 and today. Keynes had a broad view of possible harmful economic effects of reparations on Germany, including what economists now call the debt overhang effect (Keynes 1919, p. 217).



conomic problem of a Europe starving and disintegrating before their eyes, was the one question in which it was impossible to arouse the interest of [Clemenceau, Lloyd George, Wilson, and Orlando]. (Keynes 1919, p. 211)

For Keynes (1919, p. 274n), “Hoover was the only man who emerged from the ordeal of Paris with an enhanced reputation ... his eyes steadily fixed on the true and essential facts of the European situation.” This was because he sought to address the economic and social challenges posed by the warlike conditions of the peace. Wilson, in contrast, was puritanical and out of touch. Between 1918 and 1923, revolution, civil war, and episodes of ethnic cleansing killed another four million people across Central and Eastern Europe, a figure higher than the combined figure of war casualties of Britain, France, and the United States (Gerwarth and Horne 2012).

At the same time, immigrant access to North America, a main escape route for oppressed and unemployed Europeans before the war, contracted. In Canada, 1919 amendments to the Immigration Act expanded the grounds for denial of entry and deportation. In the United States, the reaction was more far-reaching. The US Immigration Act of 1917 introduced a literacy test for immigrants; the 1921 Emergency Quota Act placed numerical limits on immigration; while the 1924 Johnson-Reed National Origins Act aimed to restrict overall immigration and freeze America’s racial composition through a national origins quota formula based on immigrant population percentages as of 1890.<sup>7</sup> US *external* immigration restrictions could not address a second migration-based cause of cultural tensions within the United States – the large-scale *internal* movement of southern Blacks to the North. The years after World War I saw a national resurgence of the Ku Klux Klan and widespread violence against Blacks, including the deadly Tulsa massacre of 1921 (Tooze 2014).

Riven by ethnic, racial, and class tensions, employment concerns, and fears of socialist subversion, the United States was in no position to deliver global public goods. The US Senate’s final rejection of the Versailles Treaty in 1920 and, with it, US membership in the League

<sup>7</sup> The 1924 act also excluded Asians. The US Congress modified its provisions in the McCarran-Walter Immigration and Nationality Act of 1952 (which Congress passed over President Truman’s veto), but nationality quotas heavily favouring north-western Europeans remained in place until they were effectively loosened in the 1965 Hart-Celler Immigration and Nationality Act.

of Nations was just one consequence of the country's domestic political disarray.

### Keynes's Influence in Private and Public

Keynes was a young man when he took up his role as an adviser to the UK Treasury. His efforts to shape the Treaty terms in the face of countervailing political realities proved fruitless. Michael Cox's chapter outlines how Keynes authored two detailed memoranda on the indemnity issue in 1918 and further memoranda in Paris, finally proposing what he called a "grand scheme" to ease the logjam of reparations and inter-Allied debt, while providing Germany (and other defeated powers) some financial support for domestic reconstruction. His proposal was not taken up, and his warnings against the Versailles Treaty were not heeded. Ultimately, reparations went largely unpaid, and the Treaty terms and *sequelae* served as a potent prod to nationalistic resentment within Germany. Having failed to move official opinion within the UK government, Keynes decided to go public with his views. The decision provoked a mixed reaction at the time, and heated historical debate ever since. Maier (2009) judges that Keynes's book was "brilliant, unfair, wrongheaded, destructive perhaps in its consequences ... but right for the wrong reasons." Kindleberger's (1973, p. 39) view is more even-handed:

Keynes's brilliant polemic ... may have been distorting in many respects; self-confirming in its contention that if the Germans heard a reasonable argument to the effect that they could not pay, they would not; and devastatingly encouraging to American isolationists in its attacks on President Wilson as an incompetent invalid; but it was surely right in thinking it useful to cancel war debts, set a small figure for reparations ... and clear the issue off the international agenda.

One might add that Keynes was most unfair in his treatment of Clemenceau, who, far from being a reactionary, had more claim to the mantle of radicalism than Wilson, Lloyd George, or Keynes himself. It was the government of Republican France that pushed for a peace that was not merely more punitive, but also provided a more robust international security order.

With its widespread notoriety, Keynes's book threw a shadow over the League of Nations. It also empowered isolationists in the United