THE SECOND WORLD WAR

129. J. M. KEYNES

THE ECONOMIC CONSEQUENCES OF THE PEACE

(1919)

John Maynard Keynes (1883–1946), one of the most distinguished modern economists, was born into an English academic family. He was educated at Eton and at King's College, Cambridge. Almost from the beginning he was marked out as a brilliant student, especially in mathematics and classics. At Cambridge he had a stunning career and was elected to the "Apostles," one of the most privileged of all undergraduate societies. His connection with the London Bloomsbury Group, which included Vanessa Bell and Virginia Woolf, brought his interest in mathematics toward the practical science of economics. Keynes made a career in government and as a university professor at Cambridge. His reputation was built upon his *General Theory of Employment, Interest, and Money* (1935–36), a technical work that advocated government intervention to lessen unemployment and developed the relationship between demand and overall economic conditions.

Attached to the British delegation at the Versailles conference after World War I, Keynes became so disillusioned with the proceedings that he resigned his post and published *The Economic Consequences of the Peace.* He was the first to argue that the reparations demanded of Germany would be counterproductive to the regeneration of Europe.

In England the outward aspect of life does not yet teach us to feel or realize in the least that an age is over. We are busy picking up the threads of our life where we dropped them, with this difference only, that many of us seem a good deal richer than we were before. Where we spent millions before the war, we have now learnt that we can spend hundreds of millions and apparently not suffer for it. Evidently we did not exploit to the utmost the possibilities of our economic life. We look, therefore, not only to a return to the comforts of 1914, but to an immense broadening and intensification of them. All classes alike thus build their plans, the rich to spend more and save less, the poor to spend more and work less.

But perhaps it is only in England (and America) that it is possible to be so unconscious. In continental Europe the earth heaves and no one but is aware of the rumblings. There it is not just a matter of extravagance or

"labor troubles?"; but of life and death, of starvation and existence, and of the fearful convulsions of a dying civilization.

In the first place, the vast expenditures of the war, the inflation of prices, and the depreciation of currency, leading up to a complete instability of the unit of value, have made us lose all sense of number and magnitude in matters of finance. What 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.

There are no precedents for the indemnity imposed on Germany under the present Treaty; for the money exactions which formed part of the settlement after previous wars have differed in two fundamental respects from this one. The sum demanded has been determinate and has been measured in a lump sum of money; and so long as the defeated party was meeting the annual instalments of cash no consequential interference was necessary.

But for reasons already elucidated, the exactions in this case are not yet determinate, and the sum when fixed will prove in excess of what can be paid in cash and in excess also of what can be paid at all. It was necessary, therefore, to set up a body to establish the bill of claim, to fix the mode of payment, and to approve necessary abatements and delays. It was only possible to place this body in a position to exact the utmost year by year by giving it wide powers over the internal economic life of the enemy countries, who are to be treated henceforward as bankrupt estates to be administered by and for the benefit of the creditors. In fact, however, its powers and functions have been enlarged even beyond what was required for this purpose, and the Reparation Commission has been established as the final arbiter on numerous economic and financial issues which it was convenient to leave unsettled in the Treaty itself.

I cannot 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 civilized 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 fates of nations Justice is not so simple. And if it were, nations are not authorized, by religion or by natural morals, to visit on the children of their enemies the misdoings of parents or of rulers.

The essential facts of the situation, as I see them, are expressed simply. Europe consists of the densest aggregation of population in the history of the world. This population is accustomed to a relatively high standard of life, in which, even now, some sections of it anticipate improvement rather than deterioration. In relation to other continents Europe is not self-sufficient; in particular it cannot feed itself. Internally the population is not evenly distributed, but much of it is crowded into a relatively small number of dense industrial centers. This population secured for itself a livelihood before the war, without much margin of surplus, by means of a delicate and immensely complicated organization, of which the foundations were supported by coal, iron, transport, and an unbroken supply of imported food and raw materials from other continents. By the destruction of this organization and the interruption of the stream of supplies, a part of this population is deprived of its means of livelihood. Emigration is not open to the redundant surplus. For it would take years to transport them overseas, even, which is not the case, if countries could be found which were ready to receive them. The danger confronting us, therefore, is the rapid depression of the standard of life of the European populations to a

point which will mean actual starvation for some (a point already reached in Russia and approximately reached in Austria). Men will not always die quietly. For starvation, which brings to some lethargy and a helpless despair, drives other temperaments to the nervous instability of hysteria and to a mad despair. And these in their distress may overturn the remnants of organization, and submerge civilization itself in their attempts to satisfy desperately the overwhelming needs of the individual. This is the danger against which all our resources and courage and idealism must now co-operate.

Lenin is said to have declared that the best way to destroy the Capitalist System was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate *arbitrarily;* and, while the process impoverishes many, it actually enriches some. The sight of this arbitrary rearrangement of riches strikes not only at security, but at confidence in the equity of the existing distribution of wealth. Those to whom the system brings windfalls, beyond their deserts and even beyond their expectations or desires, become "profiteers," who are the object of the hatred of the bourgeoisie, whom the inflationism has impoverished, not less than of the proletariat. As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless; and the process of wealth-getting degenerates into a gamble and a lottery.

Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose.

In the latter stages of the war all the belligerent governments practised, from necessity or incompetence, what a Bolshevist might have done from design. Even now, when the war is over, most of them continue out of weakness the same malpractices. But further, the Governments of Europe, being many of them at this moment reckless in their methods as well as weak, seek to direct on to a class known as "profiteers?" the popular indignation against the more obvious consequences of their vicious methods. These "profiteers?" are, broadly speaking, the entrepreneur class of capitalists, that is to say, the active and constructive element in the whole capitalist society, who in a period of rapidly rising prices cannot help but get rich quick whether they wish it or desire it or not. If prices are continually rising, every trader who has purchased for stock or owns property and plant inevitably makes profits. By directing hatred against this class, therefore, the European Governments are carrying a step further the fatal process which the subtle mind of Lenin had consciously conceived. The profiteers are a consequence and not a cause of rising prices. By combining a popular hatred of the class of entrepreneurs with the blow already given to social security by the violent and arbitrary disturbance of contract and of the established equilibrium of wealth which is the inevitable result of inflation, these Governments are fast rendering impossible a continuance of the social and economic order of the nineteenth century. But they have no plan for replacing it.

We are thus faced in Europe with the spectacle of an extraordinary weakness on the part of the great capitalist class, which has emerged from the industrial triumphs of the nineteenth century, and seemed a very few years ago our all-powerful master. The terror and personal timidity of the individuals of this class is now so great, their confidence in their place in society and in their necessity to the social organism so diminished, that they are the easy victims of intimidation. This was not so in England twenty-five years ago any more than it is now in the United States.

Then the capitalists believed in themselves, in their value to society, in the propriety of their continued existence in the full enjoyment of their riches and the unlimited exercise of their power. Now they tremble before every insult;—call them pro-Germans, international financiers, or profiteers, and they will give you any ransom you choose to ask not to speak of them so harshly. They allow themselves to be ruined and altogether undone by their own instruments, governments of their own making, and a press of which they are the proprietors. Perhaps it is historically true that no order of society ever perishes save by its own hand.

QUESTIONS

1. How has the Great War affected European society?
2. Why does Keynes oppose the extraction of war reparations from Germany?
3. Keynes identifies inflation as an important danger to economic and political stability. Why?
4. What, according to Keynes, has happened to the once-confident class of capitalist entrepreneurs in Europe?
5. Woodrow Wilson saw World War I as a crusade for democracy and peace. From Keynes's work, would you say that the outcome of the war had promoted those values?

130. WINIFRED HOLTBY

WOMEN AND A CHANGING CIVILIZATION

(1934)

Winifred Holtby (1898–1935) was a novelist, poet, and journalist who was associated with British feminist and pacifist causes in the early part of the twentieth century. Born into a farming family, Holtby was strongly influenced by her mother who was the first woman country councilor in the East Riding of Yorkshire. She was educated locally and attended Sommerville College, Oxford where she read for a History degree between stints as a volunteer in the Women's Auxiliary during the First World War. At Oxford she began a lifelong friendship with Vera Brittain with whom she lived after moving to London. Her early career was as a journalist and she wrote for many of the leading newspapers of the day including the liberal Manchester Guardian. In 1926 she became