

Stephen A. Schuker. "John Maynard Keynes and the Personal Politics of Reparations: Part 1."

Diplomacy & Statecraft 25:3 (2014): 453-471. DOI: 10.1080/09592296.2014.936197.

<http://dx.doi.org/10.1080/09592296.2014.936197>;

and "**John Maynard Keynes and the Personal Politics of Reparations: Part 2.**" *Diplomacy & Statecraft* 25:4 (2014): 579-591. DOI: 10.1080/09592296.2014.967124.

<http://dx.doi.org/10.1080/09592296.2014.967124>

URL: <http://tiny.cc/AR546>

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Stephen Schuker has spent his career deeply immersed in the primary sources located in archival holdings in the United States, the United Kingdom, France, and Germany that deal with the economic consequences of the peace settlement of 1919. His path-breaking study of the origins of the 1924 Dawes Plan exploited business and banking archives as well as the available diplomatic records to trace the complex set of events surrounding the unofficial Anglo-American efforts to settle once and for all the hitherto intractable problem of German reparations.¹ One is hard put to imagine a more forbidding task than to review, absorb, and make sense out of the complex and often highly technical records of the Reparation Commission at the Peace Conference, the commission that was set up by the treaty and operated in the first half of the 1920s, as well as the private papers of the relevant officials--financial experts as well as political leaders-- in those four countries whose activities determined the fate of the campaign to compel the Weimar Republic to endure the economic sacrifice required to repair the physical damage caused by the German armies on the Western Front during the war. Schuker's general study of that complex topic, drawing on economic theory as well as a wide range of primary sources, set the standard for subsequent scholarship.²

¹ *The End of French Predominance in Europe: The Financial Crisis of 1924 and the Adoption of the Dawes Plan* (University of North Carolina Press, 1976).

² *American Reparations to Germany, 1919-1933: Implications for the Third World Debt Crisis* (Princeton University International Economics, 1988).

Along with Marc Trachtenberg, Sally Marks, and others, Schuker was one of the founding members of the school of scholars who challenged conventional wisdom concerning the reparation sections of the Versailles Treaty.³ That earlier interpretation had been decisively influenced by the best-selling book by a junior member of the British delegation to the Paris Peace Conference who subsequently became perhaps the most influential economist of the twentieth century. References to John Maynard Keynes can be found throughout the aforementioned studies by Schuker. The article under review, which runs thirty pages with 149 footnotes, concentrates on the role played by the British economist during the early 1920s in undermining the case for enforcing the treaty requirements for German payment of the reparation bill.

As Schuker pointedly reminds us, Keynes was not a member of the commission that drew up the clauses on reparations in the Versailles treaty, and had no hand in its formulation. But after he resigned from the British delegation in protest against the contents of that section, he returned to Great Britain to write a scathing polemic against the reparations section that would become the most influential work on any aspect of the 1919 peace settlement. In that book Keynes ominously warned that the reparation payments would bankrupt Germany and bring the rest of Europe down with it. (The determination of the specific amount that Germany would be required to pay was postponed until the spring of 1921, but all concerned expected it to be substantial). The British economist denounced French premier Georges Clemenceau for striving to impose on the defeated power a ‘Carthaginian Peace’ and for shrewdly bamboozling a naïve U.S. President Woodrow Wilson (with the connivance of the wily ‘Welsh Wizard,’ British Prime Minister David Lloyd George) into accepting it.⁴ Cobbled together in four months of feverish writing, the book was rushed into print in December 1919 and enjoyed a phenomenal commercial success. It colored the interpretations of subsequent scholars and the general public on the subject of reparations for many years to come.⁵ With the outbreak of the Second World War, the Versailles Treaty—and particularly its reparation section—was widely seen as a major cause of the breakdown of the European order and the succession of lethal and destructive events that followed.

³ Marc Trachtenberg, *Reparation and World Politics: France and European Economic Diplomacy, 1916-1923* (Columbia University Press, 1980); Sally Marks, “The Myth of Reparations,” *Central European Quarterly*, 11 (1978), 231-255; Sally Marks, “Smoke and Mirrors: In Smoke-Filled Rooms and the Galerie des Glaces,” in Manfred Boemeke et al., *The Treaty of Versailles: A Reassessment After 75 Years* (Cambridge University Press, 1998), 337-370.

⁴ John Maynard Keynes, *The Economic Consequences of the Peace* (1919. American Edition, Harcourt, Brace, & Howe, 1920).

⁵ It was brought out in the United States in 1920 and was widely cited by critics of the Versailles Treaty during the treaty debate in the U.S. Senate that ended with the failure of that legislative body to consent to the treaty in March 1920. In the first six months after its publication, the book sold over 100,000 copies and was translated into twelve languages.

As noted, Schuker's earlier treatise on German reparations refuted the major claims in Keynes's critique.⁶ Apparently in this article his main concern is to reveal hitherto unexplored aspects of Keynes's energetic behind-the-scenes campaign to sabotage the reparation regime in the years after the publication of *The Economic Consequences of the Peace*. Because the war on the Western front had been fought largely on the territory of France, that country had the most to gain and lose from the outcome of the struggle over how much the Weimar Republic (which Schuker continually refers to as "the Reich," a title which the new German democracy had retained in its constitution) would be required to pay, and how those payments would be made, in order to defray the reconstruction costs in what the French called 'the devastated regions.' What he has discovered, after an exhaustive investigation of the correspondence between Keynes and high-ranking political and financial leaders of postwar Germany, is quite startling: Far from behaving as an objective social scientist assessing the events surrounding the attempt by France to collect reparations in the early 1920s, Keynes was in fact an avid supporter and a secret adviser of the German governments in that period as they energetically labored to relieve their citizens of the reparation burden that had been imposed upon them.

At the center of Schuker's analysis is the personal relationship between the British economist and the Hamburg financier Carl Melchior, who was attached to the German delegation and took the lead in challenging the reparation requirement. Keynes and Melchior encountered each other for the first time in mid-February 1919 at a meeting to discuss the armistice renewal and the means to expedite emergency food deliveries to alleviate the situation of impoverished German citizens during the period of the allied blockade. Schuker trots out the cryptic remarks that Keynes offered to his Bloomsbury buddies in a reminiscence about his private tête-à-tête with the Hamburg banker: "I was quivering with excitement, terrified out of my wits at what I was doing. For the barriers of permitted intercourse had not then begun to crumble....In a sort of way I was in love with him" (457). Schuker speculates about the effect of this personal relationship on the British economist's thinking about reparations: "[D]id Keynes really fall in love with Melchior?" he asks. "Did Melchior reciprocate his feelings? And if the personal and political relationship did not end in 1919, as Keynes implies, then what was he trying to hide? The overriding issue is, of course, whether the budding intimacy between the two men, which eventually drew Keynes into the highest German governing circles, helped shape his campaign against the Versailles treaty?" (458-459).

The allusion to "the highest German governing circles" refers to the extensive contacts that Keynes maintained with Weimar financial and government officials after the end of

⁶ An earlier work had exposed the failure of many of Keynes's predictions about the repercussions of reparations for Germany and for Europe. See Etienne Mantoux, *The Carthaginian Peace: Or the Economic Consequences of Mr. Keynes* (Oxford University Press, 1946).

the peace conference. In 1922 he urged his contacts in the Germany banking community and government, with Melchior serving as intermediary, to stand firm in the face of the French threat, after the Germans defaulted on their deliveries of coal on reparation account, to occupy the Ruhr mines in order to forcibly procure the coal. He also vigorously backed German efforts to obtain a partial moratorium on reparation payments, called for the dissolution of the French-controlled Reparation Commission that had declared Germany in default, and advocated the premature evacuation of the allied-occupied Rhineland (468).

When French armed forces occupied the Ruhr in January 1923, Keynes pulled out all the stops in his campaign for treaty revision. To his friend Melchior he opined that “It is essential for Germany to hold out to the limit of her endurance” and asked that his message of support be communicated to German Chancellor Wilhelm Cuno (who had ordered passive resistance by the Ruhr coal miners). He later wrote directly to Cuno urging him to approach the British and American governments for a settlement of the reparation crisis in a bid to isolate France. Keynes and Melchior exchanged numerous messages about how to proceed. The former insisted that “firmness and a proud bearing will produce more effect on opinion than conciliation and moans” (582-583). After Melchior prepared the ground with Cuno, Keynes rushed to Berlin in early June to work with the Hamburg banker and the German Chancellor on a note to be submitted to British Prime Minister Stanley Baldwin soliciting London’s backing in the Ruhr imbroglio. On returning home the economist lobbied intensively on behalf of the German note without divulging his role in composing it (584).

What Schuker has conclusively demonstrated in this lengthy piece is the single-minded determination with which Keynes served as the clandestine counselor of the German government in the early post-war period as it sought to evade the reparation requirements of the peace treaty. The question of motivation is an important part of Schuker’s analysis. How to account for the fact that the British economist worked so energetically with the financial and political leaders of his country’s recent enemy to undercut and eventually destroy the reparation clauses of the treaty that his government had played such a major role in shaping. Schuker provides illuminating references to Keynes’s visceral dislike of France as one possible explanation. The emphasis on his intense personal relationship with Melchior—platonic or otherwise—raises an interesting irony in light of the condescending anti-Semitism that Keynes shared with many of those in his entourage. Indeed, the economist himself acknowledged the irony in a mordant observation: “My dear Melchior is a Jew too,” he remarked on a visit to Berlin in 1926. “Yet if I lived there [Berlin] I might turn anti-Semite...It is not agreeable to see a civilization under the ugly thumbs of impure Jews who have all the money and the power and the brains (462).”

In any case, Keynes’s personal connections with highly placed German officials ended with the failure of the Cuno government’s passive resistance campaign and its replacement by the Stresemann ministry. The Dawes Plan of 1924 reduced the amount

that Germany was required to pay and set the stage for a vast influx of American private loans to stabilize the German currency and revive the German economy. As Schuker observes, during the second half of the 1920s “foreign loans had more than covered German out-payments. The capital inflow had facilitated German wage increases exceeding productivity gains and allowed Weimar to create an embryonic welfare state with other people’s money” (586). In the end, as he demonstrated in his earlier work, by the time that Germany suspended reparation payments in 1932 and then defaulted on its foreign (mainly American) commercial loans, the country actually ended up paying no net reparations at all. Hence the ironic title of his book “American ‘Reparations’ to Germany.”

One is entitled to ask if the careful attention that Schuker devotes to the campaign by Keynes to sabotage the reparation regime from 1919 to 1923 is worth the effort. After all, thanks to the monographic scholarship of Schuker, Trachtenberg, and Marks cited above, as well as the general study of 1919 peace settlement by Margaret MacMillan,⁷ the scholarly consensus has decisively repudiated Keynes’s evaluation of the consequences of the reparation section of the Treaty of Versailles. Is Schuker flogging a dead horse?

As I began to compose this review I was inspired to search for indications that this scholarly consensus has finally filtered down to the general public, or whether the long shadow of Keynes retains its hold over the popular imagination. For an answer to this question I decided to do what I have long forbidden my students to do as they prepare their term papers. I consulted Wikipedia. And what I found was the following: “The German people saw reparations as a national humiliation; the German Government worked to undermine the validity of the Treaty of Versailles and the requirement to pay. British economist John Maynard Keynes called the treaty a Carthaginian peace that would economically destroy Germany. His arguments had a profound effect on historians, politicians, and the public at large. Despite Keynes’s arguments and those by later historians supporting or reinforcing Keynes’s views, the consensus of contemporary historians is that reparations were not as intolerable as the Germans or Keynes had suggested and were in fact within Germany’s capacity to pay had there been the political will to do so.”⁸

But my satisfaction was short-lived. I thereupon came across the following observations by a distinguished Nobel laureate in economics, whose weekly column reaches millions of *New York Times* readers throughout the world, which reminded me that the reputation of Keynes’s broadside against German reparations was alive and well:

⁷ Margaret MacMillan, *Paris 1919: Six Months that Changed the World* (Random House, 2003).

⁸ Wikipedia. Reparations. World War I.

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“About those reparations:” Paul Krugman announced. “The basic story here is that Britain and France, instead of viewing the newly established German democracy as a potential partner, treated it as a conquered enemy, demanding that it make up their own wartime losses. This was deeply unwise — and the demands placed on Germany were impossible to meet, for two reasons. First, Germany’s economy had already been devastated by the war. Second, the true burden on that shrunken economy would — as John Maynard Keynes explained in his angry, powerful book *The Economic Consequences of the Peace* — be far greater than the direct payments to the vengeful Allies.”⁹

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⁹ Paul Krugman, “Weimar on the Aegean,” *New York Times*, 16 February 2015, A17.