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WAR AND PEACE IN KEYNES' THOUGHT

ABSTRACT

Despite an extensive literature devoted to Keynes's thought, there are still few analyzes of his thinking on international relations. Keynes traced the causes of wars above all to economic factors, first of all to the impoverishment of populations. A stable peace could only be established by removing the causes of this impoverishment. Hence his profound criticisms of the Treaty of Versailles, because it imposed unsustainable reparations on Germany; hence the main motivations of the Keynes Plan on the new international monetary order to be established after WWII which, while favoring the development of international trade, would have allowed individual countries to pursue economic policies aimed at maintaining full employment.

KEYWORDS: John Maynard Keynes; International Relations; War; Peace

JEL CLASSIFICATION: B31; B41; F02

RIASSUNTO

Guerra e pace nel pensiero di Keynes

Nonostante l'ampia letteratura dedicata al pensiero di Keynes, sono tuttora poche le analisi del suo pensiero sulle relazioni internazionali. Keynes riconduceva le cause delle guerre soprattutto a fattori economici, in primis all'impoverimento delle popolazioni. Una pace stabile poteva instaurarsi solo rimuovendo le cause di tale impoverimento. Di qui le sue profonde critiche al Trattato di Versailles, perché imponeva alla Germania riparazioni insostenibili; di qui le motivazioni principali del Piano Keynes sul nuovo ordine monetario internazionale da instaurare dopo la WWII che, pur favorendo uno sviluppo del commercio internazionale, avrebbe consentito ai singoli paesi di perseguire politiche economiche volte a conservare la piena occupazione.

1. INTRODUCTION

It is easy to share Markwell's (2006) view that, despite the voluminous literature on Keynes and the numerous biographical studies of him¹, there is still little analysis of his thought from the point of view of international relations. In what remains is clearly the most important contribution on this topic, namely that of Markwell (2006), the evolution of Keynes's view of international relations can be discerned: his youthful adhesion to the classical liberal view was followed by an early liberal institutionalist view, followed by a protectionist view and finally a mature liberal institutionalist view². In this paper, while sharing the idea that Keynes's position on various aspects of international relations changed, we want to show how, both at a young age and in later life, he remained convinced that humanity, thanks to the growth of well-being, could reach higher levels of civilization and that in this way could realize that a policy of international cooperation and peace were unavoidable rational choices.

2. THE CAUSES OF WAR

From an early age Keynes espoused pacifist views³. In fact, in the letter he wrote to the conscription tribunal of 28 February 1916 requesting recognition of his exemption as a conscientious objector he wrote:

"I claim complete exemption because I have a conscientious objection to surrendering my liberty of judgement on so vital question as undertaking military service. I do not say that there are not conceivable grounds on which I should voluntarily offer myself for military service. But having regard to the actually existing circumstances, I am certain that it is not my duty to so offer myself, and I solemnly assert to the Tribunal that my objection to submit to authority in this matter is truly conscientious. I am not prepared on such an issue as this to surrender my right of decision, as to what is or is not my duty, to any other person, and I should think it morally wrong to do so"⁴.

Keynes's pacifist views were certainly the product, in part, of his philosophical training, but he was

¹ See, in particular, Robinson (1947), Harrod (1972), Skidelsky (1983; 1992; 2000), Moggridge (1992).

² See Markwell (2006; p. 3).

³ See, among others, Markwell (2006) and Coulomb and Alcouffe (2019).

⁴ See *Collected Writings of J.M. Keynes*, (henceforth CW), vol. XVI, p. 178. The *Collected Writings of John Maynard Keynes*, 30 voll., have been published by Macmillan/Cambridge University Press for the Royal Economic Society, London, 1971-1989. The voll. XV-XVIII have been edited by Elizabeth Johnson, the remaining by Donald Moggridge, sometimes alone, some other with co-editors.

also influenced by Norman Angell, whose best-seller "The Great Illusion" was published, first, in 1903 and then republished in 1910⁵.

In his book Angell argued that the process of civilization involved a reduction in the value attributed to physical strength and the transfer of human conflict from the physical to the intellectual realm. Governments should, he argued, understand that the time for wars was over and

"resort to general disarmament or, at least, a limitation of armament by agreement"⁶.

Keynes shared many of Angell's ideas and, indeed, invited him to speak at the Political Economy Club in February 1912⁷. Like Angell, he believed that war was irrational and inhuman. It not only brought destruction, worsened the general welfare and fostered unrest and revolutions, but was contrary to human nature⁸.

In order to avert the possibility of war it was necessary to remove its causes and, in the General Theory Keynes, acknowledged that

"war has several causes. Dictators and others such, to whom war offers, in expectation at least, a pleasurable excitement, find it easy to work on the natural bellicosity of their people"⁹, but he also stated that "over and above this, facilitating their task of fanning the popular flame, are the economic causes of war"¹⁰.

From his various writings it emerges that he identified four main economic causes of war: the impoverishment of the population, pressure from population growth, economic imperialism, and competition for markets. Impoverishment as a cause of economic and social hardship and a source of internal and international disorder is dealt with in "The Economic Consequences of Peace" (hereafter ECP). A Germany impoverished by the application of the Versailles Treaty could lead to revolution and war. This process could be avoided by adopting specific policy decisions, starting with the revision of the Treaty. Keynes's insistence on the possibility of combating

⁵ For the motivation for Keynes conscientious objection see Skidelsky (1983, p. 316 ff.) and Johnson (1960).

⁶ Angell (1910; p. 4).

⁷ See Markwell (2006; p. 18).

⁸ See Keynes (1923).

⁹ Keynes (1936 [1973; p. 381]).

¹⁰ Keynes (1936 [1973; p. 381]).

impoverishment of the population through policy measures also emerges in his reflections and proposals regarding the world monetary order to be established after the second world war.

In his reports from the April 1922 conference in Genoa, his articles in the Manchester Guardian between April 1922 and January 1923 and in “A Tract on Monetary Reform”, his conviction emerges of the need for a reform of the international monetary system. High inflation and exchange rate instability would foster serious internal and international tensions, the remedy to this was not the restoration of the gold standard since this would have led to deflation and, consequently, a fall in output, high unemployment and impoverishment.

Rather it was a question of stabilizing exchange rates through careful control of budget deficits and establishing a regime of managed exchange rates. This would allow, not only, stable prices without the economic and social costs of a restoration of the gold standard, but also enable states to take control of the performance of the economy, preventing it from being left to automatic mechanisms.

“For these grave causes we must free ourselves from the deep distrust which exists against allowing the regulation of the standard of value to be the subject of deliberate decision”¹¹.

Similarly, in his 1943 proposal for reform of the post-WWII international monetary system, Keynes was concerned that the adjustment of current account imbalances would weigh exclusively on the deficit country, creating unemployment and poverty in it. In order to avoid this, he showed himself in favor of mechanisms that incentivize the surplus country to take measures to adjust the imbalance.

The above shows how distant Keynes was from his friends and other scholars of his time such as Strachey (1932; 1935), Woolf (1939), Brailsford (1938) etc., who in contrast to Angell believed that capitalism, being subject to crises of under consumption, inevitably encouraged war, as the expenditure which the war generated would be used as a means to compensate for the deficit in demand¹².

¹¹ Keynes (1929; p. 54).

¹² On this aspect see Markwell (2006; p. 180-181) and Skidelsky (1992; p. 515-517). However, Acocella (2021; p. 126) has remarked the fact that Keynes in 1930 raised the problem “...whether the issue at the base of consumption would have been able to cope with the higher productivity”.

While they believed that capitalism was structurally unchangeable, Keynes argued that its functioning could be modified by replacing orthodox economics with an economics that would allow capitalism to be directed towards the enhancement of the well-being of citizens.

According to Keynes, the second cause of wars was population pressure. This idea can already be found in the ECP, where he alludes to the idea that excess population is a contributory factor in revolutions and, indeed, of WWI¹³. In his opinion, in fact, before the war,

“... Europe's claim on the resources of the New World [which allowed it to feed its population] was becoming precarious; the law of diminishing returns was at last reasserting itself, and was making it necessary year by year for Europe to offer a greater quantity of other commodities to obtain the same amount of bread...”¹⁴.

He argued that if the demands of the population go unsatisfied, it can

“... lead to a regime of armed and powerful nations grabbing resources from weak holders”¹⁵. He therefore recommended governments to control population growth through birth control policies. So, “... if nations can learn to provide themselves with full employment by their domestic policy (and, we must add, if they can also attain equilibrium in the trend of their population), there need to be no important economic forces calculated to set the interest of one country against that of its neighbours”¹⁶.

Keynes saw a third cause of war in the competitive struggle for markets by states. In his well-known 1933 article on “National Self-Sufficiency” he writes:

“To begin with the question of peace. We are pacifist today with so much strength of conviction that, if the economic internationalist could win this point, he would soon recapture our support. But it does not now seem obvious that a great concentration of national effort on the capture of foreign trade, that the penetration of a country's economic structure by the resources and the influence of foreign capitalists, that a close dependence of our own economic life on the fluctuating economic policies of foreign countries, are safeguards and assurances of international peace”¹⁷.

¹³ “*Thus the extraordinary occurrences of the past two years in Russia ... the disruptive powers of excessive national fecundity may have played a greater part in bursting the bonds of convention than either the power of ideas or the errors of autocracy*”. Keynes (1919 [1920; p. 10]).

¹⁴ Keynes (1919 [1920, p. 14]).

¹⁵ See Keynes (1923). As Carter (2021; p. 100) observes: “Keynes ... feared overpopulation as a menace to prosperity, but he had come of age in an era of increasing abundance, and believed – in contrast to Burke – that democracy had fostered a more luxurious society; its customs and traditions had protected a flowering of art and ideas”. The link between democracy is the object of a huge debate. On this debate see Joshi (2021).

¹⁶ Keynes (1936[1973; p. 382]).

¹⁷ Keynes (1933; p. 179).

In the 1930s, in fact, Keynes abandoned the idea that free trade promoted peace a view which, as we will see in the next paragraph, he had been educated to believe and maintained in the ECP.

In chapter 23 of *The General Theory* Keynes writes:

“... the mercantilists were under no illusions as to the nationalistic character of their policies and their tendency to promote war. ... Intellectually their realism is much preferable to the confused thinking of contemporary advocates of an international fixed gold standard and laissez-faire in international lending, who believe that it is precisely these policies which will best promote peace”¹⁸.

Ultimately, Keynes believed that a high degree of freedom of trade can only foster peace if the right institutions are adopted. Otherwise the competition for markets tends to provoke war as it did in the time when states adhered to the principles of mercantilism.

Linked to competition for markets is imperialism, which Keynes believed played a major role in causing WWI.

The war

“... was engendered, in part at least, by militarism everywhere ..., and by the universally practised policies of economic imperialism”¹⁹.

With the latter part of the statement Keynes was presumably referring to the formation of exclusive trading blocks, such as the economic role of Germany in central Europe before WWI.

In contrast, he maintained that an empire based on open markets and democracy, as England had been in the nineteenth century, created the conditions for cosmopolitanism and peace. Keynes's vision of imperialism was, therefore, different from that of Hobson (1902)²⁰ and even more so from the Marxist view, in particular that expressed by Lenin²¹.

According to Hobson, capitalism was facing a crisis of under consumption. The excess savings, however, could be used to make investments abroad. These investments made it possible, on the one hand, to eliminate excess savings and, on the other, to reduce the excess supply of goods. This process had allowed the survival of capitalism. However, the drive of the capitalist countries to conquer new lands and new markets resulted in frequent wars between the great powers.

¹⁸ Keynes (1936[1973; p. 348]).

¹⁹ CW (2012), vol. XVIII, p. 126.

²⁰ See also Hobson and Mummery (1889).

²¹ On this aspect see Skidelsky (2013).

In contrast to this view, Keynes believed that the lack of aggregate demand stemmed from insufficient investment demand. This could be remedied both by discouraging the accumulation of idle money and by reducing the policy interest rate. Also from this point of view, the imbalances that characterized capitalism would, given appropriate policy measures, have avoided degenerating into revolution and war.

3. THE CONDITIONS FOR PEACE

The restoration and maintenance of peace and the ways in which to achieve this goal are the main subject of the ECP, which is Keynes' most notable foray into international relations.

In the book, written and published in 1919, Keynes discusses the Treaty of Versailles, the reparations it envisages and the consequences that might ensue from it. Before addressing these issues, however, he stresses the fact that revolutions and wars stem from the inability of governments to feed a growing population.

"The great events of history are often due to secular changes in the growth of population and other fundamental economic causes, which, escaping by their gradual character the notice of contemporary observers, are attributed to the follies of statemen or fanaticism of atheists"²².

Starting from 1870

"the pressure of population on food, which had already been balanced by the accessibility of supply from America, became for the first time in recorded history definitely reversed. As numbers increased, food was actually easier to secure"²³.

In this context, Malthus's risk of food shortages due to excessive population growth was

"chained up and out of sight", however, "what an extraordinary episode in the economic progress of man that age was which come to an end in August 1914!"²⁴.

"The war had so shaken this system as to endanger the life of Europe altogether. A great part of the Continent was sick and dying; its population was greatly in excess of the numbers for which a livelihood was

²² Keynes (1919 [1920; p. 10]).

²³ Keynes (1919 [1920; p. 8]).

²⁴ Keynes (1919 [1920; p. 8]).

available; its organization was destroyed, its transport system ruptured, and its food supplies terribly impaired”²⁵.

Faced with this situation, the task of governments, according to Keynes, was to favor the economic reconstruction of Europe²⁶. In this way revolutions would be averted and peace guaranteed. The provisions of the Treaty of Versailles, on the contrary, tended to aggravate the difficult situation in which Europe found itself, creating the conditions for high levels of political instability.

In the first place, the provisions of the Treaty violated the commitment made by the Allies before the Armistice to respect the principles declared by President Wilson. Second, Germany would not have been able to pay the amount of reparations required by the Treaty, attempting to make these payments would have required a trade balance surplus. To this end, it should have reduced its imports and increased its exports by reducing the prices of exported goods. Such a policy would have led to a further impoverishment of Germany and would have favored the emergence of conditions conducive to revolution.

Europe, and, in particular, Britain would have been damaged by the increased competitiveness of German exports. In concomitance with a lower growth in output, it would have been difficult for them to amortize the high debt accumulated during the war, to cope with which it would have been necessary to resort to an excess of money creation with respect to demand. Europe would, therefore, have been affected by high levels of inflation.

“As the inflation proceeds and the real value of the currency fluctuates widely 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”²⁷.

That, as Lenin is said to have declared, to “debauch currency” is “the best way to destroy the capitalist system”.

This would, not only have undermined the capitalist system, but by reducing production and trade it would have provoked starvation in Europe. The production of goods to feed the European population was

²⁵ Keynes (1919 [1920; p. 14]).

²⁶ Keynes considered the European system as an organic world. See Carabelli and Cedrini (2010; p. 1014).

²⁷ Keynes (1919 [1920; p. 92]).

"... the fundamental problem in front of us, before which questions of territorial adjustments and the balance of European power are insignificant"²⁸.

The Treaty, therefore, was criticized not only for the punitive and harmful measures it envisaged, but also because it did not contain proposals for the reconstruction of Europe.

He, therefore, proposed in the ECP a revision of the Treaty to reduce the demand for reparations from Germany, revitalize international trade, and create a new international order characterized by international economic cooperation.

After the war, world growth was hampered by several factors, including

"... a lack of individual credit abroad wherewith to buy the raw materials needed to secure the working capital and restart the circle of exchange"²⁹.

This called for the complete cancellation of inter-Ally debt and an international loan in favor of countries in need of capital³⁰.

The cancellation of the debts of the allied countries would have been a sign of solidarity between them and would have contributed to the establishment of a new Europe³¹.

The economic growth of one country would have favored that of others. A harmonious civilization based on free trade and solidarity between states would have been the result³².

"For the immediate future events are taking charge, and the near destiny of Europe is no longer in the hands of every man. The events of the coming year will not be shaped by the deliberate acts of statesman, but by the hidden currents, flowing continentally beneath the surface of political history ... In one way only can we influence these hidden currents – by setting in motion those forces of instruction and imagination which change opinion. The assertion of truth, the unveiling of illusion, the dissipation of hate, the enlargement and instruction of men's hearts and minds, must be the means"³³.

In several places in these works, Keynes emphasizes the fact that the Treaty of Versailles was inspired by the logic of power, rather than by the principles of cooperation between states.

²⁸ Keynes (1919 [1920; p. 90]).

²⁹ Keynes (1919 [1920; p. 95]).

³⁰ "The countries in a position to lend assistance ... must provide foreign purchasing credits for all belligerent countries of Continental Europe, allied and ex-enemy alike". Keynes (1919 [1920; p. 111]).

³¹ On the importance given by Keynes to international cooperation see Marcuzzo (2019; 2022).

³² "... Must we not base our actions on better expectations, and believe that the prosperity of man is not a fiction, and that nations can still afford to treat other nations as fellow-creatures?". Keynes (1919 [1920; p. 104]).

³³ Keynes (1919 [1920; p. 115]).

“The thoughts which I have expressed in the second chapter were not present in the mind of Paris. The future life of Europe was not their concern, its means of livelihood was not their anxiety. Their preoccupations, good and bad alike, related to frontiers and nationalities, to the balance of power, to imperial aggrandizement, to the future enfeeblement of a strong and dangerous enemy ...”³⁴.

The personification of this balance of power policy was Clemenceau:

“his philosophy had, therefore, no place for ‘sentimentality’ in international relations. Nations are real things of whom you love one and feel for the rest indifference or hatred. The glory of the nation you love is a desirable end – but generally to be obtained at your neighbour’s expense. The politics of power are inevitable, and there is nothing very new to learn about this war or the end it was fought for”³⁵.

Keynes strongly rejects an approach to international relations based on the principle of balance of power, to which he saw the French Prime Minister Clemenceau anchored.

The rejection of this hypothesis stemmed in Keynes from the assumption that free trade, on the one hand, would have favored the growth of the income of countries and, therefore, lessened their aggressiveness, and on the other hand, would have preserved peace thanks to the growing economic interdependence of the states³⁶. Thanks to the latter

“many of the boundaries between nations are being broken down”

and humanity was induced to change its “duties”³⁷. With this vision, he linked himself to a central tenet of the liberal economic orthodoxy according to which free trade promotes peace, a view which at the beginning of the twentieth century was predominant among the Cambridge economists³⁸. According to Carr this view should be traced back to Adam Smith:

³⁴ Keynes (1919 [1920; p. 26]). As Berman (1995; p. 634) writes: “*Keynes’ attack on the powers of the new international authorities set up by the Treaty also rested on his views about the primacy of economics, including the elevation of economic over legal expertise*”.

³⁵ Keynes (1919 [1920, p. 17]).

³⁶ On this aspect see among others Turnell (2002).

³⁷ Paper on “Modern civilization” (dating from 1905) UA/22/1-10, KP; see also OC/5/103ff, KP.

³⁸ Emblematic as Mill writes (1848 [2004; p. 112]): “... [I]t may be said without exaggeration that the great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race”. Similar concepts are found in Sidgwick (1891) and Marshall (1919). As highlighted by Skidelsky (1983), the view that Economic progress and the development of exchanges between countries favored a moral improvement of humanity induced Keynes to share a large part of the theses supported by Angell (1909), even if he did not share some extreme positions of the liberal pacifism of which Angell became a promoter.

"It was the laissez-faire school of political economy created by Adam Smith which was in the main responsible for popularising the doctrine of the harmony of interests ..."³⁹.

Today most international relations scholars reject this view. In fact,

"... because states operate in an anarchic system, there is no night watchman to whom they can turn for help if another great power attacks them"⁴⁰,

the main goal of a state is to maximize the safety of its citizens. In this perspective, economic interdependence does not prevent war, indeed in certain circumstances it can favor it. In fact, the gains in trade can be asymmetric: one country can derive greater gains from trading than another. In this case, trade has a negative *security externality*⁴¹. Asymmetric trade gains can foster multiple path warfare, an example of this is the case in which a country that has benefited from gains from trade acquires resources and uses them militarily to impose their will on others⁴².

In fact, the assumption that interdependence favors peace is demonstrated to be false precisely by what happened in the years preceding WWI. There is no doubt that the late nineteenth century was a period of intense globalization and between 1870 and 1913 North Atlantic transport costs fell by 45 per cent. The substantial fall in transportation costs fostered massive growth in international trade⁴³, migration from Europe to other continents and financial flows across countries⁴⁴. However, interdependence created asymmetries in the independence of countries and their economic growth, which inevitably affected the balance of power⁴⁵.

In fact, Germany in particular benefited from the high interdependence in the decades preceding the First World War and at a certain point demanded that their economic power be recognized as

³⁹ Carr (1939, p.43)

⁴⁰ Mearsheimer (2001; p. 43).

⁴¹ See Gilpin (1981; p. 130).

⁴² Furthermore, commercial interdependence can arise from the fact that one country becomes dependent on imports of vital goods and services from another. In such a situation, the dependent country may be deprived of its independence from the other country or may try to conquer the country on which it depends. See Waltz (1979; p. 104).

⁴³ For the UK, the share of imports from and exports to Germany ranged from one fifth to one third of the total. See Mitchell and Deane (1962).

⁴⁴ See Maddison (1991) and O'Rourke and Williamson (1999).

⁴⁵ "*If I depend more on you than you depend on me, you have more ways of influencing me and affecting my fate than I have of affecting yours*", Waltz (1979; pp. 15-16). In part similar considerations Susan Strange (1986) makes with reference to recent globalization where she argues that markets have taken power away from states in an asymmetrical way, to a greater extent from small states than from large states.

a similar power in the international arena⁴⁶.

In the nineteen seventies, the opening of French archives offered the opportunity to consult documents relating to international relations and the foreign policy of advanced countries, this resulted in a radical reassessment of the debate on the Treaty of Versailles and German Reparations⁴⁷ and a vast literature has been produced challenging Keynes's point of view⁴⁸.

As part of this new wave of studies⁴⁹, the changes in the balance of power that took place after the First World War are emphasized. In particular, it is highlighted that France, despite being among the victorious powers, was in 1919 in a weaker position as regards its security than in 1913. As Kissinger (1995; p. 679) writes, in fact,

“paradoxically, France’s vulnerability and Germany’s strategic advantage were both magnified by the Treaty of Versailles despite its punitive provisions. Before the war, Germany had faced strong neighbors in both the East and the West. It could not expand in either direction without encountering a major state – France, the Austro-Hungarian Empire, or Russia. But after the Treaty of Versailles, there was no longer a counterweight to Germany in the East. With France weakened, the Austro-Hungarian Empire dissolved, and Russia out of the picture for some time, there was simply no way of reconstructing the old balance of power, especially since the Anglo-Saxon powers refused to guarantee the Versailles settlement”.

It is not surprising, therefore, that the revisionist literature considers French politics as rational, aimed at guaranteeing the country’s international security, and blames British foreign policy as being completely wrong, inclined to view France rather than Germany as the primary threat to the balance of European power⁵⁰. In this context, we see a re-assessment that indicates Germany and England as the main obstacles to post-war stabilization rather than the previously vilified France⁵¹.

⁴⁶ See Mearsheimer (2001).

⁴⁷ See Feldman (1993; p. 309).

⁴⁸ A summary of this literature can be found in Jacobson (1983).

⁴⁹ According to these studies, unlike Keynes’ view, Reparations were economically viable for Germany. See among others Marks (1978; 2013), Ritschl (2005) and Schuker (1988). For a presentation of the recent terms of the debate on the Treaty of Versailles and the Reparations see the contributions in Boemeke *et al.* (1998).

⁵⁰ Taking this into account, Skidelsky himself (1983; p. 397), one of Keynes’s most authoritative biographers, acknowledges that “*recent scholarship based on French governmental as well as American and European banking archives is kinder to France’s financial motives and logic than Keynes was. France claims for Reparations are now seen to be more modest and defensible than Britain’s*”.

⁵¹ Trachtenberg (1979) defines this new vision “Manichaeism in reverse”.

By arguing that the treaty was unfair, Keynes, with the ECP, strengthened the determination of the Germans to reject the terms of the treaty.

“His vision sharpened an already burning resentment and, in the eyes of the Germans, constituted a test”⁵².

The ECP played a significant role in the definitive rejection of the Treaty of Versailles by the American Senate, giving the United States arguments to better justify their disengagement from European issues and the balance of power on the old continent⁵³.

In England, Keynes's book was hailed as confirmation of France's irrational intransigence towards Germany, England's most important trading partner. In Anglo-Saxon countries, *The Economic Consequences* would have contributed to the “*mea culpism*”, or the feeling of guilt for the unfair treatment suffered by Germany in the Treaty of Versailles, a view which pervaded England in the period between the two wars and which led the country to a weak resistance to Germany's growing aggression in the 1930s⁵⁴. Viner (1947; p.9) writes about this in his review of Mantoux's book⁵⁵:

“But the guilt complex toward Germany and toward the Treaty of Versailles, which Keynes helped to establish in England and America; the grossly unfair caricature of the personality, the character, and the intellect of Woodrow Wilson, which is the most widely remembered part of his book on the Peace; his exaggerated account of the greed and intransigence of the French and of their obsession with a security bogey – these had long before contributed their weight to easing the path to world hegemony for a resurgent and reparations-free Nazi Germany”.

4. THE COOPERATION BETWEEN STATES AND INTERNATIONAL INSTITUTIONS

Keynes was convinced that in the international political arena it was possible to establish a rule of law and promote respect for moral principles and that peace between states could not be established except by providing for each country's respect for international law, which represented

“one essential ingredient of a regime of justice between nations”⁵⁶.

⁵² Marks (2009; p. 195).

⁵³ See Feldman (1993) and Ferguson (1998).

⁵⁴ Ferguson writes (1998; p. 600): that “*Keynes's attack on the Versailles Treaty without question contributed a good deal to that guilty feeling of having wronged Germany which so inhibited British diplomacy between the wars*”.

⁵⁵ See Mantoux (1946).

⁵⁶ CW, vol. 30, p. 9.

Respect for it would have made disarmament and world peace possible, relationships between states would have thus depended

“... upon written engagement instead of their own armed strength”⁵⁷.

The guarantor of these rules should have been the League of Nations, whose main task was, according to Keynes, to prevent war⁵⁸.

The limited success of the League of Nations and its inability to stem the abuses of “Brigand Powers”⁵⁹ led Keynes to criticize its weaknesses, starting with the requirement for unanimity, and suggesting the creation of Leagues limited to those countries truly seeking peace with the aim of achieving a collective security system.

“Those nations which have a real and abiding will to peace must combine to preserve it; their joint action must be sufficiently imposing to make the risk of war too great to be undertaken except by a gambler or a madman”⁶⁰.

However, Keynes realized that even among countries opposed to the “Brigand Powers” cooperation was problematic. In fact, in a letter to the American President Roosevelt, he laments the reluctance of these countries to support each other⁶¹.

Several times during the interwar period, cooperation between states, even between democratic countries, had failed. It had not only failed in 1919 in the negotiations that led to the Treaty of Versailles, it had also failed in its attempts to jointly cope with the Great Depression. Implicitly, in his letter to Roosevelt he sought to urge the US to exercise the role of leader, the role which, in his opinion, it should have exercised after WWI.

“But if America recalls for a moment what Europe has meant for her, what Europe, the mother of art and knowledge, in spite of everything, still is and still will be, will she not reject these counsels of indifference and isolation, and interest herself in what may be decisive issues for the progress and civilization of all mankind?”⁶².

⁵⁷ CW, vol. 18, p. 123.

⁵⁸ See CW, vol. 17, p. 202-203.

⁵⁹ States ruled by dictatorial regimes such as Germany and Italy.

⁶⁰ CW, vol. 21, p. 374.

⁶¹ See Keynes to FDR, 25 March 1938, box 53, PSE, FDR papers, FDR Library, New York.

⁶² See Keynes (1919 [1920; p. 111]).

Keynes was therefore convinced that cooperation had to be promoted by a lead country. While recognizing the need for one or more lead countries to induce other states to cooperate, Keynes does not specify why a state should assume this responsibility or how other states could be induced to cooperate with them.

The monetary disorder and economic stagnation of the interwar period and the belief that it was largely due to the volatility of short-term capital flows⁶³ led Keynes to argue that

“there is no country which can, in future, safely allow the flight of funds for political reasons or to evade domestic taxation or in anticipation of the owner turning refugee. Equally, there is no country that can safely receive fugitive funds, which constitute an unwanted import of capital, yet cannot safely be used for fixed investment”⁶⁴.

In order to avoid these “fugitive” flows of funds from one country to another, an international agreement was necessary in order to

“... control the ebb and flow of the tides of economic activity which have, in the past, destroyed security of livelihood and endangered international peace”⁶⁵.

On the basis of this premise, he continued:

“The task before us is not to prohibit instrument of control but to develop those measures of control, those policies of administering such control, as will be the most effective in obtaining the objectives of world-wide sustained prosperity”⁶⁶.

The introduction of controls on capital movements would have allowed countries to pursue policies of full employment internally. At the same time, the adoption of fixed exchange rates would have favored the development of international trade in goods, a trade penalized in the interwar period by currency instability.

The goal of full employment and stability of exchange rates in the Keynes Plan were to be made compatible by the creation of an International Clearing Union. As part of this organization, an International Clearing Bank (ICB) would regulate the credit and debit items in the foreign trade

⁶³ This was the explanation of the Great Depression by the League of Nations. See Nurkse (1944).

⁶⁴ Keynes (1943 [1969; p.31]).

⁶⁵ Keynes (1943 [1969; p. 19]).

⁶⁶ Keynes (1943 [1969; p. 64]).

of each country. As happens in the national banking system, the transactions were to be offset against each other and the resulting credit and debit balances then settled.

In order to avoid the volatility of exchange rates, the Keynes Plan foresaw that each country adhering to the new monetary order would set the exchange rate of its own currency against the currency issued by the ICB, the “bancor”. The establishment of a fixed exchange rate system would, however, have had to avoid the prevalence of deflationary processes worldwide. As Keynes writes (1943 [1969; p. 26]):

“The Plan aims at the substitution of an expansionist, in place of a contractionist, pressure on world trade”.

In his view, the classic gold standard and the gold exchange standard forced the burden of adjustment onto debtor countries, making the adjustment mandatory for the debtor country but voluntary for the creditor country. Therefore, if the latter chooses not to reflate its economy, the former must implement deflationary policies, creating unemployment, poverty and social and political tensions.

Keynes’s Plan, on the other hand, provided for mechanisms that would smooth the adjustment of balance of payments imbalances. First, debtor countries could sell gold to the ICB, obtained funding from it, and thereby avoid being required to depreciate their currencies.

Secondly, in order to make the adjustment symmetrical, insuring that the burden did not fall exclusively on the debtor country, the ICB could apply rising interest rates on credits above a quarter of their share to the creditor countries⁶⁷ and ask these countries to revalue their currencies and unblock any foreign-owned investments. The possibility, then, of issuing bancor made the ICB very similar to a central bank in the strict sense since it could counteract phases of world recession by injecting money into the global economic system and, in this context, the bancor would constitute an international currency in the strict sense.

Unlike the Keynes Plan, the White Plan presented by the Americans did not propose that the Stabilization Fund (subsequently the IMF) issued money, and hence it would not take on the role of a central bank, and left the burden of adopting adjustment measures to address foreign account imbalances firmly on the shoulders of the debtor country. The differences between the two Plans

⁶⁷ The share of ICB capital they owned.

on these crucial aspects of the international monetary system largely derived from differing views of the collapse of the gold-exchange standard⁶⁸. For the British, its collapse was mainly due to the behavior of the surplus countries – the United States and France – which, due to their high “liquidity preference”, had accumulated huge gold reserves, thus preventing the price-species-flow mechanism from encouraging the re-absorption of imbalances. For Americans, the collapse of the international monetary system that took place in 1931 had its roots in the monetary indiscipline of various countries. Hence the need to establish, in any case, mechanisms that would encourage countries to pursue virtuous policies.

The primary objective of the Keynes Plan was to promote peace:

“The plan makes a beginning of the future economic ordering of the world between nations and ‘the winning of the peace’”⁶⁹.

The method by which this objective was pursued was based on two main principles:

1. The pursuit of full employment policies within individual countries.
2. Multilateralism in international monetary relations:

“It should be much easier, and surely more satisfactory for all of us, to enter into a general and collective responsibility... This would give everyone the great assistance of multilateral clearing”⁷⁰.

It is well known that in the Bretton Woods negotiations the American point of view, or the White Plan, ultimately prevailed over the British view as contained in the Keynes Plan. However, the Bretton Woods Accords in their final version preserved the need for an “embedded liberalism” to be established in democratic countries after WWII⁷¹, avoiding the economic and social costs of previous international monetary systems anchored to a single commodity currency⁷².

It is widely accepted that the Bretton Woods Accords essentially reflect the White Plan rather than the Keynes Plan due to the strength of the United States at the end of World War II and Britain's relatively weak position⁷³. While this is undoubtedly true, it is also true that the two Plans reflect a different vision of international relations⁷⁴. The Keynes Plan reflects its author's belief

⁶⁸ See Skidelsky (2005).

⁶⁹ Keynes (1943 [1969; p. 36]).

⁷⁰ Keynes (1943 [1969; p. 27]).

⁷¹ See Ruggie (1982).

⁷² See Ikenberry (1992).

⁷³ See Moggridge (1992) and Skidelsky (2000).

⁷⁴ See Boughton (2002).

that economic facts are dominant over political ones and it is from this position that many scholars of international relations it appears “idealistic” if not indeed utopian.

Keynes, in fact, believes that the ICB, which, as we have seen, was to have the power to grant loans to states and to create money, would be jointly managed by the United States and Britain. The exercise of these two functions by this institution would immediately pose problems of a geopolitical nature. How would the seigniorage that derives from the issuance of fiat money be divided?⁷⁵ Who could guarantee that the ICB makes loans aseptically to the states since the United States and Britain could make these payments conditional on the recipients supporting their foreign policy?

What would be the return for the United States and Britain of guaranteeing the orderly functioning of the Clearing Union? And so on.

Taking these aspects into account, we come to the conclusion that, despite the various changes of opinion on certain aspects, there is a profound continuity between the “youthful idealism” of Keynes view as expressed in the ECP and that of the maturer opinion expressed in the Keynes Plan.

5. CONCLUSIONS

Keynes was convinced that the causes of the wars were pre-eminently economic. Conditions of poverty created political instability within states and induced the latter to aggressive behavior in the international arena. To guarantee peace it was necessary to remove the causes of national poverty and impoverishment. These causes were not, in Keynes’s opinion, to be traced back to the structural defects of capitalism. In fact, he does not believe, like Hobson and the Marxists, that this economic system is subject to cyclical crises of under consumption to face which governments adopt aggressive and imperialist policies towards third countries.

The ultimate causes of wars, he believes, can be traced back to factors that can be controlled and neutralized through appropriate policy choices. As Kirshner (1999; p. 314) writes:

⁷⁵ See Pittaluga and Seghezze (2021).

“His broader writings illustrate how, dissatisfied with the existing alternatives to unregulated capitalism, Keynes articulated another choice: the ‘middle way’, a capitalist economy in which some market forces would be managed and contained”.

In his opinion, a first cause of impoverishment stems from the uncontrolled growth of population. Hence his firm belief that governments, in order to guarantee higher levels of well-being for their citizens, should pursue policies to control their population size.

Another cause of impoverishment can be found in monetary systems (such as the gold standard), which are associated with large fluctuations in the cycle and which impose significant economic and social adjustment costs on debtor countries.

According to Keynes, peace could be maintained by internal measures such as birth control and strong economic cooperation between states.

After WWI, this cooperation should have resulted in the easing of war reparations imposed on Germany, in the cancellation of the Allies foreign debt and in efforts to restore pre-war trade. After WWII, cooperation between states should have foreseen, as prescribed by the Keynes Plan, the creation of a Clearing Union, equipped with a central bank, the ICB, and an international currency, the *bancor*⁷⁶.

In both the instances just mentioned, Keynes suggests that cooperation is the only rational choice of states. In major international relations studies, however, international cooperation is shown to be problematic. As Waltz (1979; p. 105) writes:

“When faced with the possibility of cooperating for mutual gains, states that feel insecure must ask how the gain will be divided. They are compelled to ask not ‘will both of us gain?’, But ‘who will gain more?’. If an expected gain is to be divided, say, in the ratio of two to one, one state may use its disproportionate gain to implement a policy intended to damage or destroy the other”.

Ignoring the fact that anarchy often prevails in international relations, Keynes does not clarify how international cooperation can reasonably occur. Equally in the Keynes Plan the role of the United States and England as leaders of the new international monetary order arises from the

⁷⁶ On this aspect see James (2012; p. 417).

assumption that other countries accept this leadership and allow it to control the international currency and the management of the ICB.

In light of this, while acknowledging Keynes' brilliant contribution to economic theory, one cannot disagree with Skidelsky (2000; p. 27) when he writes:

“Nor were his writings on foreign policy of the same quality as his economic pronouncement”⁷⁷.

⁷⁷ See Skidelsky (2000; p. 27).

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