

# GREAT ECONOMIC THINKERS

## Keynes's Economic and Political Criticisms of the Versailles Treaty



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# INTRODUCTION



- The Treaty of Versailles (1919) formally ended World War
- John Maynard Keynes, a British economist, attended the peace negotiations as part of the British delegation.
- In *The Economic Consequences of the Peace* (1919), he criticized the Treaty as too harsh and economically damaging.
- Keynes believed that the Treaty's terms would lead to economic and political instability in Europe.
- His predictions later proved accurate, as economic hardships fueled the rise of extremist movements.



# Keynes's Main Argument

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The Treaty imposed excessive economic burdens on Germany.

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Keynes predicted that these burdens would lead to severe economic hardship, social unrest, and political extremism.

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He warned that punishing Germany rather than supporting its recovery would destabilize Europe.

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His concerns were largely ignored at the time but proved accurate in the following decades.

5

He believed a more lenient approach would have fostered economic recovery and stability.



# Economic Criticisms – Unfair Reparations



Germany was forced to pay ~\$33 billion in reparations, an amount deemed excessive and unrealistic.

Keynes argued that these payments would cripple Germany's economy, preventing recovery and growth.

The strain of reparations led to hyperinflation in the early 1920s, severely devaluing the German mark.

Example: By 1923, German currency had become practically worthless due to hyperinflation.

Keynes advocated for a more moderate settlement to allow Germany to rebuild and reintegrate into the global economy.

# Economic Criticisms – Destruction of Trade



- The Treaty significantly disrupted Europe's economic balance by weakening Germany's industrial and financial capacity.
- Keynes emphasized that economic recovery required cooperation and stability rather than punitive measures.
- The loss of industrial regions such as the Saar Basin and Upper Silesia weakened Germany's ability to produce and trade.
- The fragmentation of the European market hindered economic growth and prosperity.
- He warned that if Germany was economically weakened, it would impact global markets, including Britain and France.

# Economic Criticisms – Impact on Britain and Allies



- Keynes argued that Germany's economic collapse would have negative repercussions for the entire European economy.
- Germany had been a major trading partner for Britain, France, and other nations before WWI.
- If Germany's economy remained weak, other European nations would also struggle due to reduced trade opportunities.
- The reparations system put in place resulted in economic stagnation rather than growth.
- Keynes believed that economic interdependence required a cooperative recovery approach rather than excessive punishment.





# Political Criticisms – Treaty as a "Carthaginian Peace"



- Keynes described the Treaty as a "Carthaginian Peace," referencing Rome's total destruction of Carthage after the Punic Wars.
- The Treaty was based on retribution rather than reconciliation, fostering deep resentment in Germany.
- The loss of territory, military restrictions, and reparations contributed to widespread German dissatisfaction.
- Keynes predicted that such harsh treatment would lead to a desire for revenge, increasing the likelihood of future conflict.
- This prediction was realized with the rise of Adolf Hitler and the outbreak of WWII.

# Political Criticisms – US and Wilson's Failure

- Keynes criticized President Woodrow Wilson's Fourteen Points as overly idealistic and impractical.
  - While Wilson championed self-determination and fair peace, he failed to secure a just and stable agreement.
  - The U.S. Senate ultimately rejected the Treaty and refused to join the League of Nations, weakening its enforcement.
  - Without U.S. leadership, the Treaty's effectiveness in maintaining peace was significantly diminished.
  - Keynes foresaw that without a strong global economic plan, long-term peace was unlikely.
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# Keynes's Predictions Come True

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- In the 1920s, Germany suffered from economic struggles, including hyperinflation and severe depression.
- The economic instability contributed to the rise of extremist political movements, including Adolf Hitler's Nazi Party.
- The Great Depression in 1929 worsened the economic situation in Germany and led to further instability.
- Keynes's warnings about economic hardship leading to political instability were validated with the outbreak of WWII in 1939.
- The Treaty's failures led to a reevaluation of how peace settlements should be structured in the future.

# Example

## **Germany's Hyperinflation Crisis (1921-1923)**

Keynes warned that excessive reparations would cripple Germany's economy and fuel political instability.

In 1923, Germany suffered hyperinflation—money became worthless.

**1919: 1 loaf of bread = 1 mark**

**1923: 1 loaf of bread = 200 billion marks**

Middle-class savings were wiped out, causing mass poverty and anger.

Public resentment toward the Treaty helped extremist groups like the Nazi Party rise to power.

Keynes correctly predicted that economic hardship would lead to future conflict (WWII).

# CONCLUSION

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John Maynard Keynes advised that the corrective terms of the Treaty of Versailles would have long-term effects and result in future wars. His criticisms were replaced by subsequent policies such as the Marshall Plan, which were restorationist instead of punitive, underlining the significance of even-handed economic policy towards the advancement of peace.

The treaty reminds us that over punishing is counterproductive and sanity must win out in diplomacy. Keynes' ideas today are applied to economic recovery, debt control, and international cooperation.

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