

THE COLLECTED WRITINGS OF  
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VOLUME II

THE ECONOMIC  
CONSEQUENCES  
OF THE PEACE

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FOR THE

ROYAL ECONOMIC SOCIETY



For one who spent in Paris the greater part of the six months which succeeded the armistice an occasional visit to London was a strange experience. England still stands outside Europe. Europe's voiceless tremors do not reach her. Europe is apart and England is not of her flesh and body. But Europe is solid with herself. France, Germany, Italy, Austria, and Holland, Russia and Roumania and Poland, throb together, and their structure and civilisation are essentially one. They flourished together, they have rocked together in a war which we, in spite of our enormous contributions and sacrifices (like though in a less degree than America), economically stood outside, and they may fall together. In this lies the destructive significance of the Peace of Paris. If the European civil war is to end with France and Italy abusing their momentary victorious power to destroy Germany and Austria-Hungary now prostrate, they invite their own destruction also, being so deeply and inextricably intertwined with their victims by hidden psychic and economic bonds. At any rate an Englishman who took part in the Conference of Paris and was during those months a member of the Supreme Economic Council of the Allied Powers, was bound to become—for him a new experience—a European in his cares and outlook. There, at the nerve centre of the European system, his British preoccupations must largely fall away and he must be haunted by other and more dreadful spectres. Paris was a nightmare, and everyone there was morbid. A sense of impending catastrophe

## INTRODUCTORY

overhung the frivolous scene; the futility and smallness of man before the great events confronting him; the mingled significance and unreality of the decisions; levity, blindness, insolence, confused cries from without—all the elements of ancient tragedy were there. Seated indeed amid the theatrical trappings of the French saloons of state, one could wonder if the extraordinary visages of Wilson and of Clemenceau, with their fixed hue and unchanging characterisation, were really faces at all and not the tragic-comic masks of some strange drama or puppet-show.

The proceedings of Paris all had this air of extraordinary importance and unimportance at the same time. The decisions seemed charged with consequences to the future of human society; yet the air whispered that the word was not flesh, that it was futile, insignificant, of no effect, dissociated from events; and one felt most strongly the impression, described by Tolstoy in *War and Peace* or by Hardy in *The Dynasts*, of events marching on to their fated conclusion uninfluenced and unaffected by the cerebations of statesmen in council:

### *Spirit of the Years*

Observe that all wide sight and self-command  
Deserts these throngs now driven to demonry  
By the Immanent Unrecking. Nought remains  
But vindictiveness here amid the strong,  
And there amid the weak an impotent rage.

### *Spirit of the Pities*

Why prompts the Will so senseless-shaped a doing?

### *Spirit of the Years*

I have told thee that It works unwittingly,  
As one possessed not judging.

In Paris, where those connected with the Supreme Economic Council received almost hourly the reports of the misery, disorder, and decaying organisation of all Central and Eastern Europe, Allied and enemy alike, and learnt from the lips of the financial representatives of Germany and Austria unanswerable

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evidence of the terrible exhaustion of their countries, an occasional visit to the hot, dry room in the President's house, where the Four fulfilled their destinies in empty and arid intrigue, only added to the sense of nightmare. Yet there in Paris the problems of Europe were terrible and clamant, and an occasional return to the vast unconcern of London a little disconcerting. For in London these questions were very far away, and our own lesser problems alone troubling. London believed that Paris was making a great confusion of its business, but remained uninterested. In this spirit the British people received the treaty without reading it. But it is under the influence of Paris, not London, that this book has been written by one who, though an Englishman, feels himself a European also, and, because of too vivid recent experience, cannot disinterest himself from the further unfolding of the great historic drama of these days which will destroy great institutions, but may also create a new world.

## Chapter 2

# EUROPE BEFORE THE WAR

Before 1870 different parts of the small continent of Europe had specialised in their own products; but, taken as a whole, it was substantially self-subsistent. And its population was adjusted to this state of affairs.

After 1870 there was developed on a large scale an unprecedented situation, and the economic condition of Europe became during the next fifty years unstable and peculiar. The pressure of population on food, which had already been balanced by the accessibility of supplies from America, became for the first time in recorded history definitely reversed. As numbers increased, food was actually easier to secure. Larger proportional returns from an increasing scale of production became true of agriculture as well as industry. With the growth of the European population there were more emigrants on the one hand to till the soil of the new countries and, on the other, more workmen were available in Europe to prepare the industrial products and capital goods which were to maintain the emigrant populations in their new homes, and to build the railways and ships which were to make accessible to Europe food and raw products from distant sources. Up to about 1900 a unit of labour applied to industry yielded year by year a purchasing power over an increasing quantity of food. It is possible that about the year 1900 this process began to be reversed, and a diminishing yield of nature to man's effort was beginning to reassert itself. But the tendency of cereals to rise in real cost was balanced by other improvements; and—one of many novelties—the resources of tropical Africa then for the first time came into large employ, and a great traffic in oilseeds began to bring to the table of Europe in a new and cheaper form one of the essential foodstuffs of

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mankind. In this economic Eldorado, in this economic Utopia, as the earlier economists would have deemed it, most of us were brought up.

That happy age lost sight of a view of the world which filled with deep-seated melancholy the founders of our political economy. Before the eighteenth century mankind entertained no false hopes. To lay the illusions which grew popular at that age's latter end, Malthus disclosed a devil. For half a century all serious economical writings held that devil in clear prospect. For the next half century he was chained up and out of sight. Now perhaps we have loosed him again.

What an extraordinary episode in the economic progress of man that age was which came to an end in August 1914! The greater part of the population, it is true, worked hard and lived at a low standard of comfort, yet were, to all appearances, reasonably contented with this lot. But escape was possible, for any man of capacity or character at all exceeding the average, into the middle and upper classes, for whom life offered, at a low cost and with the least trouble, conveniences, comforts, and amenities beyond the compass of the richest and most powerful monarchs of other ages. The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or he could decide to couple the security of his fortunes with the good faith of the townspeople of any substantial municipality in any continent that fancy or information might recommend. He could secure forthwith, if he wished it, cheap and comfortable means of transit to any country or climate without passport or other formality, could despatch his servant to the neighbouring office of a bank for such supply of the precious metals as might seem

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convenient, and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference. But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable. The projects and politics of militarism and imperialism, of racial and cultural rivalries, of monopolies, restrictions, and exclusion, which were to play the serpent to this paradise, were little more than the amusements of his daily newspaper, and appeared to exercise almost no influence at all on the ordinary course of social and economic life, the internationalisation of which was nearly complete in practice.

It will assist us to appreciate the character and consequences of the peace which we have imposed on our enemies, if I elucidate a little further some of the chief unstable elements, already present when war broke out, in the economic life of Europe.

### I. POPULATION

In 1870, Germany had a population of about 40 million. By 1892 this figure had risen to 50 million, and by 30 June 1914 to about 68 million. In the years immediately preceding the war the annual increase was about 850,000, of whom an insignificant proportion emigrated.<sup>1</sup> This great increase was only rendered possible by a far-reaching transformation of the economic structure of the country. From being agricultural and mainly self-supporting, Germany transformed herself into a vast and complicated industrial machine dependent for its working on the equipoise of many factors outside Germany as well as within. Only by operating this machine, continuously and at full blast, could she find occupation at home for her increasing population and the means of purchasing their subsistence from abroad. The

<sup>1</sup> In 1913 there were 25,843 emigrants from Germany, of whom 19,124 went to the United States.

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German machine was like a top which to maintain its equilibrium must progress ever faster and faster.

In the Austro-Hungarian empire, which grew from about 40 million in 1890 to at least 50 million at the outbreak of war, the same tendency was present in a less degree, the annual excess of births over deaths being about half a million, out of which, however, there was an annual emigration of some quarter of a million persons.

To understand the present situation, we must apprehend with vividness what an extraordinary centre of population the development of the Germanic system had enabled Central Europe to become. Before the war the population of Germany and Austria-Hungary together not only substantially exceeded that of the United States, but was about equal to that of the whole of North America. In these numbers, situated within a compact territory, lay the military strength of the Central Powers. But these same numbers—for even the war has not appreciably diminished them<sup>1</sup>—if deprived of the means of life, remain a hardly less danger to European order.





## II. ORGANISATION

The delicate organisation by which these peoples lived depended partly on factors internal to the system.

The interference of frontiers and of tariffs was reduced to a minimum, and not far short of three hundred millions of people lived within the three empires of Russia, Germany, and Austria-Hungary. The various currencies, which were all maintained on a stable basis in relation to gold and to one another, facilitated the easy flow of capital and of trade to an extent the full value of which we only realise now, when we are deprived of its advantages. Over this great area there was an almost absolute security of property and of person.

These factors of order, security, and uniformity, which Europe had never before enjoyed over so wide and populous a territory or for so long a period, prepared the way for the organisation of that vast mechanism of transport, coal distribution, and foreign trade which made possible an industrial order of life in the dense urban centres of new population. This is too well known to require detailed substantiation with figures. But it may be illustrated by the figures for coal, which has been the key to the industrial growth of Central Europe hardly less than of England; the output of German coal grew from 30 million tons in 1871 to 70 million tons in 1890, 110 million tons in 1900, and 190 million tons in 1913.

Round Germany as a central support the rest of the European

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economic system grouped itself, and on the prosperity and enterprise of Germany the prosperity of the rest of the continent mainly depended. The increasing pace of Germany gave her neighbours an outlet for their products, in exchange for which the enterprise of the German merchant supplied them with their chief requirements at a low price.

The statistics of the economic interdependence of Germany and her neighbours are overwhelming. Germany was the best customer of Russia, Norway, Holland, Belgium, Switzerland, Italy, and Austria-Hungary; she was the second-best customer of Great Britain, Sweden, and Denmark; and the third-best customer of France. She was the largest source of supply to Russia, Norway, Sweden, Denmark, Holland, Switzerland, Italy, Austria-Hungary, Roumania, and Bulgaria; and the second largest source of supply to Great Britain, Belgium, and France.

In our own case we sent more exports to Germany than to any other country in the world except India, and we bought more from her than from any other country in the world except the United States.

There was no European country except those west of Germany which did not do more than a quarter of their total trade with her; and in the case of Russia, Austria-Hungary, and Holland the proportion was far greater.

Germany not only furnished these countries with trade but, in the case of some of them, supplied a great part of the capital needed for their own development. Of Germany's pre-war foreign investments, amounting in all to about £1,250 million, not far short of £500 million was invested in Russia, Austria-Hungary, Bulgaria, Roumania, and Turkey. And by the system of 'peaceful penetration' she gave these countries not only capital but, what they needed hardly less, organisation. The whole of Europe east of the Rhine thus fell into the German industrial orbit, and its economic life was adjusted accordingly.

But these internal factors would not have been sufficient to enable the population to support itself without the co-operation

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of external factors also and of certain general dispositions common to the whole of Europe. Many of the circumstances already treated were true of Europe as a whole, and were not peculiar to the central empires. But all of what follows was common to the whole European system.

### III. THE PSYCHOLOGY OF SOCIETY

Europe was so organised socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the mass of the population, society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein lay, in fact, the main justification of the capitalist system. If the rich had spent their new wealth on their own enjoyments, the world would long ago have found such a régime intolerable. But like bees they saved and accumulated, not less to the advantage of the whole community because they themselves held narrower ends in prospect.

The immense accumulations of fixed capital which, to the great benefit of mankind, were built up during the half century before the war, could never have come about in a society where wealth was divided equitably. The railways of the world, which that age built as a monument to posterity, were, not less than the pyramids of Egypt, the work of labour which was not free to consume in immediate enjoyment the full equivalent of its efforts.

Thus this remarkable system depended for its growth on a double bluff or deception. On the one hand the labouring classes accepted from ignorance or powerlessness, or were compelled,

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persuaded, or cajoled by custom, convention, authority, and the well-established order of society into accepting, a situation in which they could call their own very little of the cake that they and nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it, on the tacit underlying condition that they consumed very little of it in practice. The duty of 'saving' became nine-tenths of virtue and the growth of the cake the object of true religion. There grew round the non-consumption of the cake all those instincts of puritanism which in other ages has withdrawn itself from the world and has neglected the arts of production as well as those of enjoyment. And so the cake increased; but to what end was not clearly contemplated. Individuals would be exhorted not so much to abstain as to defer, and to cultivate the pleasures of security and anticipation. Saving was for old age or for your children; but this was only in theory—the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you.

In writing thus I do not necessarily disparage the practices of that generation. In the unconscious recesses of its being society knew what it was about. The cake was really very small in proportion to the appetites of consumption, and no one, if it were shared all round, would be much the better off by the cutting of it. Society was working not for the small pleasures of today but for the future security and improvement of the race—in fact for 'progress'. If only the cake were not cut but was allowed to grow in the geometrical proportion predicted by Malthus of population, but not less true of compound interest, perhaps a day might come when there would at last be enough to go round, and when posterity could enter into the enjoyment of *our* labours. In that day overwork, overcrowding, and under-feeding would come to an end, and men, secure of the comforts and necessities of the body, could proceed to the nobler exercises of their faculties. One geometrical ratio might cancel another,

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and the nineteenth century was able to forget the fertility of the species in a contemplation of the dizzy virtues of compound interest.

There were two pitfalls in this prospect: lest, population still outstripping accumulation, our self-denials promote not happiness but numbers; and lest the cake be after all consumed, prematurely, in war, the consumer of all such hopes.

But these thoughts lead too far from my present purpose. I seek only to point out that the principle of accumulation based on inequality was a vital part of the pre-war order of society and of progress as we then understood it, and to emphasise that this principle depended on unstable psychological conditions, which it may be impossible to re-create. It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the labouring classes may be no longer willing to forgo so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation.

Much else might be said in an attempt to portray the economic peculiarities of the Europe of 1914. I have selected for emphasis the three or four greatest factors of instability—the instability of an excessive population dependent for its livelihood on a complicated and artificial organisation, the psychological instability of the labouring and capitalist classes, and the instability of Europe's claim, coupled with the completeness of her dependence, on the food supplies of the New World.

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 available; its organisation was

<sup>1</sup> Even since 1914 the population of the United States has increased by seven or eight million. As their annual consumption of wheat per head is not less than six bushels, the pre-war scale of production in the United States would only show a substantial surplus over present domestic requirements in about one year out of five. We have been saved for the moment by the great harvests of 1918 and 1919, which have been called forth by Mr Hoover's guaranteed price. But the United States can hardly be expected to continue indefinitely to raise by a substantial figure the cost of living in its own country, in order to provide wheat for a Europe which cannot pay for it.

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destroyed, its transport system ruptured, and its food supplies terribly impaired.

It was the task of the peace conference to honour engagements and to satisfy justice; but not less to re-establish life and to heal wounds. These tasks were dictated as much by prudence as by the magnanimity which the wisdom of antiquity approved in victors. We will examine in the following chapters the actual character of the peace.