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## **J.M. Keynes and the Personal Politics of Reparations: Part 1**

STEPHEN A. SCHUKER

*Some observers still regard John Maynard Keynes' polemic against the Treaty of Versailles as serious economic analysis. In fact, Keynes continued to play an unacknowledged partisan role in reparation diplomacy during the 1920s. He suggests in a memoir that he never saw the Hamburg banker Carl Melchior alone again after October 1919. Using German sources not exploited by Keynes' principal biographers, this analysis shows that the intimate relationship continued. Melchior drew Keynes into the highest governing circles of the Reich. Keynes supported the 1922–1923 German hyper-inflation on political grounds and helped craft the German reparations note of June 1923.*

The economist John Maynard Keynes held firm views on how to order public affairs. He explained them in a 1922 keynote essay for the *Manchester Guardian Commercial* series on European reconstruction. “The economist is not king,” Keynes wrote. “But he ought to be! He is a better and wiser governor than the general or the diplomatist or the oratorical lawyer. . . . Where the rulers of the state dethrone the economic power in favour of the false idols of diplomacy . . . squalor follows.”<sup>1</sup> Very plausibly, Keynes had himself in mind. Certainly, in retrospect, he rates by general acclaim as the greatest political economist of the first half of the twentieth century. He largely elaborated the fiscal and monetary tools to promote full employment and economic growth that provided the backdrop for the welfare state.

If Keynes' theoretical works have met with diverse challenges, his contemporary broadside against the 1919 Versailles treaty, *The Economic Consequences of the Peace*, has held the field consistently.<sup>2</sup> Thirty-five printings remain available in English. The longevity of that book requires elucidation. Economic historians have long disputed the accuracy of Keynes' figures. Political historians have adjudged the Versailles treaty a reasonable compromise amongst contending views and a flexible instrument allowing for revision.<sup>3</sup> Yet the investigations of scholars have not altered received

opinion. Cultural attitudes shaped by Keynes' polemic still dominate the mass media and the public mind.

No doubt the Keynesian approach to macroeconomic management looms so large in policy debates that contemporaries have an inclination to project current preferences backward. Thus, a recent bestseller asserts that Keynes was right about everything in the 1920s—the botched recovery from the war, the flaws in the gold-exchange standard, and above all the harm done by reparations and war debts to the global economy.<sup>4</sup> Such contentions arguably neglect the specificity of historical circumstances.

This two-part analysis focuses on Keynes' prolonged campaign against the reparations clauses imposed at Versailles within the context of the times, namely, a devastating conflict that the Western Allies had barely won through American intervention. Keynes let political passions drive his economic analysis. Economics is a social science. Its practitioners naturally focus their research around the problems of their era. In this case, however, Keynes' active participation in reparations diplomacy made him more a political actor than a savant striving for objectivity.

Keynes' engagement in this cause was over-determined. It reflected his social attachments and loyalties in English society, guilt about the war and ambivalence about its outcome, and finally yet importantly an intimate personal connexion that drew him into the vortex of German politics. Since current standards on conflicts of interest did not then apply, Keynes felt no compunction to reconcile his various roles, public and confidential. This assessment illustrates how thoroughly he combined his academic work with his advocacy of political causes. Posterity should understand his political orientation to place his economics into perspective.

Keynes met the German banker Carl Melchior in the negotiations for food deliveries that took place on the margins of the Paris Peace Conference in January 1919. Keynes, at age 35, served in effect as the chief British Treasury representative at the conference. The chancellor of the Exchequer, Austen Chamberlain, was wholly absorbed at home and left substantial latitude to his professional staff. With talent for bureaucratic manoeuvre and an unequalled mastery of rhetoric, Keynes amassed considerable influence. He deputised for Chamberlain on the Supreme Economic Council, the coordinating body for managing the transition from war to peace, and he assisted Lord Reading on the Inter-Allied Council of Supply and Relief. Strangely, he played no more than a peripheral role in the reparation discussions, the principal theme of his tell-all book. David Lloyd George, the British prime minister, had political reasons to favour a higher indemnity than did his French or American counterparts and, until late in the proceedings, he minimised the interference of technicians.<sup>5</sup> Although *The Economic Consequences* might suggest otherwise, Keynes obtained much of his information about reparations second-hand through working-level specialists in the American delegation.<sup>6</sup>

With an inveterate suspicion of the French often ratified by events, Keynes discovered on 14 January 1919 that his Gallic allies had attached a financial adviser to the group negotiating with the Germans about prolonging the military armistice. He and Norman Davis of the American Treasury wangled an invitation to join Marshal Ferdinand Foch's train on a mission to confer with the German Armistice Commission at Trier. The financial men met in an uncomfortable railway carriage to discuss the terms on which the Royal Navy might attenuate its food blockade of the Reich. In a memoir that he withheld for posthumous publication, Keynes set down his impressions of the encounter:

A sad lot they were in those early days, with drawn, dejected faces and tired staring eyes, like men who had been hammered on the Stock Exchange. But from amongst them stepped forward into the middle place a very small man, exquisitely clean, very well and neatly dressed, with a high stiff collar which seemed cleaner and whiter than an ordinary collar, . . . his eyes gleaming straight at us, with extraordinary sorrow in them, yet like an honest animal at bay.

This, reports Keynes, choosing his words circumspectly, was “he with whom in the ensuing months I was to have one of the most curious intimacies in the world, and some very strange passages of experience—Dr. Melchior.”<sup>7</sup>

At age 47, Carl Melchior held a partnership in the Hamburg banking house of M.M. Warburg & Co. He had started his professional life modestly as an administrative judge. Shortly before the turn of the century, however, Paul Warburg emigrated to America, where he later helped found the Federal Reserve system. His brother, Max, titular head of the firm, was a *grand seigneur* without much patience for quotidian detail. He invited Melchior, an old friend and distant relative, to join the establishment as *Syndikus*, or chief clerk.<sup>8</sup> Melchior soon came to serve as Max Warburg's alter ego, although he became an equity partner only in 1917. Hard working, disciplined, and efficient, Melchior avoided the limelight. Co-workers lauded his mastery of matter and self, a spirit of self-sacrifice, and, what rated as the highest form of praise in Wilhelminian society, an “officer-like bearing.” What lay behind the mask of propriety affected by this reserved bachelor, no one could really tell. A wartime comrade observed that for all his amiability, Melchior “drew a border around his inner feelings that could be crossed only with difficulty.”<sup>9</sup>

In substantive matters, Melchior prided himself on examining issues objectively—on being a “man of the middle way.” Yet that did not render him immune to the nationalist effervescence of the *Kaiserreich*. He embraced as his own Friedrich List's proclamation, “At the root of all my thoughts stands Germany.”<sup>10</sup> Melchior, who drafted Warburg's memoranda, seemingly did not object to his senior's perfervid annexationism during the First World War. Nor did he dissent from Warburg's advice to Theobald von Bethmann-Hollweg,

the German chancellor in 1914, to impose an enormous indemnity upon the Allies after their defeat. And he did not shrink from Warburg's proposal to obviate the transfer problem by seizing Allied customs, taking equity shares in their industries, confiscating their overseas investments, rigging trade treaties, annexing territory, and expropriating assets of the indigenous population.<sup>11</sup>

Still, the exaggerated patriotism of German Jews derived partly from insecurity. Walther Rathenau, organiser of Germany's war economy, reminded his co-religionists that stepchildren needed to be especially well behaved. "Whoever loves his Fatherland," he declared, "should be something of a chauvinist." Before 1914, Warburg had taken pride in his status as one of the *Kaiserjuden*, a group of plutocrats who hosted Wilhelm II when he passed through Hamburg on the way to his yacht. The increase in resentment against the Jews during the hostilities made social relations infinitely more difficult for Warburg, Melchior, and their circle.<sup>12</sup>

Despite his age, Melchior volunteered as a cavalry officer when war broke out. But he fell off his horse and sustained serious injury. Upon recovering, he again sought public service. He won assignment to the Zentral-Einkaufs-Gesellschaft [ZEG], the purchasing agency set up to assure Germany's food supply. When rumbles in the Reichstag and the General Staff against Jewish preponderance in the ZEG became too insistent, he withdrew to his Hamburg bank. However, after the Reich imposed the March 1918 Brest-Litovsk treaty on Bolshevik Russia, thus liquidating the Eastern war on strikingly favourable terms, he returned to harness, helping the chancellor's office organise food production and railroads in the conquered Ukraine. Those experiences led post-war governments to tap him as a financial specialist on the Armistice Commission, as one of the plenipotentiaries to the peace conference, and as a reparations adviser throughout the Weimar Republic.<sup>13</sup>

Concrete issues lay at stake in the Armistice renewal. The point in dispute was not whether the Allies would resupply Germany with food—surplus comestibles were rotting on the New York docks—but what terms would apply. Hoping for an American loan, the Germans wished to pay the minimum from their own resources. They sought also to delay releasing ships currently marooned in neutral ports to transport the food because they aimed to use the merchant marine as a bargaining chip. The French insisted on earmarking Reichsbank gold for reparation. The British and Americans, moved by humanitarian sentiment and fear of Bolshevik contagion, wanted to get shipments under way. Yet the British also preferred to throw the principal burden of relief on the United States. In this four-cornered contest of wills, the Weimar government held a small advantage. Not deceived by its own propaganda about the so-called hunger blockade, it retained sufficient food reserves to drive a reasonable bargain. The Americans could not wait. As Keynes reported to Whitehall with his customary celerity, "the underlying

motive of the whole thing is Mr Hoover's abundant stocks of low-grade pig products at high prices which must at all costs be unloaded on someone, enemies failing Allies. When Mr Hoover sleeps at night visions of pigs float across his bedclothes, and he frankly admits that at all hazards the nightmare must be dissipated."

An agreement proved elusive at Trier. When in mid-February the Armistice negotiators reconvened at Spa, the former German Army headquarters, the deadlock seemed unbroken. Frustrated by the empty formalities and reckoning that Melchior felt the same way, Keynes asked the commanding admiral for permission to speak with the Hamburger privately. Keynes' ostensible object, as he told Melchior, was to concoct a formula that "would allow the food supplies to move in practice and would evade the obstructions of the French." He urged Melchior to cut through his delegation's red tape and implore Weimar to deliver the merchant marine. Yet as Keynes revealed in his memoir, this was no routine diplomatic interview:

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, and somewhat emotional. . . . I allowed that our recent actions had not been such as to lead him to trust in our sincerity; but I begged him to believe that I, at least, at that moment, was sincere and truthful. He was as much moved as I was. . . . In a sort of way, I was in love with him.

Melchior replied, in Keynes' version, with "passionate pessimism" of a Jew. "German honour and organisation and morality were crumbling; he saw no light anywhere. . . . We must do what we could; but dark forces were passing over us." Melchior agreed to make the call, but did not anticipate success. The two men pressed hands. Keynes hurried away into the street.<sup>14</sup>

In the event, Berlin manoeuvred as best it could. Wilhelm Cuno, the shipping executive who directed the Hamburg-America line, pointed out that given the modest capacity of German shipyards his industry would have trouble competing if it surrendered the merchant fleet.<sup>15</sup> At the Supreme War Council of 8 March, Lloyd George overcame French resistance through a ruse, arranging for interruption by a stage-managed telegram from the British occupation army on the Rhine. General Herbert Plumer alleged that mortality amongst women and children was growing. The people considered "an end by bullets" preferable to "death by starvation." French Finance Minister Louis-Lucien Klotz countered that although their gold was reserved for reparation, the Germans could pay in raw materials. Keynes relished the ensuing scene.<sup>16</sup> "Women and children were starving," Keynes recalled Lloyd George declaiming, "and here was M. Klotz prating and prating of his 'goold.'" He leant forward and with a gesture of his hands indicated to everyone the image of a hideous Jew clutching a money bag." Lloyd George

demanded that his French compeer, Georges Clemenceau, intervene; otherwise, Klotz would rank with Lenin and Trotsky amongst those who had spread Bolshevism in Europe. “All around the room you could see each one grinning and whispering to his neighbour ‘Klotzky’.” Never had Keynes more admired Lloyd George’s powers. The French collapsed. At the subsequent Armistice meeting, Keynes tipped off Melchior that provisions would arrive if the Germans simply promised to release the ships; the matter was thus arranged.<sup>17</sup>

Whilst Keynes had further official dealings with Melchior after the German delegation moved to Versailles, he coyly records a “third and last occasion,” in October 1919, when he met alone with the Hamburg banker. In the meantime, like Warburg, Cuno, and the rest of the financial team, Melchior had resigned from the German peace delegation in protest against the treaty. He declined to serve as finance minister and returned to his bank. Keynes writes innocently that some Dutch financiers had invited him to “discuss the situation.” In fact, Keynes provided the brains behind a self-appointed transnational group that hoped to secure unilateral war-debt cancellation.<sup>18</sup>

Keynes “longed to see” Melchior again and on impulse invited him to Amsterdam. It was an extraordinary experience to meet without barriers. Melchior explained, predictably enough, that “the war for him had been a war against Russia; and it was the thought of the dark forces which might now issue from the Eastwards, which most obsessed him.” He discoursed, with Keynes’ encouragement, on “the betrayal of undertakings by the one party and the insincere acceptance by the other of impossible conditions.” Keynes now understood what a precisian Melchior was, “a strict and upright moralist, a worshipper of the Tablets of the Law, a Rabbi.” It seemed ridiculous that they should not lunch together “like any other couple.” Afterward, they repaired to his bedroom, where Paul Warburg—another debt-cancellation devotee—joined them. Keynes read aloud his chapter on President Wilson from the yet unpublished *Economic Consequences*. Warburg, reported Keynes, giggled and thought it an awfully good hit. Melchior grew ever more solemn, as if to reflect that the Tablets of the Law had perished meanly.<sup>19</sup>

How much of this account of affinity across the diplomatic lines rings true? Other participants in the food-for-ships deal indicate that Keynes embellished his personal role. Melchior had begun parallel talks with Hoover’s staff weeks earlier.<sup>20</sup> And by presenting the crux of the dispute as humanitarian, Keynes also did insufficient honour to the economic sophistication of his German interlocutors, who weighed their options carefully.<sup>21</sup> Still, dramatic license rates as a venial sin. More importantly, did Keynes really fall in love with Melchior? 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, of course, is 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.<sup>22</sup>

Keynes evidently prepared a draft of his Melchior study in late 1920. Probably he read it to the Bloomsbury Memoir Club in early 1921.<sup>23</sup> Over a period of thirty-six years, the Bloomsbury literati met twice annually to listen to one of their number deliver reminiscences. Several attendees had become acquainted as Cambridge Apostles. All held similar moral and political views. The ground rules called for “absolute frankness.” But, as Michael Holroyd observes, “being older now and a little less severely Apostolic than before, this frankness was mitigated by some discretion.”<sup>24</sup> Virginia Woolf, a lifelong observer of Keynes’ romantic attachments, credited the revelation of his love for Melchior as genuine. “I think he meant it seriously,” she recorded, “though we laughed.”<sup>25</sup> Yet Melchior’s *de facto* literary executor, Eduard Rosenbaum, was embarrassed. When he translated the memoir for a German audience after the Second World War, he suppressed Keynes’ confession of love as well as his relish for Lloyd George’s anti-Semitism.<sup>26</sup>

The documentary record establishes that Keynes and Melchior sustained an intimate post-war relationship. The two men continued to call each other with the intermediate form of address—using surnames only. That had been the fashion fifteen years earlier amongst Keynes’ undergraduate mates.<sup>27</sup> The perpetuation of the custom supports the conjecture that Keynes’ infatuation remained platonic. No firm evidence indicates what the seemingly unworldly Melchior sensed about the emotional valence involved. In broad context, the corporeal details do not matter, for all of Keynes’ personal relations had erotic undertones at this stage of his life. It is true that Keynes altered his overt sexual behaviour from 1922 onward; still, the recent psychoanalytic literature underscores the finding that the small minority of gay men who undertake that transformation retain their initial psychic identity.<sup>28</sup> In any case, the political attachment between Keynes and Melchior had historical ramifications.

Because of that connexion, the two men engaged in a long and fruitful collaboration to undermine reparations through the mid-1920s. And Melchior nurtured a web of connexions for Keynes in Germany that persisted into the Third Reich. The story is paradoxical because, despite his affection for Melchior, Keynes retained all his life uncomfortable feelings about Jews. Above all, however, Keynes’ memoir conceals by omission the animating force behind his predilections in foreign economic policy. The deepest passions of the man who authored *The Economic Consequences* related only secondarily to Germany. Keynes reserved his most profound animus for the upstart nation that bid fair to supplant his own as the world’s economic superpower—the United States.

Although Keynes magnified his role as a decision-maker in *The Economic Consequences*, he surely stood closer to the locus of power than

did anyone else in his age cohort at the peace conference. How did he get so far? The eldest child of a Cambridge University administrator, Keynes had won all the prizes on offer in Edwardian England. He had progressed with effortless dexterity from a favoured childhood to Eton and King's College, Cambridge, where within months he achieved election as a member of the Apostles—the student society standing at the apex of intellectual life on the Cam. After university came a brief sojourn at the India Office where he dissembled his boredom, a fellowship at King's and rapid rise as a don, the editorship of *The Economic Journal*, a call to the Treasury upon the outbreak of war, and such meteoric advancement in left-Liberal politics that he became not merely the head of the Treasury's intellectual heavyweight A-Division, but a favourite at Prime Minister Herbert Asquith's dinner table.

There remained, however, an undisclosed personal element in this chronicle of triumph. Like many others of his class and generation, Keynes realised from an early age that he was gay. That fact should raise no eyebrows by itself, but it explains a particular state of mind amongst those like Keynes who reached adolescence in the wake of the Oscar Wilde trials. Goronwy Rees, a sometime member of the 1957 Wolfenden Committee, observes that a history of early twentieth-century Britain with homosexuality left out would be like a London bus tour that omitted only “the most prominent features of the landscape.”<sup>29</sup> From the turn of the century to the 1930s, Dionysian relations amongst young men at Oxford and Cambridge became a creed and a cult, a signifier of aesthetic and cultural values in opposition to philistinism. Given the narrowly based recruitment of the British elite, the sensibilities shaped at Oxbridge and their feeder schools played a formative role in the country's intellectual life. The values nurtured there gave meaning to the “higher sodomy” that Keynes and his contemporary Lytton Strachey, who considered Wilde a model, sought to promote amongst the Apostles and later within the luminous galaxy of writers and artists known as the Bloomsbury group.<sup>30</sup>

Sociologists specialising in social network analysis demonstrate with mathematical specificity that culture, context, and unspoken assumptions powerfully affect the behaviour even of highly differentiated individuals.<sup>31</sup> It matters that for Keynes homosexuality was not merely one preference amongst others. It remained until he reached his late thirties the core of his identity. The biographer Robert Skidelsky asserts that Keynes never shared his friends' taste for rough trade: “he worshipped artists, not toughs.”<sup>32</sup> This is an idealised representation. From 1906 through 1915, Keynes kept statistical records on his partners, and the list contains several hundred entries.<sup>33</sup> Keynes' correspondence with Lytton Strachey and the artist Duncan Grant, his sometime lover, also bears witness to a life of picaresque adventure. Given the prejudices and legal injunctions of the era, gay professionals fell naturally into the habit of leading a compartmentalised existence. Perhaps Keynes' consciousness of his outsider status, as psycho-historians speculate,

contributed to his originality as an economist. His deeply rooted conviction that life is not what it seems may account for the effortless with which he sustained contradictory attachments, including those in Germany.<sup>34</sup>

Adults develop in convoluted ways that their early patterns may not prefigure. Still, important features of Keynes' personality can be gleaned from examining the tortuous relationship between him and his friendly rival Lytton Strachey during their Cambridge years, as Holroyd has done. Here one finds powerful evidence of Keynes' ruthlessness in competition for comely undergraduates and of the deviousness that won for him the sobriquet of "Pozzo." The youth in this respect proved father to the man. The early years also offer a precognition of the remarkable but peculiarly clinical mental powers that characterised the mature Keynes. His philosophical adversary Bertrand Russell would later concede: "Keynes' intellect was the clearest and sharpest I have ever known. When I argued with him, I felt that I took my life in my hands, and I seldom emerged without feeling something of a fool." And, yet, as Holroyd notes, Keynes could maintain, stubbornly and wilfully, judgments that appeared absurdly wrong-headed for a man of his capacity. "His retrospective exposition of an initially false premiss was sometimes brilliant, extending his ingenuity to the full; and round this central untruth the satellites within his orbit would spin brightly and with incredible velocity."<sup>35</sup> That analysis applies equally well to Keynes' strictly academic endeavours and to his campaign against the Versailles treaty.

The most revealing picture of Keynes' psychic development and political sentiments during the pre-war and wartime years comes from the economist's correspondence with Grant.<sup>36</sup> Grant had no intellectual predilections, but even after their ardour cooled, he and Keynes shared a mutual appreciation, as Grant expressed it, for the "sly wit, the fascinating stutter, the twinkling glance of that pinnacle of breeding, a well-mannered Eton boy of sixteen."<sup>37</sup> Neither the economist nor the artist had restricted tastes, however, and together they enjoyed class-crossing adventures that they described with graphic indiscretion.<sup>38</sup>

The aroma of anti-Semitism wafts frequently through the Grant-Keynes exchanges.<sup>39</sup> And over the decades Keynes expressed similar derogatory attitudes toward Jews in correspondence and occasionally in print. Did such emotions add complexity to his attraction to Melchior? The answer appears mixed.<sup>40</sup> Most upper-middle-class Englishmen of Keynes' generation thought of Jews as somehow alien. As an Eton schoolboy, Keynes attributed to them "deep-rooted instincts that are antagonistic and therefore repulsive to the European." Always quick to spot what he perceived as Jewish physiognomy and character traits, he perceived the same insurmountable difficulties in integrating them as in "making cats love dogs." Nevertheless, the matter is difficult to sort out. Keynes allowed generous exception for individual Jews. Three of his mentors, his favourite pupil, and several close colleagues were

Jewish. Occasionally he could lose his temper, as when in 1944 he fulminated against an American Treasury official as a little “ghetto . . . rat.”<sup>41</sup> Yet most of the time his polished manners obscured such sentiments from public view.

Still, Keynes could hardly remain oblivious to the rising tide of anti-Semitism in the Weimar Republic. On a visit to Berlin in 1926, he attempted to clarify his feelings about Jews that he admired and those he did not. He recorded his favourable impression of Einstein, the kind of Jew who “rarely has its head above water, the sweet, tender imps who have not sublimated immortality into compound interest.” “My dear Melchior is a Jew too,” he reflected:

Yet if I lived there, I feel I might turn anti-Semite. For the poor Prussian is too slow and heavy on his legs for the other kind of Jews, the ones who are not imps but serving devils, with small horns, pitch forks, and oily tails. It is not agreeable to see a civilization so under the ugly thumbs of its impure Jews who have all the money and the power and the brains.<sup>42</sup>

Interestingly, despite empathy for certain German predispositions, Keynes had felt no special bond with the Reich before the war. True, he grew up in a pro-German household. His mother, brother, and sister had all spent formative time in Germany.<sup>43</sup> By contrast, Maynard’s own elective affinity ran unambiguously toward Austria. “I’ve never found a town so completely to my taste,” he exulted on a visit to the Habsburg capital in 1912. He was enchanted by the architecture, the cafés, and also by the gay people, “as charming and polite as the Berliners are not.” “Vienna is so splendid a product of German civilization,” he concluded, “that the horrors of Berlin are redoubled in remembrance.”<sup>44</sup>

Several considerations combined to turn Keynes against the First World War. Whilst high policy played some role, the political and the personal overlapped. The atmosphere in Bloomsbury set up an inevitable conflict. Keynes’ friends execrated the war effort. A number became conscientious objectors. The economist slipped easily into a double life, which he reconciled at agonising psychic cost. It proved challenging to remain a disciplined Treasury operative at the office and in after hours to rail against the government. Whilst the Asquithian Reginald McKenna sat on the Treasury bench in 1915–1916, Keynes did not have to dissemble his convictions. McKenna relied implicitly on his civil servants; some observers called him “the simian accompanist to Keynes’ organ grinder.” Offering discreet support for Keynes’ “conchie” friends, McKenna stood as one with his protégé in their “low opinion of the French,” their hopes for a compromise peace, and their conviction that the “smashing of Germany” would lead to a crippled Britain.<sup>45</sup> The on-going relationship with McKenna would afford Keynes a pipeline to the political heights for his German contacts in 1923.

An inflection point came when the Asquith Cabinet collapsed in December 1916. That event overwhelmed Keynes with despair. “I am . . . filled with perpetual contempt and detestation of the new government,” he wrote the next month. “I’m afraid that Ll. G. will spin things out to let him taste a good draft of blood.”<sup>46</sup> Not only foreign policy considerations, but also the human carnage intensified Keynes’ revulsion. The deaths of the long-limbed blithe spirits who had brightened Cambridge society oppressed him mightily. He even mourned for Rupert Brooke, whose blatant interest in women had offended his aesthetic sensibilities in bygone days. Alternately despondent and numb, he lamented, “It is too horrible, a nightmare to be stopt [sic] anyhow.”<sup>47</sup> Yet, despite profound moral qualms, Keynes soldiered on guiltily in Whitehall for the duration.

American entry into combat re-enforced Keynes’ presentiment of disaster. He returned from a mission to Washington in October 1917 quite appalled. Whilst he relished chatting up the “Yank Tommies” on the troopship bound for Liverpool, contact with the senior officers—“innocent middle-aged gentlemen from the Mexican border”—fortified his alienation. “The Americans are furiously for war,” he lamented to Grant. “Unless the secret despatches in my bag hold something from far up the sleeve of President Wilson, all prospects of peace seem to me to be disappearing until Germany is *beaten*.”<sup>48</sup> Keynes’ assignment to the Inter-Allied Council for War Purchases and Finance after his return to London further deepened his discouragement. He took to his bed, “safely out of hearing of any vain, mendacious and interminable French or no less offensive and hateful Yank twang. What brutes and beasts they all are. . . . I work for a government I despise for ends I think criminal.”<sup>49</sup>

Given his ambivalence toward victory, Keynes remained wholly consistent in subsequently opposing the Versailles treaty. His entire previous history predisposed him to do so. He trumpeted his despair from the housetops in June 1919:

The peace is outrageous and impossible and can bring nothing but misfortune. . . . If I was in the Germans’ place I’d rather die than sign. . . . If they do sign, that will really be the worst thing that could happen, as they can’t possibly keep some of the terms. . . . Anarchy and revolution is the best thing that can happen, and the sooner the better.<sup>50</sup>

Keynes made sure that his German interlocutors at Versailles understood his sentiments, even before he resigned and returned home in white-hot fury to compose *The Economic Consequences*.<sup>51</sup> What he did not advertise nearly so publicly was his frustration with the United States. Keynes knew his purpose exactly when he proposed to his Treasury seniors, shortly after the Armistice, the cancellation of war debts all around. “While . . . the sums which we should forgo must be regarded as to some extent paper claims, the

sums we ourselves owe to the United States must undoubtedly be regarded as very real debts, the repayment of which, failing . . . an arrangement, must be faced within no very long period of years.”<sup>52</sup> In March and April 1919, he recast his plan as a flimsily disguised “Scheme for the Rehabilitation of European Credit.” Under that ingenious proposal, the Berlin government would issue a vast quantity of bonds targeted primarily at American investors. Through federal endorsement, tax exemptions, and fiat inflation, Washington would pay German reparations, and British liabilities would wash away.<sup>53</sup>

The United States Treasury was not amused. American financial delegates at Paris countered with an alternative, offering to mobilise private credits to meet Europe’s reconstruction needs. Thomas Lamont of J. P. Morgan & Co. expressed willingness to organise Wall Street banks and export interests, which would provide all necessary assistance against a triple guarantee by European importers, banks, and governments. He also proposed an Anglo–American financial condominium in Latin America and East Asia. Given the terms on offer, the British abruptly lost interest in grand reconstruction schemes.<sup>54</sup> Keynes, who advised the British financiers concerned, fumed to Grant that the American Treasury had been offered a chance to take “a humane view of the world,” but had “unhesitatingly refused it.” Wilson figured as “the greatest fraud on earth.”<sup>55</sup> To Lamont he explained with greater candour that British banks “wanted to run their own business and didn’t want any interference from outside.”<sup>56</sup>

Keynes turned up in Amsterdam for his supposedly spontaneous rendezvous with Melchior in autumn 1919 to pursue his on-going campaign for debt cancellation. At that meeting, Melchior committed himself to arrange publication of *The Economic Consequences* in Germany.<sup>57</sup> But the Cambridge don also had another mission. On 20 October Governor Gerard Vissering of the Netherlands Bank had summoned Keynes along with Paul Warburg and Fred I. Kent, temporary American representative to the Reparation Commission, for a wide-ranging discussion of European financial conditions. The group expanded over subsequent months to embrace Keynes’ collaborator Robert Brand of Lazard Brothers, as well as Joseph Simon of the Société Générale and representatives from Scandinavia and Switzerland. The Dutch sought to promote a large international loan, subscribed primarily in America, which would rank ahead of reparations and enable Germany to pay off its wartime debts to neutrals like themselves. The draft Amsterdam Memorial that emerged from these confabulations also reflected Keynes’ larger ideas about shielding Germany from “excessive burdens” and embarrassing Washington into cancelling inter-Allied debts—or, in the code phrase of the day, deflating the world’s balance sheet.<sup>58</sup>

In the midst of the Amsterdam Memorial discussions, *The Economic Consequences* appeared. Writing from Hamburg, Melchior called it “a landmark in postwar history” and praised the “refined and magnetising” presentation as well as the remedies proposed.<sup>59</sup> Max Warburg lauded the book

to business contacts, fretting only lest “we all go broke” before Keynes’ good sense prevailed.<sup>60</sup> Still, Keynes’ attack on President Wilson and his indiscreet criticism of the British government did not sit so well at home. Leaders of “City” opinion had already expressed a disinclination to sacrifice for the sake of Continental recovery, and Brand felt obliged to argue lamely that it lay in the general interest that “help should be given—I do not say necessarily by us—but certainly by others to Central Europe.”<sup>61</sup> Now Lord Reading and certain financiers refused to sign the memorial unless Keynes withdrew his name. Keynes exploded in rage: “The policy of humbugging with the Americans . . . has been given a pretty good trial and has not proved a brilliant success, and I am sure we shall do much better by presenting them with a candid expression of views sincerely held.”<sup>62</sup> Only the most diplomatic flattery by Lord Robert Cecil, a senior Conservative peer, persuaded him to climb down.<sup>63</sup> During the following weeks, the Morgan partners in collaboration with the American Treasury cleverly eviscerated the memorial by insisting on excising references to government action. All the same, Keynes continued to flog the matter long after Brand, Vissering, and most others had thrown in the towel.<sup>64</sup>

Keynes’ categorical formulations in *The Economic Consequences* brought him a torrent of criticism, in both his own country and the United States. The animadversions came even from those who partly shared his convictions. Two decades later, his erstwhile chief, Lloyd George, insisted that Keynes had misled him in Paris and decried “the cheap stuff written by sensational economists” rendered wise after the event.<sup>65</sup> Keynes consistently insisted that he had taken the moderate line. “Melchior,” he reminded Norman Davis in 1920, considered the Fourteen Points “a deliberate *ruse de guerre* on the president’s part . . . a put-up job of the most scoundrelly description” and a prelude to “a perfidious peace.” By emphasising muddle and short-sightedness in Paris, he had actually understated the position. Nevertheless, he declared, “my mind has crossed a Rubicon. I have struck my tents and am on the march.”<sup>66</sup>

Keynes’ alienation from so many of his former Paris colleagues because of his book naturally drew him closer to the Warburgs in Hamburg and New York. Paul Warburg, now with Kuhn, Loeb & Co., vented his shame over the state of American politics in spring 1920. “It is a mortification and a crime that, at this juncture when it would be a plain dictate of humanity to get together and pull the car out of the ditch before it settles deeper and deeper, we should have tied our hands for so long.”<sup>67</sup> Keynes, too, followed a logical progression over the course of the next three years from exchanging epistolary lamentations with Melchior to journalistic co-operation and then to political collaboration in the service of the German Reich.

In allowing the Germans to draw him in, Keynes did not fear to disadvantage his native land. To the contrary, he developed the conviction that British and German economic interests ran along parallel lines. Both nations

exported manufactured goods for which global demand remained inelastic—or so Keynes tended to suppose, overlooking innovative technologies. In a low-growth world, were Germany compelled to generate an export surplus to pay reparations, it would have to lower its standard of living sufficiently to undersell Britain on third markets. Yet his country, according to the July 1920 Spa Agreement, received only 22 percent of reparation receipts. On a net basis, Britain would come out a “serious loser.”<sup>68</sup>

Keynes’ collaboration with Melchior intensified in 1921–1922. When Keynes began work on *A Revision of the Treaty* in late summer 1921, he turned to Melchior for statistical data.<sup>69</sup> Not only did Melchior employ his connexions throughout the German bureaucracy to comply; he also secured permission from Rathenau, now the reconstruction minister, to furnish Keynes with confidential information.<sup>70</sup> No sooner had Keynes completed that project than he accepted an invitation from C.P. Scott, the editor, to prepare a series of supplements for the *Manchester Guardian Commercial* on Europe’s post-war economic problems. Keynes conceived this multi-lingual series on a sophisticated level. He recruited top-drawer contributors from all over the Continent, except for France, where the leading authorities declined to participate.

Sympathetic presentation of the German viewpoint ranked amongst his pivotal concerns. He therefore made sure to obtain the early blessing of Rathenau and Reich Chancellor Joseph Wirth.<sup>71</sup> J.J. O’Neill, business manager of the *Guardian*, visited Germany repeatedly to solicit financial backing for the enterprise. Leading industrialists in the Reichsverband der deutschen Industrie made generous donations under the ostensible rubric of advertising.<sup>72</sup> In mid-January 1922, Keynes met with Melchior in Amsterdam to canvass prospective German contributors, and subsequently the Hamburg banker laboured selflessly as a promoter and informal subeditor.

Keynes attended the Genoa Conference under cover of a press pass identifying him as a *Guardian* special correspondent.<sup>73</sup> In syndicated despatches, he clamoured for *de jure* recognition of Russia and rehearsed his familiar disdain for efforts to “disentangle the endless coil of impossible debt [and] silly bonds.” Echoing Melchior and Warburg’s view that immediate stabilisation of the mark was impossible, his formulations seemed at times so intemperate that the Conservative *Morning Post* speculated about his elevation to the honorific, Johann von Keynes.<sup>74</sup> In truth, Keynes saw himself less as a journalist at Genoa than as a soldier in the battle for hearts and minds. Melchior, Max Warburg, and Carl Bergmann, head of the German War Burdens Commission, devoted many hours to persuading Keynes to back their plan for an international loan to prepay limited reparation annuities. They wrote home optimistically that his articles would provide “the greatest possible advantage” in influencing British opinion.<sup>75</sup>

Indeed, Keynes took a stand in some respects more advanced than did his German associates. Melchior, Bergmann, and even Warburg opposed

the timing of the Russo-German Rapallo treaty. Whatever that agreement's substantive merits, they felt, the atmospherics of signing it imperilled the bridge that they had maintained to the West in hopes of floating a multi-national bond issue.<sup>76</sup> Keynes took the matter less seriously. The economist attributed the blame for the Rapallo *contretemps* squarely to Lloyd George's highhanded methods. He reassured Melchior: "If we persist much longer in confining our conversation both with Germany and with Russia to the subject of the vast milliards which each of them owes us, we cannot expect them to refrain from talking more sensibly between themselves."<sup>77</sup>

At the end of August 1922, Keynes paid a weeklong visit to Hamburg, where Melchior had nominated him as keynote speaker for Hamburg Overseas Week. Once again, the Cambridge academic conflated his roles as financial evangelist and political counsellor. To exuberant cries of "hoch, hoch," he delivered a violent speech against reparations and Allied occupation of the Rhineland. As an aside, he conceded that the losses of foreign speculators on the paper mark had more than covered all past payments. Yet the Reich, he asserted, could not spare a *pfennig* for reparation presently and would require a minimum eight-year partial moratorium. Deliveries in kind – the great hope of French moderates – were impractical and uneconomic. The country possessed negligible foreign assets. World peace necessitated the dissolution of the Reparation Commission, the restoration of German tariff equality, and prompt evacuation of all occupied territory. These sentiments eerily echoed the line recently taken by the inflation profiteer Hugo Stinnes.<sup>78</sup> Without relief, Keynes saw no alternative to cranking up the printing press:

However skilful and persistent the German experts might have been in their efforts to stabilise the mark or balance their budget, it is certain that the Allies would have raised their demands proportionately and so have rendered these efforts absolutely unavailing. In such a situation there was simply nothing to be done.<sup>79</sup>

The next day, Keynes brainstormed with Melchior and his colleague, Cuno, the HAPAG shipping magnate whom he had previously encountered at the 1919 food talks. Cuno figured prominently in the rumour mills as a possible future Reich chancellor. Although nurturing close ties to the monarchist Karl Helfferich and standing well to the right politically, Cuno possessed tremendous charm and cultivated British and American contacts. Keynes could not reasonably have foreseen that Cuno would later champion a bourgeois bloc including Hitler.<sup>80</sup> To underscore the gravity of the occasion, state secretaries Carl Bergmann and Franz Schröder of the Finance Ministry joined the conferees from Berlin. They reported dejectedly that cabinet members were feuding, the Foreign Ministry drifting, and that Wirth seemed preoccupied with fears of assassination. The situation appeared "quite hopeless." The

question for immediate decision was whether the Reichsbank should guarantee treasury bonds that the Belgians had agreed to accept for six months in lieu of reparations. The French, however, intended to demand control of state mines and forests in return for another moratorium. What was to be done?

Keynes adjured the Germans to stand firm. If the French really purposed to occupy the Ruhr or annex further territory, he reasoned, premature concessions would have no value. If a violent clash proved unavoidable, it was better to face it now with a full harvest than in the January cold. The French, he predicted, would not dare to act so fast. In the meantime, he would publicise German ideas for a moratorium to spur reflection in the outside financial world.<sup>81</sup>

Melchior and Cuno rushed off to stiffen Wirth in Berlin. A murky compromise emerged on the Reichsbank guarantee, and the French for the moment climbed down. Keynes proved as good as his word and launched a literary and epistolary blitz to advance the German cause.<sup>82</sup> Carefully tailoring his economic judgments to fit his political convictions, he generated data purporting to show that German assets sequestered abroad did not exceed the derisory sum of 2 milliard gold marks.<sup>83</sup> The conclusion endeared him to Reichsbank President Rudolf Havenstein, with whom he initiated a respectful correspondence.<sup>84</sup> Conversely, even his comrades in arms from Amsterdam Memorial days felt obliged to point out that Keynes' estimate of German foreign assets seemed "absurdly low"—probably one-quarter of the truth. The Dutch bankers C. E. ter Meulen and Vissering explained to Keynes how German firms held hidden reserves outside the balance sheets of their Netherlands subsidiaries and how German banks disguised their accounts in Amsterdam.<sup>85</sup> But those analyses led to politically unpalatable conclusions. Keynes politely ignored them. As Germany stood on the cusp of true hyperinflation, Keynes advocated letting it spiral onward so long as France demanded reparations.

## NOTES

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2. John Maynard Keynes, *The Economic Consequences of the Peace* (London, 1919).

3. Etienne Mantoux, *The Carthaginian Peace or the Economic Consequences of Mr. Keynes* (London, 1946); Manfred Boemeke et al., eds., *The Treaty of Versailles: A Reassessment after 75 Years* (New York, 1998).

4. Liaquat Ahamed, *Lords of Finance: The Bankers Who Broke the World* (New York, 2009), 489.

5. Marc Trachtenberg, "Reparation at the Paris Peace Conference," *Journal of Modern History*, 51 (1979), 24–55; Antony Lentin, "Maynard Keynes and the 'Bamboozlement' of Woodrow Wilson," *Diplomacy & Statecraft*, 15 (2004), 725–63.

6. Leonard Ayres, "American Attitude toward Reparations during the Peace Conference," 23 January 1924, Ayres [Leonard Ayres Papers, Library of Congress, Washington, DC] Box 2.

7. "Dr. Melchior: A Defeated Enemy," *CW*, X, 389–429.

8. On connexions within the Hamburg Jewish bourgeoisie, see W.E. Mosse, *The German-Jewish Economic Elite* (Oxford, 1989); on evolution of the firm, Eric Warburg, "Der väterliche Freund," in Kurt Sieveking, ed., *Carl Melchior: Ein Buch des Gedenkens und der Freundschaft* (Tübingen, 1967), 129–30. See also Warburg's memoirs, *Aus meinen Aufzeichnungen* (Glückstadt, 1952), 49–52. Cf. Eduard Rosenbaum and A. J. Sherman, *M.M. Warburg & Co.* (London, 1979); Ron Chernow, *The Warburgs* (New York, 1993).

9. Walter Frisch, "In Freundschaft und Beruf verbunden," in Sieveking, *Melchior*, 118–19.

10. Siegmund Warburg, "Der Meister im Masshalten," *Ibid.*, 124.

11. Warburg memorandum for chancellor, 26 November 1914, *Jahresbericht 1914*, Band 155, MW [Nachlass Max Warburg, Warburg-Archiv, Stiftung M.M. Warburg & Co., Hamburg].

12. Egmont Zechlin, *Die deutsche Politik und die Juden im Ersten Weltkrieg* (Göttingen, 1969), 54–55, 220–23, 524–42; J.A.S. Grenville, *The Jews and Germans of Hamburg* (New York, 2012), 20–22; Warburg, *Aufzeichnungen*, 125.

13. Sieveking, *Melchior*; Zechlin, *Die deutsche Politik*, 523–24.

14. "Melchior: A Defeated Enemy," *CW*, X, 414–15.

15. Heinz-Helmut Kohlhaus, "Die Hapag, Cuno und das Deutsche Reich 1920–1933" (Ph.D. dissertation Hamburg, 1952), 3–50.

16. Lloyd George exaggerated. Army reports confirmed severe rationing of proteins and fats, but little starvation. FO [Peace Conference-British Delegation Papers, The National Archives, Kew] 608/76, 129–130. Cf. Paul Vincent, *The Politics of Hunger: The Allied Blockade of Germany* (Athens, OH, 1985).

17. "Defeated Enemy," *CW*, X, 419–26.

18. Stephen Schuker, "Origins of American Stabilization Policy in Europe, 1918–1924," in H.-J. Schröder, ed., *Confrontation and Cooperation: Germany and the United States in the Era of World War I* (Providence, RI, 1993), 386–90.

19. "Defeated Enemy," *CW*, X, 426–29.

20. Klaus Schwabe, *Woodrow Wilson, Revolutionary Germany, and Peacemaking* (Chapel Hill, NC, 1985), 194–210.

21. Melchior, Warburg, and other business moguls debated whether food imports, raw-material procurement, or hard-currency credits should enjoy priority. Niederschrift über . . . [die] Entsendung einer Finanzkommission, 27 March 1919, Reusch [Nachlass Paul Reusch, Rheinisch-Westfälisches Wirtschaftsarchiv, Cologne] 39-1-2, Abt.130.

22. The major biographies cover the subject largely from Keynes' private records: Robert Skidelsky, *John Maynard Keynes*, 3 volumes (London, 1983–2000), 1:354–75, 2:122–29; D.E. Moggridge, *Maynard Keynes* (London, 1992), 288–347, 374–94. Giuliano Ferrari-Bravo, *Economic Diplomacy: The Keynes-Cuno Affair*, EUI Working Paper 86/223 (Badia Fiesolana, 1986), is hagiographic. By contrast, Niall Ferguson, "Keynes and the German Inflation," *English Historical Review*, 110 (1995), 368–91 makes sound use of German archives.

23. Virginia Woolf requested a copy on 5 February 1921, implying that Keynes had already read it. A.O. Bell, ed., *The Diary of Virginia Woolf*, Volume 2 (New York, 1977), 89–90. In 1942, Keynes recalled drafting it about that time. Yet, in preparing posthumous publication, David Garnett dates presentation to 1931. *CW*, X, 387; XVI, 416–17.

24. Michael Holroyd, "Lytton Strachey by Himself," *Encounter*, 36 (January 1971), 21–26.

25. Woolf, *Diary*, 2, 89–90.

26. Eduard Rosenbaum, "Dr. Melchior. Ein besiegter Feind," in Sieveking, *Melchior*, omitted passages, 21, 28–29.

27. Michael Holroyd, *Lytton Strachey: A Critical Biography*, Volume 1 (New York, 1967), 205.

28. Richard Friedman, "Psychoanalysis and Human Sexuality," *Journal of the American Psychoanalytic Association*, 49 (2001), 1115–32; Robert Spitzer, "Can Some Gay Men and Lesbians Change their Sexual Orientation?" *Archives of Sexual Behavior*, 32 (2003), 403–17; Robert Stoller, *Sex and Gender: On the Development of Masculinity and Femininity* (New York, 1968).

29. Goronwy Rees, "A Case for Treatment: The World of Lytton Strachey," *Encounter* (March 1968), 72–81; Cmd. 247: "Report of the Committee on Homosexual Offences" (1957). The Wolfenden Report recommended legalisation of same-sex relations amongst adults.

30. Michael Holroyd, *Lytton Strachey*, revised edition (New York, 1994); *idem.*, *Lytton Strachey and the Bloomsbury Group* (Harmondsworth, 1971); Noel Annan, *Our Age: Intellectuals between the Wars* (New York, 1990), 98–124; Goronwy Rees, *Sketches in Autobiography* (Cardiff, 2001), 220–25; Matt Houllbrook, *Queer London: Perils and Pleasures in the Sexual Metropolis, 1918–1957* (Chicago, 2005).

31. Linton Freeman, *The Development of Social Network Analysis* (Vancouver, 2004).
32. Skidelsky, *Keynes*, Volume 2, 36.
33. Moggridge, *Maynard Keynes*, 214–16, Plates 9, 10.
34. Piero Mini, “Keynes’ Vision: A Psychological Interpretation,” *Psychobistory Review*, 24 (1996), 181–96.
35. Holroyd, *Strachey*, Volume 1, 209–12; Bertrand Russell, *The Autobiography of Bertrand Russell* (London, 1998), 69.
36. J.M. Keynes–Duncan Grant correspondence, 1912–1922, Add Mss [British Library, London] 57931; Grant letters to Keynes, Add Mss 58120A/B; Lytton Strachey correspondence with Grant, Add Mss 57932–33; Keynes family letters to Strachey, Add Mss 60672.
37. Grant to Keynes, 25 May 1909, Add Mss 58120A.
38. Grant to Keynes, nd, 1911, Add Mss 58120B.
39. See for example, Grant to Keynes, 25 January 1910, Add Mss 58120A.
40. Anand Chandavakar, “Was Keynes Anti-Semitic?” *Economic and Political Weekly*, 35 (6 May 2000), 1619–24; copy in MM/Chandavakar (4), KP [John Maynard Keynes Papers, King’s College, Cambridge]. For a concordance after the collection’s reorganisation, see *A Catalogue of the Papers of John Maynard Keynes in King’s College Library* (Cambridge, 1995).
41. *CW*, XXV, 364, 372. If Treasury Secretary Morgenthau had known how Keynes felt, according to the official concerned, he would have ended discussions with him. Stanley Black, ed., *A Levite among the Priests: Edward M. Bernstein and the Origins of the Bretton Woods System* (Boulder, CO, 1991), 39–40, 106.
42. “My Visit to Berlin,” 22 June 1926, *CW*, X, 382–84.
43. Skidelsky, *Keynes*, Volume 1, 55; John Mander, *Our German Cousins* (London, 1974), 223–59.
44. Keynes to Grant, 5 October 1912, Add Mss 57931.
45. Martin Farr, *Reginald McKenna* (New York, 2000), 8–9, 287–96, 328–30.
46. Keynes to Grant, 10 September 1916, 14 January 1917, Add Mss 57931.
47. Keynes to Grant, 25 April, 24 July 1915; on reaction to Brooke’s womanising, Keynes to Grant, 26 July 1912, all Add Mss 57931.
48. Keynes to Grant, 10 and 17 October 1917, *Ibid.*
49. Keynes to Grant, 15 December 1917, *Ibid.*
50. Keynes to Grant, 14 May 1919, similar sentiments on 1 June, Add Mss 57931; and to his mother in *CW*, XVI, 458.
51. Richard Merton, *Erinnerenswertes aus meinem Leben* (Frankfurt, 1955), 68. Max Warburg deemed Keynes the only Allied interlocutor who treated the Germans sympathetically. Warburg, *Aufzeichnungen*, 83–84.
52. “Memorandum on the Treatment of Inter-Allied Debt Arising out of the War,” 29 November 1918, *CW*, XVI, 418–19.
53. “The Treatment of Inter-Ally Debt Arising out of the War,” 28 March 1919, and “Scheme for the Rehabilitation of European Credit,” 17 April 1919, *CW*, XVI, 418–37.
54. Reconstruction Papers, RB [Robert Brand Papers, Bodleian Library, Oxford] 12.
55. Keynes to Grant, 14 May 1919, Add Mss 57931.
56. Lamont to Brand, 10 June 1919, RB 12. The normally imperturbable Morgan partner wrote home, “Talk about liberal-minded Englishmen. They all make me sick.” Lamont to Florence Lamont, Lamont [Thomas Lamont Papers, Harvard Business School, Cambridge, MA] Box 165/25.
57. Melchior to Keynes, 31 October 1919, KP FI/2.
58. Keynes to Brand, 20 and 25 October, 8 November 1919, Brand to Keynes, 24 October, 7 and 20 November, Brand to Arthur Salter, 30 October 1919, all RB 20; selections in *CW*, XVII, 128–50.
59. Melchior to Keynes, 19 December 1919, *CW*, XVII, 10.
60. Warburg to Merton, 15 January 1920, Merton [Nachlass Richard Merton, Metallgesellschaft, Frankfurt].
61. Brand to Vassar-Smith, 18 December 1919, RB 20.
62. Keynes to Brand, 30 December 1919; Keynes to ter Meulen, 18 November 1919 urging the Dutch to persevere, all *Ibid.*
63. Cecil to Brand, 2 January 1920, *Ibid.*
64. Correspondence amongst Keynes, Brand, Vissering, Paul Warburg, ter Meulen, E.C. Grenfell, and Austen Chamberlain, 6 January–20 February 1920, *Ibid.*

65. David Lloyd George, *Memoirs of the Peace Conference*, Volume I (London, 1938), 50, 287–341. Lloyd George asserts that initially Keynes supplied him with figures amounting to twice what he later portrayed as Germany's capacity to pay, *Ibid.*, 335.
66. Keynes to Davis, 18 April 1920, *CW*, XVII, 38–42.
67. Paul Warburg to Brand, 22 March 1920, RB 22.
68. Keynes to Blackett, analysis of Memorandum 3527, May 1922, KP L/22.
69. J.M. Keynes, *A Revision of the Treaty* (London, 1922).
70. Keynes–Melchior correspondence, August–October 1921, KP FI/2; also *CW*, XVII, 282–93.
71. *CW*, XVII, 317–53.
72. O'Neill to von Siemens, 16 January 1922, Sorge to Siemens, Siemens [Nachlass C.F. von Siemens, Siemens-Archiv-Akten, Munich] 4 Lf 513.
73. *CW*, XVII, 354–425.
74. *Morning Post* (22 April 1922), in *CW*, XVII, 380.
75. Melchior to Max Warburg, 20 April 1922, MW 156.
76. Melchior “Notiz zur Akte Genua,” 25 April 1922, Melchior to Paul Warburg, 25 April, Max Warburg to von Stodten, 1 May 1922, all *Ibid.* Absent a loan, said Warburg, palaver about stabilisation was no better than “telling a drowning man not to gulp water.” 18 April 1922, MW 132.
77. Keynes memorandum, “The Russo-German Agreement,” 18 April 1922, MW 105; expurgated version in *Manchester Guardian* (21 April 1922), *CW*, XVII, 394–98.
78. Gerald Feldman, *Hugo Stinnes* (Munich, 1998), 756–59.
79. Hamburg address, 26 August 1922, *CW*, XVIII, 18–26. Perhaps Keynes intuited Downing Street's secret views. Lloyd George had told Keynes' associates, Sir Basil Blackett and Sir John Bradbury, that the German inflation had not hurt British business. To the contrary, premature stabilisation would fan unrest and, given French obduracy, “it might be better to touch bottom before trying to build up again.” Meetings S 53, 55, 60, 15 July, 7 and 12 August 1922, CAB [Cabinet Records, The National Archives, Kew] 23/36.
80. Melchior “Notiz für das Tagebuch,” 28 and 30 August, Melchior to Wirth, 30 August 1922, both MW 156. On Cuno's ambivalent later contacts with the Nazis, see Kohlhaus, “Die Hapag,” 173–77; Manfred Asendorf, “Hamburger Nationalklub, Keppler-Kreis, Arbeitsstelle Schacht und der Aufstieg Hitlers,” 1999. *Zeitschrift für Sozialgeschichte des 20. und 21. Jahrhunderts* (1987), 106–50.
81. Notizen Melchior, 28 and 30 August 1922, MW 156; 11 September 1922, MW 196a.
82. *CW*, XVII, 31–62.
83. “Speculation in the Mark and Germany's Balances Abroad,” *Manchester Guardian Commercial* (28 September 1922), *Ibid.*, XVIII, 58.
84. Havenstein to Keynes, 13 September 1922, Reichsbankakten [Bundesarchiv Berlin-Lichterfelde] Bd. 6430, R2501; Keynes to Havenstein, 4 October 1922, Havenstein to Keynes, 4 January 1923, Keynes to Havenstein, 17 January 1923, all KP FI/3/1.
85. ter Meulen to Keynes, 2 August and 11 September 1922, Vissering to Keynes, 10 August 1922, Löb to Keynes, 1 September 1922, KP FI/4/1.

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## **J.M. Keynes and the Personal Politics of Reparations: Part 2**

STEPHEN A. SCHUKER

*The second part of this article shows that John Maynard Keynes worked closely with the German Finance and Foreign ministries as a supposed neutral expert in October 1922. He supported passive resistance to the French in the Ruhr without regard to its effects on the currency, secretly collaborated in writing the German reparations note of June 1923, and then praised his own work in a weekly that he controlled. Keynes opposed the 1929 Young Plan that re-scheduled the German debt and declined to accept modern thinking on overcoming the transfer problem.*

Keynes proffered his next great service to the Reich in November 1922. The flailing Wirth government cast around for a mechanism to forestall radical action by the Reparation Commission. It decided to invite a group of “independent financial experts” to make direct recommendations for stabilising the paper mark. Lord D’Abernon, the British ambassador at Berlin, took pride in recommending Keynes and the equally well-disposed Swedish economist Gustav Cassel. Melchior pulled the strings behind the scenes and placed his assistant, Ernst Kocherthaler, as secretary to the experts.<sup>1</sup> Keynes took the precaution of arriving in Berlin with his own proposals in finished form whilst other committee members, as Kocherthaler put it, were still engaged in “preliminary nailbiting.” The worry persisted nonetheless that Keynes and Cassel might stand isolated as “Germanophile outsiders.” Through zealous advocacy, however, the two won the support of Keynes’s compatriot Robert Brand and the American Jeremiah Jenks for a majority plan. Their report noted that monetary depreciation had proceeded so fast that the Reichsbank gold reserve covered twice the fiduciary note issue. With the current account no longer in deficit, Germany could, technically speaking, stabilise through its own efforts.<sup>2</sup> This finding carried particular weight because these authorities, as D’Abernon remarked, figured as “witnesses for the defence.” Nevertheless, to please the host government, Keynes and his

colleagues proposed a two-year reparations moratorium as the indispensable precondition for currency reform.<sup>3</sup>

The whole affair involved much play-acting. Melchior had admitted to his City of London contacts earlier that the inflation resulted with “mathematical certainty” from the gigantic budget deficit.<sup>4</sup> Those who had mastered the quantity theory of money did not need to investigate the obvious. One German diplomat admitted privately that Berlin had actually conceived the economists’ committee as a public-relations exercise. Karl Ritter of the *Auswärtiges Amt* hoped nonetheless that the report might pave the way for the Reich to appeal to foreign bond markets over the Reparation Commission’s head.<sup>5</sup> To test the waters, Berlin had to work through the experts Brand and Vissering because Keynes, as Léon Delacroix of the Reparation Commission explained, rated as “*persona non grata*” in France. Yet prospects for a significant loan, as Keynes acknowledged, were “practically nonexistent.”<sup>6</sup> And the German government did not really need a lesson in elementary economics. Once it had achieved its political objectives, it could inter both the majority and minority schemes for currency stabilisation in the files.

At the tail end of the Wirth government, the chancellor was scarcely speaking to the finance minister, and the key figures in the bureaucracy squabbled bitterly with each other. Yet almost all had sufficient confidence in Keynes to vent their differences before him. At one high-level meeting of Foreign and Finance ministry officials, Bergmann said with a nod at their foreign visitor: “I can speak openly. After all, we’re among ourselves.”<sup>7</sup>

It seems scarcely conceivable that Keynes, under these circumstances, could have failed to grasp the political dynamics behind the hyperinflation. D’Abernon reported to his foreign secretary that the “insane” Reichsbank simply refused to stop the printing press.<sup>8</sup> His commercial attaché, J.F.W. Thelwall, filled in the background for Keynes’s fellow expert, Brand. “The real power in the land has passed to the big industrial and financial groups whose intention is to pay as little reparations as possible; these groups hope, by . . . passive resistance, gradually to wear down the Allies and in the end to get off very lightly.”<sup>9</sup> Hugo Stinnes, the greatest of the industrialists, spoke even more explicitly to British steel men just before Keynes arrived in Berlin. If the Allies ended their “bullying,” tore up the Versailles treaty, and withdrew immediately from the Rhineland and Saar, his countrymen would contribute a “reasonable sum” toward reconstructing Northern France and restoring East European purchasing power. If, on the contrary, the French continued their policy of force, Stinnes foresaw a “wave of madness” in the Reich, an alliance with Bolshevik Russia, and a “war of extermination” besides which the “horrors of the last war would pale.” Whilst awaiting a general settlement, the weak central government had to do everything possible to keep the workers employed. It was “useless to attempt to stabilise the mark in its downward flight by . . . tinkering.”<sup>10</sup>

As a wintry gloom descended in the final weeks of 1922, it appeared that the moment for economic expertise had passed. Keynes confirmed as much to Melchior on 1 December:

The reparation question seems to me to be rapidly passing out of the economic sphere. The more thoroughly we convince France that she cannot hope for much money in the near future, either from reparation or from an international loan, the more decidedly does she turn her thoughts towards securing other supposed advantages.<sup>11</sup>

Paradoxically, a shift in the leadership of the British and German governments would shortly magnify Keynes's power to influence events. His old nemesis, Lloyd George, had resigned under fire in October. A general election the next month brought a fresh team to Whitehall. Keynes had served during the war under the new prime minister, Andrew Bonar Law, as well as his chancellor of the Exchequer, Stanley Baldwin. He remained on cordial terms with both. Meanwhile, Wilhelm Cuno, with whom he had collaborated the previous August, became Reich chancellor heading a cabinet of non-party notables.

Cuno thought it would be imprudent for Germany to renounce the Republic so long as it stood under the gun for reparations.<sup>12</sup> Yet he nourished the ambition to free his team from the withered hand of parliamentary conflict. Hence he brought in some adherents of the old regime. Most notoriously, he appointed as foreign minister the reactionary career diplomat, Frederic von Rosenberg, who had advised the military on the Brest-Litovsk treaty and would later happily serve the Third Reich.<sup>13</sup> Despite that appointment, Keynes did not boggle at the complexion of the new cabinet because Cuno relied heavily on input from Melchior and Warburg, however little clout those bankers enjoyed with Ruhr industry.<sup>14</sup> Rathenau had once likened Cuno to a "fat cigar that one had to smoke sometime or other because of its pretty wrapper." Eventually Cuno's lack of realism and weak administrative skills would prove his undoing.<sup>15</sup> But for nine crucial months, Melchior served as a valued counsellor and provided Keynes with a conduit to power in Berlin.<sup>16</sup>

On 18 December 1922 Keynes met with Baldwin, who was soon to embark for talks in Washington, and rehearsed his familiar views against settling the American war debt.<sup>17</sup> He had dilated on the same subject a few weeks earlier to Montagu Norman, the governor of the Bank of England, who had dismissed him as "a clever dilettante" with a great potential for public mischief.<sup>18</sup> Keynes enjoyed a better reception with Bonar Law, whom he visited on 19 December to discuss the forthcoming inter-Allied reparations conference. The plan that Keynes urged on the prime minister for dealing with Germany avoided overt polemics. Still, it included provisions

for a four-year moratorium and premature evacuation of the Rhineland. Thus it logically implied a definitive breach with France.<sup>19</sup>

At the January 1923 Paris meetings, the differences between the British and French proved, as expected, unbridgeable. Left without a feasible alternative, the French grimly occupied the Ruhr. Cuno countered with so-called passive resistance, for which his government had meticulously prepared. By letter, Keynes spurred on Melchior. "The proceedings of France are viewed by almost everyone in England with anger and disgust," he wrote. "It is essential for Germany to hold out to the limit of her endurance." He asked his friend to pass on a message of encouragement to the chancellor, adding "I'm not sure I don't envy Cuno his job."<sup>20</sup> He also had kind words for the Reichsbank president, Rudolf Havenstein, despite some divergence on banking policy. Against all rational evidence, Havenstein reiterated that no way existed to end currency depreciation so long as Germany sustained the drain of treaty charges and the trade balance purportedly remained passive. Keynes replied tactfully that a balanced budget might still control the exchange, but he agreed that Havenstein's pessimistic view enjoyed "great support . . . both from facts and from opinion."<sup>21</sup> In any case, he conceded, the time for theoretical debate had passed. In a frenzy of militancy, Keynes denounced the Versailles treaty in *The Times* as "a piece of savagery incompatible with civilisation."<sup>22</sup> His full-throated endorsement of German resistance merits particular attention because, just days earlier, in advocating unilateral disarmament, he had called for pacifism "pursued with the fanatical fervour of conviction not less than that of a Quaker or a Tolstoyan."<sup>23</sup>

Keynes enhanced his power to mould public opinion in spring 1923 when along with Liberal Party friends he bought control of the *Nation and Athenaeum* and began to chair its editorial board. He also undertook to contribute a weekly column on finance. Almost simultaneously, passive resistance in the Ruhr began to flag. In Berlin, Melchior exhorted Cuno to return to the bargaining table. After charting the approach of financial ruin, he reminded the chancellor that "the mistake of 1918 had been to start negotiating only when we didn't have a thing left in our hand."<sup>24</sup> Auswärtiges Amt professionals seconded the warning.<sup>25</sup> In his column, which Whitehall bureaucrats read attentively, Keynes welcomed the German note of early May with unusually vivid rhetoric:

The small, malignant figure of Poincaré lacks even the grim, ingratiating quality of the old grey owl, Clemenceau. One feels oneself in a black cavern, narrowing to a point through which nothing human can creep, nightmare narrowness. France demands her bond and her forfeit too—to cut out Germany's heart and to exact the utmost ducat at the same time; greed and fear and revenge, overreaching one another, until they end in a sort of nihilism.<sup>26</sup>

Frustrated with the unresponsiveness of the Allied replies, Keynes resolved to take the bull by the horns. The ever-efficient Carl von Schubert of the German Foreign Office had already made strenuous efforts to sway Liberal and Labour opposition leaders.<sup>27</sup> Keynes now wrote directly to Cuno, suggesting a supplementary despatch alluding to Bonar Law's January scheme and tailored to appeal to the psychology of Lord Curzon, the British foreign secretary, who had also served Lloyd George. "It is hopeless to satisfy France," Keynes opined. "Any further reply you may make . . . can have no object except to affect favourable British and American opinion."<sup>28</sup>

Melchior spent Wednesday, 23 May, with Cuno at his Aumühle home, canvassing the options as Germany's domestic cohesion ebbed away.<sup>29</sup> Another flurry of exchanges between Keynes and Melchior followed. Keynes elaborated his view that the Reich should not attempt to name a new capital sum for reparations, which could only disappoint Allied opinion; rather it should prepare the way for a conference at which His Majesty's Government could bring its moral authority to bear. The inclusion of Lord Robert Cecil in a new cabinet and the prospective naming of Keynes's wartime patron, Reginald McKenna, as chancellor of the exchequer might turn Whitehall around—dying, Bonar Law resigned in May and had been succeeded by Baldwin. Meanwhile Keynes begged Melchior and his compatriots to hold the line. "Let Germany instead of making moan about how badly she is being treated, insist instead rather on her capacity of indefinite resistance and even introduce a slight note of menace. . . . *In the long run* firmness and a proud bearing will produce more effect on opinion than conciliation and moans." Finally, able to restrain himself no longer, Keynes invited himself to Berlin to furnish his counsel on the spot.<sup>30</sup>

At the start of the Ruhr occupation, Melchior had assured Cuno that Keynes, "although not a member of the government, is nevertheless a frequently consulted expert." With Baldwin ensconced at 10 Downing Street, the Germans apparently believed they were opening a back channel to the top British decision-makers.<sup>31</sup> In fact, Keynes saw Baldwin and his chancellor-designate, McKenna, on 30 May and received authorisation to make the trip, although not to carry a message.<sup>32</sup>

Keynes arrived in Berlin on Friday night, 1 June. Melchior had spent the previous two days with Foreign Minister von Rosenberg, batting around alternatives to an unsatisfactory draft produced by Karl Ritter, the ministry economics specialist. Keynes outlined the political situation in London. Baldwin and McKenna were "thoroughly in the picture" about the limits to German payments, he said, although they could not speak their minds publicly. Foreign Office officials, alas, still thought the Germans could pay a capital sum of 50 milliard gold marks, as the 1921 Schedule of Payments specified. Baldwin hoped to shift responsibility for reparations policy from the Foreign Office back to the Treasury. But since Curzon had played fair over the succession to the prime ministership, he had to move cautiously.

Under the circumstances, Keynes advised, the Germans should neither propose specific figures nor appeal to the League of Nations Council, where the French had disbursed their bribes. Rather, they should craft the note so as to lay the foundation for face-to-face talks.

All through the weekend, Keynes laboured with Melchior, Rosenberg, Ritter, and Cuno on perfecting the draft note. Then he polished the English translation. On Monday the economist entrained for London to “prepare the mood, particularly at the *Times*.” The Germans warned darkly that if the British reception proved unfavourable, the Cuno cabinet would be swept away. Communist unrest, civil war, and regime collapse might follow. Keynes could only promise to do his best and promote, through Baldwin, the idea of an inter-Allied conference in which Germany might take part.<sup>33</sup>

Rosenberg warned the London embassy: “Keynes’s collaboration must remain secret.”<sup>34</sup> Once he returned, Keynes proved as good as his word. He not only approached Baldwin, McKenna, and two lesser Whitehall dignitaries, but also tackled Geoffrey Dawson, editor of the *Times*. In the *Nation and Athenaeum*, he praised his own handiwork unstintingly. “The new German note affords as fair a basis for the settlement of the *economic* problem of reparations as it is within the power of any German government to give. . . . The Allies have the choice of payment from Dr Cuno or a signature from the Communists *à la Russe*.” If Baldwin failed to speak out, the result would be devertebration of the Reich, establishment by France of a new military empire, and a reign of tribute and rapine extracted “as the Goths did in the fifth century.”<sup>35</sup> Cuno wrote to thank Keynes profusely.<sup>36</sup>

Despite the energy that Keynes displayed in manipulating the press, events moved swiftly against him. McKenna failed to take over the Treasury for health reasons. Baldwin, seeking to unite the Conservative Party, discerned no public clamour to “let the Boche off” and found it impracticable to challenge Foreign Office prerogatives. The prime minister delivered a stirring address to the House of Commons, and Curzon began an acrimonious exchange of notes with the Quai d’Orsay. But the summer dragged on with no substantive action by Britain besides words.<sup>37</sup>

Meanwhile, the strategy of printing fiat money to underwrite the Ruhr struggle approached its limits. On 12 August, the Cuno government fell on domestic grounds. At the last minute, Cuno confessed to cabinet colleagues and bankers what Keynes and like-minded sympathisers had gone out of their way to ignore—that Germany had sustained the inflation as a matter of deliberate policy to keep up employment and get rid of reparations: “If the reproach is made that we didn’t get our tax system in order, well naturally our wish had been to solve the reparation problem first and the tax problem only afterward.”<sup>38</sup> Now it was too late. The Reich moved inexorably toward abandonment of resistance. The hyperinflation, feeding on expectations, accelerated in an atmosphere of mounting chaos until November,

when the old currency reached 4.2 trillion to the dollar and had to be replaced.

Keynes continued to churn out powerfully crafted editorials against French imperialism, but his star turn at the margins of diplomacy was over. In October his ally from Peace Conference days, Prime Minister Jan Smuts of South Africa, arrived in London for a high-wattage Imperial Conference. Keynes promptly sought to mobilise him for the cause. He outlined unilateral steps that the British Empire could take: petitioning the American Congress, summoning the League Council to declare the Ruhr occupation illegal, appointing an Anglo–German commission, or creating an inter-Allied investigating committee with France and Belgium left out. Smuts, however, was not to be won for precipitate action. He registered his preference for an expert committee with American participation, even one appointed by the Paris-based Reparation Commission.<sup>39</sup> The Foreign Office would shortly bring that cautious approach to fruition with the collaboration of the United States State Department. Keynes continued to press Smuts toward a tougher line, but unsuccessfully.<sup>40</sup> The South African statesman expressed his frustration to C.P. Scott, the editor of the *Manchester Guardian*. Keynes had remarked, as Smuts recounted the tale, “Why . . . do you fuss about Reparations? There can be no reparations. Why not let France have her way and let things work themselves out to the inevitable disaster?” “The usual fallacy of the theorist,” sighed Smuts. “We poor people have to face the facts and do what we can step by step.”<sup>41</sup>

At the end of October, Melchior turned up in London to warn the British against Rhineland separatism. Seeing Smuts and McKenna as well as Keynes, he explained that the best elements in his homeland, the educated middle classes, were sinking into a slough of nervous despond: “In the last analysis every state is made up of individuals, and eight to nine out of ten among us is more or less mentally disturbed.” With remarkable *sang-froid*, Melchior elaborated a scheme for currency stabilisation and a balanced budget that anticipated to a remarkable degree what the Dawes Committee would recommend six months hence.<sup>42</sup>

This ability to take the long view is precisely what made Melchior so attractive to Keynes as well as to German democrats. Yet however deeply touched, his interlocutors could offer little more than tea and sympathy. McKenna told the visitor resignedly that, if Germany could not declare war, it had to sustain hope that Britain and America would succeed in isolating France politically when the expert committees met. On this trip, moreover, Melchior’s discussions had little consequence. The Hamburg banker had no special connexion to the new chancellor, Gustav Stresemann, and fell out of the policy loop. Stresemann sought to re-professionalise diplomacy and minimise the use of private intermediaries. Neither the *Auswärtiges Amt* nor Reichswehr General Hans von Seeckt, who now held the leading strings, heeded the banker’s reports.<sup>43</sup>

The Keynes–Melchior pipeline had gone dry. Perhaps as a by-product, Keynes also lost a source of supplemental income. From September 1920 to February 1924, Keynes had served as foreign-exchange consultant to the textile firm of Ernest R. Debenham Plc; his connexions in Germany had helped him to forecast the forward-exchange market. In early 1924, Debenhams decided to go it alone.<sup>44</sup> The *de facto* stabilisation of the mark also curbed the Cambridge economist’s lucrative private currency speculation. One can sense his general frustration in the grudging praise that he meted out to the Dawes Report when it appeared in April 1924: “Though the language seems at times the language of a sane man who, finding himself in a madhouse, must accommodate himself to the inmates, it never loses its sanity.”<sup>45</sup>

Keynes did not lose interest in reparations after the Dawes Plan led to a temporary settlement. He returned to battle in 1929 when another experts’ committee under Owen Young assembled in Paris to review German obligations again. Over the previous four years, foreign loans had more than covered German out-payments. The capital inflow had facilitated wage increases exceeding productivity gains and allowed Weimar to create an embryonic welfare state with other people’s money.<sup>46</sup> Allied members of the Young Committee proposed to whittle down the reparations annuity, but in return to modify the Dawes Plan provision that made the recipients responsible for transferring payments over the exchanges. Without transfer protection, the Reich might eventually have to generate an export surplus. On a visit to Berlin the previous spring, Keynes had detected no signs that Wall Street would stop lending, but he speculated with Melchior and Reichsbank President Hjalmar Schacht on what to do if it did. Both Germans declared that if and when transfer difficulties arose, credit restriction was “emphatically not the right way to deal with it.”<sup>47</sup>

One year on, American lending had slowed, and Germany had slid into recession. Schacht served as chief German delegate on the Young Committee, Melchior as an alternate. Keynes hosted a debate on the transfer problem in *The Economic Journal* and circulated advance proofs to committee members.<sup>48</sup> The Swedish economist, Bertil Ohlin, minimised the transfer problem that had bedevilled theoretical discussion of reparations since 1919. A monetary transfer, he emphasised, produces income effects in both paying and receiving countries that, depending on the marginal propensity to consume, facilitates the real transfer in goods. An organised shift in demand through deliveries in kind can speed the process. Jacques Rueff, a staff aide to Poincaré, now again the French premier, pointed to historical cases where the trade balance had adjusted to capital movements within a few years. Keynes, standing on his growing reputation, upheld the classical position. Only the supply side mattered. At any given time, a country’s economic structure and production costs dictate a “natural” level of exports. For Germany to export 40 percent more finished goods would require wage cuts and an unemployment rate that were neither politically nor humanly feasible. When

a country owed a burdensome sum, “readjustment is often brought about by just not paying it.” The bottom line: Germany should not, could not pay.

Both Schacht and Melchior thought that Keynes had rightly identified the key issue as the German standard of living.<sup>49</sup> Yet mindful of political imperatives, Melchior concluded that his government should accept the Young Plan.<sup>50</sup> By contrast, Schacht campaigned against it. Keynes agreed with Schacht. The Reich should accept no inducements to give up transfer protection.<sup>51</sup> He perceived a sole advantage to the Young Plan. It established a juridical link between reparations and war debts that might exert pressure on America to cancel the latter.

The tenor of Keynes’s liaison with Melchior had altered by this time. He continued to visit his friend whenever he passed through Germany. Yet their personal relationship never recovered its pre-1923 emotional intensity. By the middle 1920s, both men had entered midlife involvements leading to marriage. Lydia Lopokova, as Virginia Woolf observed, had “a very limited headpiece,” but the nicest nature in the world. As a former ballerina, she had lived around gay men all her life and possessed exquisite sensitivity. Lopokova provided Keynes with contentment that he had never experienced before. In the early 1920s, Keynes had flaunted his relationship with a decorative young man who became known amongst the Cambridge *cognoscenti* as “Mrs. Keynes.” In middle age Keynes acquired discretion, and perhaps some distance from his earlier life as well.<sup>52</sup> In late 1945 Melchior’s widow wrote from France that she and the banker’s son had survived the war and would like to come to England. Keynes replied that he could not help. “I shall never forget the intimate relations I had with your husband after the last war and how greatly I respected his character and his mind,” Keynes recalled. But the old conditions had “simply faded away.”<sup>53</sup>

As an economist and publicist, Keynes continued to nurture close ties with Germany and to guard zealously his reputation there. When he published a German version of his essay on “National Self-Sufficiency” in 1933, he allowed the translators to excise passages that might offend the Nazis.<sup>54</sup> Two years later, he secured the assistance of the refugee Jew, Eduard Rosenbaum, Melchior’s former co-adjutor on the Hamburg *Wirtschaftsdienst*, to supervise translation of the *General Theory*. But he explained with embarrassment that he could not acknowledge that aid because to do so might impede acceptance of his ideas.<sup>55</sup> Similarly, Keynes displayed private compassion for refugee scholars and helped place a number of them in academic posts. Yet he declined to call attention to their plight in *The Economic Journal* lest the impartiality of that quarterly come under suspicion in the Third Reich.

Keynes’s genius marked the twentieth century as much as the achievements of Darwin and Marx distinguished the nineteenth. He wrote so well that his *oeuvre* endures when his contemporaries’ more turgid productions vanish into the mists of history. Yet the economist had certain failings as well as brilliance and creativity beyond the norm. Those failings—want of

moderation, unscrupulousness in argument, and occasional obtuseness in moral judgment—appeared most conspicuously in his labours on German reparations.

Sometimes one forgets that public men of widely divergent views distrusted Keynes between the wars. André Tardieu dismissed him as a “pro-German scribe” who had “overstepped the limits of permissible tomfoolery.”<sup>56</sup> Thomas Lamont concluded that his nerve had broken at the peace conference. E.C. Grenfell, head of Morgan’s London branch, acknowledged his talent, but discerned “a want of practical knowledge which shows up at times and makes one fearful of his judgment.”<sup>57</sup> The leading lights at the Bank of England complained that he played fast and loose with statistics.<sup>58</sup> Sir William Tyrrell, a senior Foreign Office mandarin, derided Keynes as “an economist gone mad—who would prefer to see Europe ruined sooner than see an economic dogma impaired.”<sup>59</sup> Others charged Keynes with taking unfair advantage of his superior intelligence. The later IMF managing director, Camille Gutt, recalled: “He explains very complicated things so clearly that they seem quite simple. Whilst listening to him they are not at all difficult to understand. It takes half an hour to realise that one has not understood.”<sup>60</sup> On the other hand, those who came to know Keynes in the latter part of his career stood in awe of him. His Treasury colleagues after 1940 admired the courage and tenacity with which he defended the British vision of a post-war international monetary system, even if superior American resources prevailed in the end.<sup>61</sup> His co-workers developed genuine affection for him.

How can one reconcile Keynes’s reparation involvements with his later contributions as an original thinker and self-sacrificing Whitehall functionary during the Second World War? To begin with, the ethical strictures that govern professional life today did not exist in the 1920s. It would now be considered improper to sustain relationships hidden from security officials, counsel a foreign Power, advise corporations on the basis of data thus acquired, and laud documents publicly without disclosing that one had drafted them. Keynes perceived no contradiction. In a 1938 reconstruction of his early beliefs, he recalled that he and his fellow Apostles were “immoralists.” They recognised no obligation to conform, but claimed to be the judge in their own cases.<sup>62</sup> That attitude fostered independent thinking, but occasionally a sense of narcissistic entitlement as well.

Perhaps equally important, Keynes drew a distinction between the duties of the public intellectual and the statesman. “Words,” he would later write, “ought to be a little wild—for they are the assaults of thoughts upon the unthinking. But when the seats of power and authority have been attained, there should be no more poetic license.”<sup>63</sup> At another juncture he seemingly repudiated his earlier model of the dispassionate economist-king entirely. Economic facts are transitory. Hence practitioners should embrace the present perspective and never fear the “half baked.” They should fling

pamphlets into the wind and “leave to Adam Smith alone the glory of the quarto.”<sup>64</sup>

Whatever the philosophical underpinnings, explanation should not obscure how Keynes mixed the personal with the political. At crucial points he helped shift Germany’s reparations burden to the Allied taxpayer. He supported the German hyperinflation on political grounds although he must have had a premonition how it would end. In short, he put politics above economics.

## NOTES

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1. Kocherthaler Notiz für das Tagebuch, 2–9 November 1922, MW [Nachlass Max Warburg, Warburg Archiv, M.M. Warburg & Co., Hamburg] 196a; for D’Abernon’s role, see FO [Foreign Office Records, The National Archives, Kew] 371/7519; Lord D’Abernon, *An Ambassador of Peace*, Volume 2 (London, 1929–1930), 114–29, 140; also Elizabeth Johnson, ed., *The Collected Writings of John Maynard Keynes* (London, 1977ff), Volume XVIII, 61. Hereafter cited as *CW*.

2. Old-school German economists still claimed that a passive current-account balance “caused” inflation by worsening the terms of trade and forcing adjustment of the money supply to exogenous commodity prices. Howard Ellis, *German Monetary Theory, 1905–1933* (Cambridge MA, 1934), 203–95.

3. “Gutachten der internationalen Finanzsachverständigen,” 17 November 1922, FO 371/7519. On witnesses for the defense, D’Abernon to Bradbury, 20 November 1922, Add Mss [British Library, London] 48924. Rosenbaum to Keynes, 24 February 1937, documents Keynes–Cassel relations [Eduard Rosenbaum Papers, London School of Economics, London].

4. Melchior to S. Jasphe & Co., 15 January 1922, MW 156.

5. Brand to Keynes, 23 October 1922, RB [Robert Brand Papers, Bodleian Library, Oxford] 49; Brand to Lazard Frères, 10 November 1922, Brand to Keynes, 16 November 1922, Ritter to Brand, 13 November 1922, Brand to Ritter, 20 November 1922, all RB 25. Ritter headed the Auswärtiges Amt economics department (1921–1937). During the Second World War, as liaison to the Oberkommando der Wehrmacht, he collaborated in the deportation of the Hungarian Jews and the murder of downed Allied airmen. See Murphy to State Department, 8 August 1947, “Indictment of Foreign Office Group,” SD [National Archives and Records Administration, College Park, MD] 740.00116EW Prosecution/8-847.

6. Keynes to Melchior, 17 November 1922, Melchior to Keynes (copy to Cuno), 24 November 1922, Alte Reichskanzlei [Bundesarchiv Koblenz] R431/32.

7. Kocherthaler Notiz für das Tagebuch, 2–9 November 1922; Keynes meeting with Bergmann, Fischer, Schröder, and Ritter, MW 196a.

8. D’Abernon to Curzon, 1 November 1922 (follow-up, 8 November–20 December 1922), Add Mss 48924.

9. Thelwall to Brand, 15 November 1922, RB 25.

10. J.I. Piggott report of talk between Stinnes and representatives of Federation of British Steel and Iron Industries, 29 October 1922, FO 371/7518; similar comments to Melchior in Gerald Feldman, *Hugo Stinnes* (Munich, 1998), 787–808. Stinnes’s formulation echoed a common trope about the rise of an “Asiatic” civilisation: Warburg to E.M. House, 9 June 1921, House [E.M. House Papers, Yale University, New Haven, CT] Box 114a.

11. Keynes to Melchior, 1 December 1922, in *CW*, XVIII, 85–87; forwarded to Cuno, 5 December, R431/185.

12. Cuno to Rosenberg, 22 April 1924, NL Cuno [Nachlass Cuno, Historisches Archiv, Hapag-Lloyd AG, Hamburg] Politik 1923–30.

13. Winfried Becker, ed., *Frederic von Rosenberg, Korrespondenzen und Akten des deutschen Diplomaten und Ausenministers* (Munich, 2011); idem., *Frederic von Rosenberg, Diplomat vom späten Kaiserreich bis zum Dritten Reich* (Göttingen, 2011), especially 100–09, 298–301 on Rosenberg’s disdain for the Republic.

14. Keynes expressed “delight” that Cuno was forming a government, Keynes to Melchior, 17 November 1922, Alte Reichskanzlei, R431/32. The bowdlerised version in *CW*, XVIII, 64–65, gives the opposite impression. On the differences between Melchior and Ruhr steel magnates, see MW 130, 14–30 Dec. 1922 correspondence.

15. Gerhard Schuster und Margot Pehle, eds., *Harry Graf Kessler Tagebuch, 1919–1923* (Stuttgart, 2007), 574 (13 November 1922).

16. After Rathenau’s assassination, Warburg feared for his life and withdrew from public advising. He may also have felt jealous. Although Cuno made a splendid appearance, some colleagues thought he lacked the forceful intellect of Albert Ballin—or of Warburg himself. See Max to Paul Warburg, 1 July 1922, MW 156; Max Warburg to Melchior, 28 December 1922, MW 160; similar judgments in MW 147a.

17. Keynes to Baldwin, 16 December 1922, KP [John Maynard Keynes Papers, King’s College, Cambridge] FI/4/2; Keynes to J.C.C. Davidson, 30 January 1923, reiterating that American creditors stood “completely at our mercy,” Baldwin [Stanley Baldwin Papers, Cambridge University Library], Vol. 109.

18. Andrew Boyle, *Montagu Norman* (London, 1967), 160.

19. Plan for Settlement, 23 December 1922, *CW*, XVIII, 97–99; Robert Blake, *Unrepentant Tory. Andrew Bonar Law* (New York, 1956), 485, 493.

20. Keynes to Melchior, 5 and 17 January 1923, Melchior to Cuno, 8 January 1923, all KP FI/2.

21. Havenstein to Keynes, 4 January 1923, Keynes to Havenstein, 17 January 1923, KP FI/3/1.

22. *Times* (8 January 1923), *CW*, XVIII, 113–15.

23. *Manchester Guardian Commercial* (4 January 1923), *CW*, XVII, 448–50.

24. Melchior Notizen für das Tagebuch, 27 April 1923, 11 May 1923, MW 157a.

25. Carl von Schubert, head of the Anglo–American department, repeatedly voiced frustration over Cuno and Rosenberg’s reluctance to compromise. See Kessler *Tagebuch*, 23 March–25 May 1923. Although Schubert had arranged the sealed train that despatched Lenin to the Finland Station in 1917, he rated under Weimar as a moderate.

26. *Nation and Athenaeum* (12 May 1923), in *CW*, XVIII, 136–39. Sir Eyre Crowe, the Foreign Office permanent under-secretary, underscored this passage; see Crowe Papers, FO 800/243.

27. Schriftverkehr, December 1922–September 1923, Handakten von Schubert, GFM [German Foreign Ministry] microfilm L734/5061 and L1470/5330. Albert Dufour-Feronce of the London embassy served as conduit both for Schubert’s emissary, Harry Kessler, and for Keynes.

28. Keynes to Cuno, 16 May 1923, KP FI/2; also *CW*, XVIII, 143–45.

29. Melchior Notiz für das Tagebuch, 24 May 1923, MW 157a.

30. Keynes to Melchior, 24 and 26 May 1923, Melchior to Keynes, 22, 24, 26, 28 May 1923, also Melchior to Cuno, 25 May 1923, transmitting Keynes’s letters through Arndt von Holtzendorff, all KP FI/2 and MW 147b; excerpts in *CW*, XVIII: 145–58.

31. Melchior to Cuno, 8 January and 25 May 1923, KP FI/2.

32. Keith Middlemas and John Barnes, *Baldwin* (London, 1969), 180–81.

33. Melchior Notiz für das Tagebuch, 4 June 1923, MW 147b; Melchior cockshy in GFM, L1617/5682; Keynes’s drafts in KP FI/4/2; Becker, *Korrespondenzen*, 306–70.

34. Rosenberg to Sthamer, 5 June 1923; briefings by Keynes to Dufour-Feronce in Aufzeichnung von Schubert, 9 June 1923, GFM 3243/1648.

35. *Nation and Athenaeum* (16 June 1923), *CW*, XVIII: 165–70.

36. Cuno to Keynes, 16 June 1923, KP FI/2; *CW*, XVIII, 171; Cuno to Wilhelm Marx, 14 April 1924, NL Cuno, Politik 1923–30. How much Keynes told to Downing Street remains unclear. Thomas Jones of the Cabinet Secretariat called the German note more pointed than usual and speculated that “possibly Keynes, who has been to Berlin, had something to do with its manner.” See 8 June 1923 entry, in T. Jones [Keith Middlemas, ed.], *Whitehall Diary, 1916–1925* (London, 1969), 240.

37. Baldwin conversation with Geoffrey Dawson, 17 June 1923, Dawson [Dawson Papers, Bodleian Library, Oxford] Box 70; Baldwin speech in House of Commons Debates, *Hansard* (12 July 1923) Cols. 1584–89; “Boche” comment in Philip Williamson et al., eds., *Baldwin Papers* (Cambridge, 2004), 108; Cabinet Conclusions, 11 June–9 August 1923, CAB [Cabinet Records, The National Archives, Kew] 23/46.

38. Reich chancellery meeting, 31 July 1923, Notiz Max Warburg, 1 August 1923, MW 157a.

39. Keynes to Smuts, 5 October 1923, Smuts to Keynes, 10 October 1923, KP L/23. Treasury mandarins, like Keynes, sought to bypass the Reparation Commission. See FO 371/8658-59 and T [Sir John Bradbury Papers, The National Archives, Kew] 194/11.

40. Keynes to Smuts, 21, 26 October 1923, Smuts to Keynes, 22 October 1923, both KP L/23.

41. Entry, 27 October 1923, in Trevor Wilson, ed., *The Political Diaries of C. P. Scott, 1911–1928* (Ithaca, NY, 1970), 446. Jean Van der Poel, *Selections from the Smuts Papers*, Volume 5 (Cambridge, 1973), 185–216, reveals just part of the story.

42. Melchior to Keynes, 13 October 1923, KP FI/2. On Melchior's 27–30 October mission, "Besprechung mit General Smuts," 2 November 1923, MW 157a; Jahresbericht, 27–30 October and 3 November 1923, MW 157b; Melchior briefing of Schubert, 2 November 1923, GFM L1472/5330.

43. "Sache Smuts," Ibid., L1472/5330. Schubert, now Stresemann's right-hand man, sent his deputy to confer with Smuts directly.

44. Economic Committee minutes, Debenham Lpc, KP L/24.

45. "The Dawes Report," in *Nation and Athenaeum* (12 April 1924), *CW*, XVIII, 235–41.

46. On this controversial topic, see Albrecht Ritschl, "Reparation Transfers, the Borchardt Hypothesis, and the Great Depression in Germany, 1929–32," *European Review of Economic History*, 2(1998), 49–72; cf. Stephen Schuker, *American "Reparations" to Germany, 1919–33* (Princeton, NJ, 1988).

47. Keynes to Falk, 2 April 1928, Oswald Falk Papers [British Library, London] Add Mss 57923.

48. "The German Transfer Problem," *Economic Journal*, 39(March, June, September 1929), 1–7, 172–82, 388–408. For French scepticism of anything associated with Keynes, see Revelstoke Record, 4 March 1929, Lord Revelstoke Papers [Baring Brothers Ltd., London] 2.4.5.

49. *CW*, XVIII, 311.

50. Melchior agreed with Keynes on the economics. He favoured accepting any terms, but anticipated "a crash within the next three years." The British Delegation attributed his pleasant demeanour to a "healthy recollection of the whip administered to his forebears in the Red Sea." Revelstoke Diary, 2 February 1929, 4 March 1929, Revelstoke Papers 2.4.4.

51. *CW*, XVIII, 304–50. Modern sovereign-debt theory holds that, leaving political context aside, reversing *de facto* seniority between commercial and reparations lenders exposed the Reich to credit contraction. Albrecht Ritschl, "Was Schacht Right? Reparations, the Young Plan, and the Great Depression in Germany" (1996): [http://personal.lse.ac.uk/ritschl/pdf\\_files/Schacht2.pdf](http://personal.lse.ac.uk/ritschl/pdf_files/Schacht2.pdf).

52. On Keynes's Cambridge lover, see Charles Hession, *John Maynard Keynes* (New York, 1984), 176; on Lopokova, see 4 September 1924, in Nigel Nicolson et al., eds., *The Letters of Virginia Woolf*, Volume 3 (New York, 1975–1980), 129; Judith Mackrell, *Bloombury Ballerina* (London, 2008).

53. Marie Melchior de Molènes to Keynes [December 1945], Keynes to Mme. Melchior, 9 February 1946, KP L/46; also Elizabeth and Harry Johnson, *The Shadow of Keynes* (Chicago, 1978), 60–61.

54. Knut Borchardt, "Keynes' 'Nationale Selbstgenügsamkeit' von 1933: Ein Fall von kooperativer Selbstzensur," *Zeitschrift für Wirtschafts- und Sozialwissenschaften*, 108(1988), 271–84.

55. Keynes to Rosenbaum, 7 September 1936, Rosenbaum Papers. The German edition lists the Aryan Fritz Waeger as translator.

56. David Lloyd George, *The Truth about Reparations and War Debts* (London, 1932), 19.

57. Lamont to Grenfell, 23 December 1919, Grenfell to Lamont, 8 January 1920, Lamont [Thomas Lamont Papers, Harvard Business School, Cambridge, MA] Box 111/12; Grenfell to Lamont, 25 October 1924, Ibid. Box 111/16.

58. Memoranda by R.N. Kershaw, H.C.B. Mynor, O.E. Niemeyer, Henry Clay, all Governor's Papers [Bank of England Archives, London] G1/15.

59. Tyrrell minute, 4 September 1924, FO 371/9864: C13931/11642/18.

60. Camille Gutt, "Can the International Monetary Fund Prevent an Economic Depression?" *Washington Post* (30 January 1947).

61. Benn Steil, *The Battle of Bretton Woods* (Princeton, NJ, 2013).

62. "My Early Beliefs," *CW*, X, 446–47.

63. "National Self-Sufficiency," *New Statesman and Nation* (15 July 1933), *CW*, XXI, 244.

64. "Alfred Marshall," *CW*, X, 198–99.

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