

Chapter 9 1/2

Setting Up a Global Economy

On February 17, 1871, a twenty-nine-year-old newly elected Radical member of the Assemblée Nationale watched in horror as Prussian troops staged a victory parade through the streets of his beloved Paris. He voted against the peace treaty with the newly formed German Empire whose ruler, Wilhelm I, had just been crowned emperor in a ceremony in the Hall of Mirrors of the Palais de Versailles. He was horrified by the terms of the peace, appalled that five billion francs' worth of French money would be paid as tribute – “reparations” to the German government whose forces would remain on French soil for five years or until the tribute was paid – two and a half years early, as it would turn out. France also lost its provinces of Alsace and Lorraine. Now it was a half-century later and the young parliamentarian, Georges Clemenceau, was prime minister of the same nation that this time had wound up victorious over its German foes. Bismarck, the Iron Chancellor who had sent his Prussian forces into battle then, was long dead.

Clemenceau was determined that this time the Germans would pay to rebuild his nation – the one its troops had destroyed. And he needed to make certain that France would never again be vulnerable across its eastern borders. This quest for security would motivate his policy in Central Europe and the Balkans, the cordon sanitaire quarantening Bolshevism within Russia. And it would motivate his attitude toward the Reich – its boundaries, its military and especially its economic muscle. An old man by now, he sought recompense, in all its forms. He was one of the few who would sit down at the conference tables of Paris in January 1919 with an active and vivid memory of the previous war and the last peace. David Lloyd George, prime minister of Britain, was

barely eight years old when the Prussians had marched into Paris. Woodrow Wilson had just turned fourteen, son of a Presbyterian minister in Columbia, South Carolina, an ocean away from those violent, remote events. Other men and a few women, younger still, were converging on Paris, this time with a determination that the mistakes of their elders would not be repeated. Vengeance would not be exacted at this peace table, they vowed. And money – tribute – would not be exacted for the sake of retribution. How wrong they turned out to be.

There were many errors committed at the Peace Conference in Paris – many of them geographic, ethnic, and political. But redrawing of national boundaries and disenfranchisement of vast populations were not the only crimes. The nature of the economy of the Western world was shaped as well – the foundations laid for considerable suffering among the very people who had already paid most dearly during the conflict itself. This was done by the old men at the table and some of the young as well.

John Maynard Keynes was one of the young men. He took the same boat train from London via Calais to Paris that carried Harold Nicolson, but ten days later. Keynes, the thirty-five-year-old aide to Britain's chancellor of the exchequer, was cut from the same bolt of cloth as Nicolson, the assistant to the Foreign Secretary. Each was a product of late Victorian English intelligentsia – Keynes a towering (at six feet six inches) Cambridge don, son of a Cambridge economist; Nicolson an Oxonian born three years later. Both were members of the Bloomsbury group, a gaggle of patrician Edwardian aesthetes – Keynes by the brilliance of his intellectual accomplishments, Nicolson by his marriage to the writer Vita Sackville-West, the model whom Virginia Woolf took for her Orlando. Keynes was the first to join Bloomsbury; indeed, he was present at the creation after being inducted into Cambridge's most elite and secretive society, the Apostles, by two of its young denizens. Lytton Strachey and Leonard Woolf were attracted by his brilliant reputation at Eton and his parentage.

When war broke out in Europe, Keynes was pressed into service at the British Treasury, drafted in July 1914 from his rooms in King's College where he had taken up a lectureship in economics. His immediate mission was to help deal with a crisis in the remittance system that was threatening a run on the stock exchange. Keynes was a firm

believer in using the nation's money and resources, rather than hoarding them – especially the gold reserves that backed the currency in those far-off days when the precious metal was still the world's monetary standard. Still, Keynes was troubled by the dangers of inflation, and he worried for much of the war about how to finance this colossally expensive effort without bankrupting the nation or, of lesser concern, ruining Britain's allies. He vaguely (somewhat more vaguely than much of the rest of Bloomsbury) disliked the war, but nevertheless believed if it was going to be fought, it might as well be efficiently managed. With his surfeit of self-confidence, he had no doubt that he was the man to make certain it was run in this fashion.

By January 1915 Keynes was comfortably installed in Whitehall at an adequate government salary of £600. A month later, he headed to France for the first inter-Allied conference on financing the conflict. It was here that the foundations for the entire edifice that was to become such a problem for the Peace Conference were laid. It was, effectively, the fiscal equivalent of the secret treaties that bound the Allies in dealing with so many troublesome issues in other parts of the world. Only in this case, it was not a secret, nor was there a treaty involved. But it was certainly binding – a system to finance much of the war effort by credits, not grants. France and Belgium were on the front lines. Vast swaths of their territories were being chewed up by the armies of both sides as they dug in for a long and bloody war of attrition in the trenches and barbed wire strung across hundreds of miles of once fertile farmland. Both countries were in desperate need of funds to buy and make arms, clothe their armies, and feed their people. The solution the British decided upon was credits to the continental powers rather than outright grants – credits to Allied accounts at the Bank of England that could be used to buy whatever was needed to keep the war machine ticking.

Dining with the likes of Bertrand Russell and D. H. Lawrence, partying with the Bloomsbury crowd, relieving his tension by weeding gardens with a small pocket knife for six hours at a stretch, kneeling on a small piece of carpet at Bloomsbury's summer place in Charleston outside London, Keynes found that the war passed quickly. A congenial and polished guest at their stately homes, he became a close confidante of many of the top British officials who were running the war – Sir Reginald McKenna,

chancellor of the exchequer, and the Asquiths, especially the prime minister's wife Margot Asquith and their beautiful daughter Elizabeth, later Princess Bibesco. But Keynes was not a big fan of Lloyd George, and mutual antipathy led to his name being struck from the King's honors list the first time around. It was an unprecedented slight that the young economist never forgot. This was scarcely surprising. He was becoming even more insufferable than he had been at Cambridge – the kind of young man who believes he is the smartest person in any room and if you are unconvinced, won't let you leave the room until he has persuaded you. In his case, alas, he probably was.

Keynes's view of the war was a simple one. As his official biographer Roy Howard reports, he believed that “we must go through with [it, to] establish world affairs on a better basis so that this shall not happen again.” This view was shared, if unconsciously, by many at the Paris peace tables – from Harold Nicolson to Woodrow Wilson. It fairly reeks of George Edward Moore, the Cambridge philosopher whose *Principia Ethica* appeared just as Keynes was coming up to university for the first time in 1902. “We accepted Moore's religion, so to speak, and discarded his morals,” Keynes would recall later. “How did one compare the value of a good state of mind which had bad consequences with a bad state of mind which had good consequences?” A difficult path of reasoning for a young economist who was seeing to the financing of a war of which he barely approved, and which nearly cost him his own life though he never approached the field of battle. On June 6, 1916, British war minister Lord Horatio Herbert Kitchener, dispatched to Russia for negotiations with the then-Allied monarchy of the czar, was drowned off the Orkney Islands when his ship went down – a fate Keynes was spared only by his exclusion from the party at the very last minute.

Meanwhile, the continental Allies had become totally dependent on Britain for financing the war, while Britain, her own meager resources all but exhausted, had become totally dependent on the United States. Though it had not even entered the conflict officially yet, America was already shoveling into British accounts more than \$200 million a month – or 40 percent of all war spending. Whitehall in turn was underwriting all of Italy's foreign war spending, most of Russia's, two-thirds of France's,

and half of Belgium's and Serbia's. As Keynes observed acerbically, "We have one ally, France. The rest are mercenaries."

Keynes spent September and October of 1917 in the United States in an attempt to shore up the financial relationship with the newest Allied nation, America having recently entered the war officially. What he found was a collection of New York bankers, including one patrician J. P. Morgan partner whose goal was to make Wall Street the banker to the world. Thomas William Lamont (great-grandfather of the man who defeated Senator Joseph Lieberman for the Democratic nomination for a U. S. Senate seat in Connecticut in 2006) was raised in a parsonage and graduated from Phillips Exeter Academy and Harvard. Keynes would cross swords repeatedly with him in Paris. When Keynes first encountered him in New York, Lamont had spent fourteen years working his way to the pinnacle of the American financial establishment. What Keynes and the British Exchequer needed desperately from the Lamonts and, by extension, from the U. S. Treasury, was cash. Keynes recognized that the United States had Britain over a barrel. In July 1917 he had already warned: "Our resources available for payments in America are exhausted. Unless the United States can meet in full our expenses in America, including [foreign] exchange, the whole financial fabric of the alliance will collapse. This conclusion will be a matter not of months, but of days.

He'd been exaggerating, for effect, of course. But not by much. Keynes's goal was to have the United States take over all the financing of the war effort, rather than operate an elaborate Ponzi scheme that could ultimately result in Britain holding the bag. The Americans, it seemed, would rather loan huge sums to the Brits, who might eventually be expected to honor the debt and let London loan the money onward to the Allies. The unpleasant alternative was for the United States to accumulate a mountain of ultimately worthless French and Italian obligations. Keynes's American forays met with mixed success from the British perspective. On the one hand, the United States did continue to underwrite the war effort. But it did so for the rest of the war through the Bank of England. Britain would wind up holding the worthless Allied paper.

Ten days after the armistice, Keynes was attached to the British delegation to the peace talks. In the next two months his principal mission was to prepare the Treasury's

position on German indemnities – reparations the victors would extract from the vanquished. The model he was given, not surprisingly, was the same that the German Empire had used with France in 1871.

By the end of the war in 1918, Europe was crushed in every sense of the word. Nearly an entire generation of young manhood had been wiped out in much of Western Europe. Vast territories had been rendered all but uninhabitable. Mines and other sources of vital natural resources had been blown up, spiked, or rendered unusable. Vast populations were on the verge of starvation as farms were neglected, farmers were killed in the war, and the transport systems that brought food to market were damaged or obliterated. Financial resources, too, had all but evaporated. Even the powerful Bank of England was living paycheck to paycheck and the paymaster was three thousand miles away across the Atlantic.

It was becoming increasingly clear that while many of the politicians were focused on redrafting the political and ethnographic map of Europe, the Middle East, and as much as possible of the rest of the world, money would be the real determinant of power and politics in the post war years. Keynes was profoundly aware of these realities as he set out to prepare his first reparations memorandum for the chancellor of the exchequer, Bonar Law. From the get-go, Keynes outlined the two realities that were to consume all discussions over reparations, money, and power for the next decade and beyond. First there was the damage done to France, Belgium, and the other Allies by Germany. (Austria-Hungary, being totally crushed and in the process of being broken up to form the new nation-states of Central Europe, never figured very deeply in any of these computations.) Second, and as it turned out far more importantly, there was the capacity of Germany to pay. Keynes's first pass at both efforts showed, in outline, direct damages to civilian populations, excluding the costs of pensions to the widows of dead soldiers, totaling £4 billion, with Britain claiming 15 percent. The maximum Germany might be expected to pay was £3 billion. So a satisfactory outcome, Keynes projected, would be £2 billion – payable over the course of decades in a form of annual tribute. "If Germany is to be 'milked,'" his Treasury report observed presciently, "she must not first of all be

ruined.” None of this would even come close to the conclusions reached by the peace delegates. Self-determination be hanged. This was money they were talking about.

Much of this Allied apparent rapacity was due to three potent forces at work – a powerful British lobby of conservative critics who wanted Germany to foot the entire bill for the war and nothing less; the U. S. political and financial network of Woodrow Wilson and his Wall Street boys; and finally Clemenceau and a small band of French financiers and bureaucrats who had their own very definite ideas of what the victors needed and wanted.

The French brought to the table a tag team of experts, each persuaded in his own way that the only real path to recovery for their nation was Allied (that is, American) assistance. First in the ring was Etienne Clementel, product of a modest family of flour millers in the Auvergne region, who became a *notaire* (a cross between an attorney and a notary public, but a powerful and well-remunerated position in France), before entering public life. His first ministerial appointment was minister of colonies from 1905 to 1906, five years before Nguyen Tat Thanh set out from Saigon to seek his destiny. Schooled at the Ecole des Beaux-Arts in his hometown of Clermont, one of France’s oldest cities deep in the heart of the mountainous region, Clermont-Ferrand, Clementel retained an artistic sensibility for much of his life. He played a leading role in the creation of Paris’s Musée Rodin. None of this, however, prepared him for the radical restructuring of the European economy he advanced as France’s post war position at the Peace Conference. It was a daring, even visionary concept that was all but stillborn. And this despite the assistance he won from a thirty-year-old bureaucrat named Jean Monnet who, four decades later, would become the father of the European Economic Community.

Clementel’s ideal was a vast trans-Atlantic pooling of resources to rebuild Europe, but particularly the most devastated areas of France – creating an Allied economic bloc. If Germany played along, eventually it, too, would even get its share. The goal was a steady source of raw materials at moderate prices, plus low tariffs to build strong export markets for all concerned. Clementel was decades – and another world war – ahead of his time. His plan was deliberately crafted to win over the Americans by appealing to Wilson’s desire for a strong League of Nations. Clementel’s “economic

union of free peoples” would provide the strongest foundations for such a world body. Moreover, without such a system, it would be “a material impossibility for Germany [alone] to rebuild so many ruins...and would completely crush her and reduce her to a state of economic bondage.”

Raw materials – particularly coal – were the core of the Clementel plan in lieu of huge cash payments, which the former *notaire* recognized would be a recipe for “an enormous monetary inflation [in France], a disorderly rise in prices and by virtue of their size would transform France into a country rich in mere cash, a buyer of products and incapable of working....” But by the time the Peace Conference got under way, it was clear to Clemenceau that the Allies, particularly the Americans, weren’t buying this effort to redraw the economic map of the world in France’s image. So out went Clementel and in came the next member of the tag team, Louis Loucheur.

Loucheur’s designation was a masterful stroke. A graduate of the prestigious École Polytechnique, Loucheur was an engineer and a technocrat to his core – none of Clementel’s artistic yearnings. Loucheur had spent the war wielding virtually dictatorial powers as minister of munitions, building a French arms industry that was one of the greatest state-run enterprises his nation had ever known. When Clemenceau recognized that Clementel was on a wild goose chase with his pan-Allied economic union, Loucheur was the natural choice as a successor. His wartime Ministry of Munitions was transformed with a stroke of a pen into the Ministry of Industrial Reconstruction. Loucheur’s goal was to rebuild France using American money, but without the Americans recognizing it.

The idea was apparently simple, but as it turned out, fiendishly complex: get Germany to commit to paying, over a number of years, a moderate, fixed sum. This could immediately be securitized – turned into an upfront cash horde by issuance of bonds, effectively backed by Germany’s signature on the Treaty of Versailles. These bonds could then be sold on the one financial market of the world that had not yet been crushed by the war – Wall Street. Effectively, Americans would be paying for the rebuilding of France, but without ever touching the congressionally held purse strings of the U. S. Treasury. Loucheur, unlike Clementel, was able to win some powerful political support

within France for this scheme. André Lebon, head of the Fédération des Industriels et Commerçants Français, was already backing the idea of moderate payments. His fear was that huge reparations demands on Germany would force the defeated nation to wage a trade war for foreign export markets to earn funds for these payments, crippling France's own foreign commerce.

The problem in all this was that the views of Clemenceau and Loucheur were not shared by either the Brits or the Americans. While it was clear even before the ink was dry on the armistice that Keynes had a largely sensible view of how the peace should be structured from an economic perspective, this view was by no means shared by that political shark Lloyd George. As early as August 1918, and possibly long before, the prime minister was campaigning for what would become known as a Carthaginian Peace. This concept harkened back to the Punic Wars. In A.D. 146, the Romans laid siege to Carthage, killed most of the inhabitants, sold the rest into slavery, burned the city to the ground, and then spread salt through the ruins so that nothing would grow there again. The British prime minister was in no position to spread salt across the landscape of Germany, particularly since Allied troops had halted their advance well short of the capital, Berlin. "Germany had committed a great crime, and it was necessary to make it impossible that anyone should be tempted to repeat that offence," Lloyd George told the War Cabinet three months before the armistice. "The Terms of Peace must be tantamount to some penalty for that offence."

The basis for such a peace was a finding on December 10, 1918 by a British government committee that the total cost of the war was in excess of £24 billion – or \$100 billion, the equivalent today of some \$1.2 trillion, nearly half the federal government's spending for the year 2006 in the United States. Such a staggering sum was far beyond the capacity of any nation – indeed, the entire Western world – to have even contemplated, let alone paid in the year 1919. The British War Cabinet rejected it as a "wild and phantastic chimera," but not before this illusory figure was seized upon by Lloyd George in a parliamentary campaign just weeks before the opening of the Peace Conference. The national election had been carefully designed to send Lloyd George to Paris as a newly reelected prime minister with just such an unassailable mandate.

Rather than adopting a statesmanlike attitude of leading his people to a just and lasting foundation for an enduring peace, Lloyd George played to his electorate's basest passions. On December 11, a day after the incendiary war costs report was released, the prime minister delivered a stem-winding campaign speech. The location was Bristol, from whose port ships had ventured into the Atlantic only to be set upon by German submarines. Lloyd George laid down the principles of his "Indemnity policy." Its core was a demand that the Central Powers pay the whole cost of the war, not merely reparations. This was an important distinction. Reparations alone would have netted little for Britain, whose territory suffered minimal damage during the hostilities that ravaged France and Belgium. But the costs of war went far beyond the immediate physical destruction to include the huge pension burden that Britain was forced to bear for the millions of war widows and other surviving members of families whose men had been cut down on the battlefields of Europe. These were Lloyd George's voters who would send him and his party back to Parliament with an unquestioned majority and in a position to exact a Shakespearean tribute in Paris – a pound of flesh, and then some.

The electoral strategy worked. Especially when the prime minister told voters, archly, that a Cabinet committee had assured him that Germany could afford all indemnities. This included an assumption of the entire British national debt, which had risen to some \$120 billion, including interest payments of \$6 billion a year (respectively \$1.44 trillion and \$72 billion today). Then there was the final stroke. As Keynes put it baldly, "a vote for Lloyd George means the Crucifixion of the Anti-Christ." How could any responsible citizen have voted against that? Keynes continued, "The campaign for securing out of Germany the general costs of the war was one of the most serious acts of political unwisdom for which our statesmen have ever been responsible." He wasn't far off.

It was not surprising that Lloyd George brought along to Paris the two principal authors of the cabinet's indemnity report. The pair was quickly dubbed the Heavenly Twins: not Castor and Pollux, but Lord Walter Cunliffe, wartime governor of the Bank of England, a sixty-three-year-old merchant banker, product of Harrow and Trinity College Cambridge, who had repeatedly crossed swords with Keynes during the war; and William

Morris Hughes, prime minister of the British dominion of Australia, who, as Bernard Baruch later put it, “insisted that every Australian who had placed a mortgage on his house to buy a war bond was as definitely entitled to reparation as was every Frenchman whose house had been burned by the Germans.” On the British economic delegation the only realist was Keynes. The young Bloomsbury economist had been brought along because Lloyd George recognized he might need some accurate figures.

On the U. S. side, in moral terms, Woodrow Wilson seemed to hold many of the same views as Lloyd George. He viewed the war as a fairly straightforward struggle between good and evil. Good had won out, and now evil must be prevented from ever rising again. “This intolerable Thing of which the masters of Germany have shown us the ugly face, this menace of combined intrigue and force which we now see so clearly as the German power, a Thing without conscience or honor or capacity for covenanted peace, must be crushed....” But despite the elevated nature of Wilson’s rhetoric, the individuals who accompanied him were a far more pragmatic bunch. Their roots were as deeply planted in Wall Street as Wilson’s was in the Presbyterian rhetoric of a preacher’s family. Moreover, unlike their colleagues whose mission was to redraft the world’s political landscape, their hands were little tied by any earlier pledges.

The Fourteen Points, which elaborated in great detail Wilson’s desires to restore democracy to a host of different nationalities, dealt only in passing with a single economic issue: free trade. The Third Point demanded “the removal, so far as possible, of all economic barriers and the establishment of equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.” The issue was of central importance to a resurgent American capitalist system on the cusp of assuming a commanding position as the world’s preeminent trading nation, but of peripheral relevance to the post war economic troubles of Europe.

The U. S. delegation was carefully calibrated to represent these sensibilities. Thomas Lamont looked after the interests of Wall Street and the Morgan Bank, not always in that order. Norman Davis was a Tennessee gentleman who’d made a fortune as a trader in Cuba after the Spanish-American War, and now served as assistant secretary of the Treasury. Finally, there was John Foster Dulles, the thirty-year-old elder brother of

Allen Dulles, who had spent the war as an associate at the white shoe New York law firm of Sullivan & Cromwell, which had represented German commercial and banking interests for years. Dulles was a late addition, having appeared on his own initiative in Paris late in 1918, pestering Allen and their uncle, Secretary of State Robert Lansing, for some role in the peace talks. He'd calculated that such an item on his resume wouldn't hurt in his efforts to reach partner status when he returned to Sullivan & Cromwell. He was right, of course. Meanwhile, this American trio was to carry the water for Wall Street. And what that meant was a repeated and persistent refusal to cancel Europe's war debts to America. As Calvin Coolidge was later to put it bluntly, "The [Europeans] hired the money, didn't they?"

So the battle lines on the economic front were already clearly drawn by the first week in January 1919 when all the players assembled in Paris. As Norman Davis warned Wilson in the early days of the conference, a "concerted movement [was] afoot to obtain an interlocking of the United States with the continental governments in the whole financial situation." To which Wilson replied, he was "on my guard against it."

By the time the conference had opened, it was clear that several immediate economic realities would take precedence over all others – Germany needed desperately to be fed, France needed desperately to find supplies of coal. The first order of business was the fact that Germany was starving. Bolshevik-sympathetic rioting was already breaking out all over the country. The leftist Spartacist League, led by Rosa Luxemburg and Karl Liebknecht, was opposed to the new post war government and attracted tens of thousands of war-weary soldiers, many wounded physically or psychologically. All were pouring back into the country and needed to be fed and cared for. Armed workers had taken to the streets of Germany. Pitched battles broke out with paramilitary Freikorps units, who wound up beating to death Luxemburg and Liebknecht. These same units managed to overturn a Soviet republic that sprang up in Munich. Elsewhere in Bavaria other small right-wing organizations had sprung up including one that called itself National Socialists – the Nazis.

Four days after Keynes arrived in Paris, he was told by Norman Davis that the Americans had stumbled on the fact that the French were opening secret financial

negotiations with Germany. As Keynes put it, he and Davis “decided it would be extremely amusing and perhaps useful if we stepped aboard the Marshal [Foch]’s train on his journey a day or two later to Trèves” on the German border with Luxembourg, known to them as Trier, the oldest city in Germany. En route, Keynes and Davis played bridge with an American representative of Hoover’s food agency and Sir John Beale, lawyer for Britain’s Midland Railway. When the train reached Trèves, the Germans boarded. They were, Keynes observed:

a sad lot...with drawn, dejected faces and tired starting eyes, like men who had been hammered on the Stock Exchange. But from amongst them stepped forward...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 round head covered with grizzled hair shaved so close as to be like in substance to the pile of a close-made carpet...his eyes gleaming straight at us, with extraordinary sorrow in them, yet like an honest animal at bay. This 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. [Carl] Melchior.

Melchior was indeed an extraordinary individual who, from the sidelines, was to play a critical role in the financial aspects of the Treaty of Versailles and the entire question of reparations, the economic survival of Germany and the financial structure of the West. He was a Jew, though Keynes was to stumble on that fact only much later; he was trained as a lawyer; and he served as a partner in the venerable Hamburg-based bank M.M. Warburg. The bank, whose roots date to 1798, was later to do much business with John Foster Dulles’s Sullivan & Cromwell and Lamont’s J. P. Morgan. Dulles himself would, fortuitously and profitably, become Warburg’s American counsel. But all this was in the future. In January 1919 the immediate, desperate need was for Germany to find food. And the Allies had it. Over the next weeks, through the most adroit back door diplomacy, Keynes and Melchior managed to hammer together one of the few economic successes produced by the Peace Conference.

Germany was in particularly desperate straits for two principal reasons: a catastrophic Allied naval blockade that had continued even after the armistice, and the desire of the Allies to seize the bulk of the German merchant fleet as part and parcel of the broader reparations package that would take years to negotiate. Germany didn't have years. It perhaps did not even have weeks. It needed food – now. Hoover recognized that fact; so did Keynes and Melchior. Even the armistice negotiators had recognized that reality, declaring that while the blockade should continue until a peace agreement was concluded, “the Allies contemplate the provisioning of Germany to the extent that shall be deemed necessary.” The problem was that so few of the Allied negotiators at Trèves were prepared to accept this fact.

Hoover's solution was to sell Germany cheap U. S. pork that was rotting on the docks in Rotterdam. Since Germany's merchant marine was tied up in ports by the Allies who intended to seize the ships, the nation had no way of transporting even these pathetic stores to its shores. Nor would the Germans be allowed to pay for this food with gold currency that was still in their reserves since this, too, was to be used to pay reparations to the victors. After several fruitless visits to Trèves, however, Keynes and Melchior hit on a compromise that each managed to persuade his respective government to accept. Germany would turn over its merchant fleet, and the Allies would accept £4 million of gold in return for 200,000 tons of bread and 70,000 tons of pork, which these ships would be allowed to transport. Lloyd George recognized the urgent necessity for this compromise to go through. So, in a dramatic session in French Foreign Minister Stéphen Pichon's private offices in the Quai d'Orsay, the British prime minister with a flourish read out a cable he had just received from Field Marshal Herbert Plumer, commander of the British Army of Occupation on the Rhine: “In my opinion food must be sent into this area by the Allies without delay. The mortality amongst women, children and sick is most grave, and sickness due to hunger is spreading. The attitude of the population is becoming one of despair, and the people feel that an end by bullets is preferable to death by starvation.”

Lloyd George observed that he would rather order British occupation troops back home than “continue to occupy a territory in order to maintain the population in a state of

starvation.” The objections of the other Allied representatives were overcome – even those of France’s obdurate Minister of Finance Louis-Lucien Klotz. Though Clemenceau called him “the one Jew I know with no capacity whatsoever for finance,” he was still holding out for Germany not relinquishing an ounce of the precious gold he believed he could ultimately claim for France. Klotz was eventually forced to give way before the onslaught, but not before Lloyd George pronounced his memorable prediction that “if a Bolshevist state is formed in Germany, three statutes will be erected – one to Lenin, one to Trotsky and the third to Klotz.” To which Klotz, quite sensibly, made no reply.

In the end, it was this fear of Bolshevism poised to sweep across Germany that carried the day, coupled with a need for the conference to turn to the other critical economic imperative. France was nearly out of coal. In those pre-OPEC days, this was the fuel that heated peoples’ homes. It powered industry and lit the conference rooms, hotels, and apartments of the delegates, who were fed by food cooked on coal-fired stoves. Retreating German troops had wreaked heavy damage on France’s principal coal mines, adding to the sense that the defeated nation needed to pay for the suffering it had caused. As a result, the battle of reparations that was quickly joined became at once political and economic.

The issue of coal was almost from the start intimately wound up with the central question with which the Peace Conference was having to deal – how much would Germany have to pay and what would these payments, such as they were, comprise? By the end of the war, Germany didn’t have much. In his later efforts to make the case for lightening the burden on Germany, Keynes toted up the balance, which turned out to be quite accurate. With respect to coal, in 1913, the last year before the start of hostilities, Germany produced 191.5 million tons, while consuming 139 million tons for its own railroads, electrical production, manufacturing, and household use. Some 60.8 million tons of this output came from mines in territories that the peacemakers were in the process of turning over to other countries – Poland and Czechoslovakia in particular. France, Belgium, and the other Allies were demanding at least 45 million tons, leaving Germany with barely half as much as it used before the war to satisfy its post war needs. Somehow, that didn’t seem to bother the French very much at all.

But the question for the Allies was a broader one. Not only how much should the total reparations bill be, but how much of that should come in the form of natural resources, how much in labor and reconstruction, and how much in the form of cash? The failure of the peace delegates ever to arrive at an answer acceptable or tolerable to all sides or that was even realistic, turned out to be at the heart of Europe's post war economic and political problems.

The French wanted, particularly, a fixed sum of total reparations including delivery of "in kind" payments. Loucheur and Klotz, his counterpart at the finance ministry, were quite right in believing that such a structure was the only way of securitizing the debt, creating German bonds that would give France the immediate cash it needed to rebuild the country. The purchasers of these bonds – backed only by Germany's signature on the Treaty of Versailles, or the Allies' willingness to enforce it, if necessary at the point of a gun – would be providing the cash. These bondholders would be paid interest over the next thirty years and a final lump-sum principal when the bonds matured. In other words, if the French couldn't get relief from the U. S. government, they'd get it from U. S. investors – the only group with any hard currency left over after the war. The Americans, particularly the Morgan banker Lamont, liked this idea a lot. It was likely that J. P. Morgan would profit handsomely as a prime issuer of these securities.

There was one final wrinkle. Whatever lump sum was fixed had to be sufficiently modest that the Germans would not be either ruined by the periodic payments or so demoralized as to simply throw up their hands and say, do with us what you will. For a settlement of that nature would mean no investor in his or her right mind would ever buy these German reparations bonds when they came on the market, as they would likely be repudiated long before they were ever redeemed.

This, then, was where months of bickering and dealing were concentrated. On March 15, three of the top Allied experts – Loucheur, Norman Davis and Britain's Sir Edwin Montagu – observed that even before the war, Germany had been running a balance of payments deficit, importing more than it was exporting. So in the aftermath of a draining conflict, there would be no surplus for the foreseeable future that could be used

to pay reparations. This trio, the ultimate pragmatists, set forth their fears for the post war era:

Germany might within a few years repudiate the entire obligation as having been an imposition, and the moral opinion of the world might support her in this.... As to the estimates which have been given by some eminent bankers [especially Britain's Lord Cunliffe], to the effect that Germany would be able, over a period of 30 years to pay 3 or 4 billion dollars per annum, we can say only that we are satisfied that such a performance on the part of Germany is utterly impossible, because in the first place she would never agree to such an undertaking, and in the second place, even if she were able to do so, which is improbable, it could only be done by absolutely destroying the trade of England and France and other countries of the world, and in order to do so Germany would have to develop a state of efficiency such as has never been known in the history of the world, and if she can do this, there is nothing we can do which would prevent Germany from overrunning the world thereafter.

In short, a prescient foretaste of what was indeed in store for the world from the Third Reich and Adolf Hitler, at that point a junior member of a Bavarian Freikorps devoted to suppressing communist uprisings. Keynes, too, saw numbers even approaching this magnitude as preposterous. He pointed out that less than 10 percent of all French territory had even been occupied by Germany, less than 4 percent had substantial devastation. Yet French damage claims amounted to one-third of the entire value of all of France's household property.

There was also the question of how this money was to be collected. Loucheur, the consummate pragmatist, had no interest in France taking over German mines, equipment or workers. "I confess that I would not want them at any price," he explained, "because the mines without the miners and the miners without political control is impossible." At the same time, Loucheur wanted no part of German equipment or matériel for the devastated regions. As he told John Foster Dulles at one point, such actions would "give Germany a stranglehold on the economic life of northern France as, once German

machinery was installed, all replacements and spare parts would have to be supplied by Germany and orders, enlargements and new installations would similarly go to Germany.” Britain’s Lord Cunliffe, the Heavenly Twin, arguing to the end for crushing, purely cash payments, observed: “Do France and Belgium really want to take in a great number of men who are, at the very least, undesirable and who might even be spies?...I believe I know something of the psychology of our enemies, and I would not be astonished if they released their criminals from prison in order to send them.”

Underlying all these very real and immediate fears was an even broader French paranoia – the same emotions that motivated Clemenceau in his dealings with Italy in southern Europe and the Balkans – the demographic imperative. In 1919, barely 40 million French faced down 60 million Germans, and that gap was only widening. For the moment the Germans were defeated, dispirited, and hungry, but eventually they would recover both their morale and their enormous talent for organization and military genius.

Meanwhile, the issue was just how much Germany could be made to pay under the contract that was gradually taking shape around the conference tables and halls of the Quai d’Orsay and in the parlors of the Big Three. Britain, France, and the United States were driving the reparations talks – and had the most at stake. In a series of meetings in early April, the economic issues were beginning to come into focus. First there was the fundamental issue of defining just what was meant by reparations. Second, there was the thornier issue of what levels to set – what could Germany and other Central Powers pay – collecting the maximum number of golden eggs without killing the goose. Lamont offered a summary of one session called by Wilson with his U. S. experts on April 1:

Some of us were gathered in his library in the Place des Etats-Unis, having been summoned to him to discuss this particular question of pensions [for war widows and veterans]. We explained to him that we couldn’t find a single lawyer in the American delegation that would give an opinion in favor of including pensions. All the logic was against it. ‘Logic! Logic! I don’t give a damn for logic. I am going to include pensions!’ [Wilson shouted] Now Mr. Wilson was, least of all men, lacking in logic. For logicians who may stand aghast at his offhand utterance, I hasten to explain that it was not a contempt for logic, but simply an

impatience of technicality: a determination to brush aside verbiage and get at the root of things. There was not one of us in the room whose heart did not beat with a like feeling.

The group had touched on an especially sore subject. John Foster Dulles had just pointed out to the assembled experts that adding pensions to the reparations bill being presented to Germany – an item very dear to the heart of Lloyd George, as we have seen, because otherwise Britain would realize little of the swag that was being divided – would be in direct violation of the armistice agreement all had just signed five months earlier. Indeed, the armistice agreement was overhanging the entire reparations battle as firmly as the secret treaties were overhanging the drafting of boundaries in much of the rest of the world. This could help explain at least a part of Wilson's frustrations. His Fourteen Points, on which the armistice was based, were yet again being torn to shreds.

Four days after this meeting with his own delegation, Wilson called together another session in his parlor at eleven o'clock in the morning. This time, the president played host to the Council of Four – Wilson, Clemenceau, Lloyd George and Italy's Vittorio Emanuele Orlando. The agenda was the same. The agreement they reached was diabolically clever. Germany, they finally decided, would pay enumerated damages until the point that the Allies became convinced that it could pay no more, at which point the debt would be reduced. For all other issues, they punted. Just as they dumped into the lap of the still unborn League of Nations the most noxious problems they'd left unresolved with respect to border issues, minorities, and self-government, rather than deal with yet another rat's nest of problems, they shoveled the entire question onto a Reparations Commission. This body, composed of representatives of the victorious Allies, was given nearly unlimited powers to inquire into the affairs of the German government and its people, becoming effectively a second, international government grafted onto the nation's own elected representatives. Germany would have until May 1921 to come up with a down payment of 20 billion gold marks, which would include the costs of the Allied occupation of German territory plus the value of food and raw materials it had turned over.

At this point the Treaty of Versailles turned into an almost comic-opera document. Germany, it seems, also was required to provide France with “500 stallions (3 to 7 years); 30,000 fillies and mares (18 months to 7 years), type: Ardennais, Boulonnais or Belgian; 2,000 bulls (18 months to 3 years); 90,000 milch cows (2 to 6 years); 1,000 rams; 100,000 sheep; 10,000 goats. And eventually it had to surrender 5,000 locomotives and 150,000 rail cars. The Belgians also got 40,000 heifers, 200 rams and 15,000 sows. Keynes objected strongly to these provisions, referring to “the desperate starvation conditions prevailing” in Germany. But there was more. It also had to provide 7 million tons of coal per year for ten years, plus the amount of coal that would have been produced in destroyed French mines until they were repaired. Finally, the treaty also required Germany to issue 60 billion gold marks’ worth of bonds immediately, with more to follow when the Reparations Commission had determined Germany could pay. This would satisfy French needs for an immediate cash infusion. It would also mean, indirectly, help from the United States, since most of these bonds would be sold to Americans by Wall Street investment banks. Eventually a similar structure would be mirrored in the other treaties signed with the defeated Central Powers. For Bulgaria, the Allies fixed on a reparations bill of \$450 million, or a quarter of the entire national wealth of this pathetically poor nation, which had the misfortune of joining the wrong side in the war, plus in-kind payments of 13,500 cows, 12,500 horses, 2,500 mules and 125 bulls. And this as the production of grain, the principal component of Bulgaria’s national output, had fallen to 47 percent of its pre war average.

The entire reparations compromise, alas, turned out to be too clever by half. Germany, as Loucheur, Montagu, and Davis had already warned, was to be transformed into an indemnity machine whose levers would be manipulated by the hated Reparations Commission. The Germans recognized this reality from the first moment they laid eyes on the treaty, which was presented to them on May 7 at Versailles, where their delegation had been confined to the barricaded Hotel des Réservoirs. Leading the mission was Ulrich Graf von Brockdorff-Rantzau, Germany’s foreign minister, who two years earlier had facilitated the passage of Lenin across Germany in a sealed train en route to St. Petersburg’s Finland Station. Brockdorff-Rantzau was horrified by the reparations

section, warning the Allies on May 13 that “those who will sign this Treaty will sign the death sentence of many millions of German men, women, and children” from famine. At the same time, Lloyd George was also beginning to panic that perhaps the Germans might not sign, plunging Europe back into war. He was most concerned with the harsh reparations clause and began to suggest a pullback. But Clemenceau and Wilson, by then all but fed up with the British prime minister’s manipulations, refused to budge. Finally, two weeks later, Brockdorff-Rantzau fired one last desperate shot across the bow:

Although the exaction of the cost of the war has been expressly renounced, yet Germany, thus cut in pieces and weakened, must declare herself ready in principle to bear all the war expenses of her enemies, which would exceed many times over the total amount of German State and private assets....No limit is fixed save the capacity of the German people for payment, determine not only by their standard of life but solely by their capacity to meet the demands of their enemies by their labour. The German people would thus be condemned to perpetual slave labour....The International Reparation Commission receives dictatorial powers over the whole life of our people in economic and cultural matters. Its authority extends far beyond that which the Emperor, the German Federal Council and the Reichstag combined ever possessed within the territory of the Empire. This Commission has unlimited control over the economic life of the State, of communities and individuals. Further the entire educational and sanitary system depends on it. It can keep the whole German people in mental thralldom.

Brockdorff-Rantzau wasn’t far off base. Indeed, one might ask the very pertinent question as to whether under such conditions, wouldn’t even an Adolf Hitler appear as a savior, determined to renounce the entire treaty document and show the Reparations Commission the door? Before we get there, however, there were other more immediate effects of this misguided treaty.

None of the Allies really wanted to crush the Central Powers. Each had separately come to the realization that a living, vibrant Germany was the only viable bulwark against the spread of Bolshevism across Europe to the English Channel and beyond. In the end, though, Wilson’s unflinching morality (except where it suited him to

compromise in the interest of promoting his beloved League of Nations) still led him to declare to Lloyd George that the treaty should “be a historic lesson, so that people might know that they could not do anything of the sort the Germans attempted without suffering the severest kind of punishment.” This was in sharp contrast to members of Wilson’s own delegation who were horrified at many aspects of the treaty, particularly the reparations clauses.

On June 3, with the treaty already in the Germans’ hands, some forty members of the U. S. delegation held an extraordinary session at the Hotel Crillon. The discussion was often heated, and at the end, many walked out of the room frustrated and disgusted by both the process and its outcome. As George Beer described in his diary: “Obviously the treaty is in many points at variance with sound principles and it cannot be carried out. It is not executable and must be provided as a provisional, transitory agreement. Some things demand immediate changes, especially the absurd Reparations Clauses, but others must be adjusted from time to time.”

Beer suggested that the most critical element was for “a definite and reasonable amount as indemnity, all payable in ten years.” In the end, no changes were made. Germany was asked to trust the Allies, but there was no basis for any such trust, nor would any such basis be established in the ensuing months and years. Germany should, however, have examined the real motives of each of the Allies, but especially its closest neighbor – France. Loucheur, even Clemenceau, had no interest in crushing Germany. Or at least, the two had a much greater fear of crushing France in the process – especially French industry that was dependent on Germany for both markets and raw materials. At the same time, they feared the influx of cheap German products into France’s own markets at home and abroad. Indeed, the entire character of the West’s relations with Germany was determined for decades by the manner in which the reparations question played out.

Few of the experts, let alone the heads of state, who sat down to write the structure of the world’s post war economic system had any formal training in economic theory. They were consumed by a host of phantom problems that suggested they had no real grasp of international economies, which they apparently believed were a zero-sum

game. In fact, the international economic system is far more flexible and expandable than most experts thought at the time, though certainly the persistence of the archaic gold standard until the 1930s contributed to any embedded rigidities. Until then, equivalent amounts of gold were supposed to back every paper bill that was issued. Keynes called the gold standard “a barbarous relic.” Germany was the first to cave in. With most of its gold marks earmarked for reparations, Germany abolished the gold standard and moved quickly to paper currency. It became virtually crack-cocaine for its economic system. Without the need to back every Reichsmark with gold, more could be – and were – printed at will. The result was a rampant hyperinflation that all but destroyed the German economy in the 1920s. In his diary, the British diplomat Sir Edgar Vincent, the Viscount D'Abernon, who participated in most of the twelve international conferences on reparations that took place from 1920 to 1924, described the problem:

In the autumn of 1920, when the first Brussels Conference of Experts came together, exchange stood at 254 marks to the £ sterling. In January, 1923 at the time of the Conference in Paris, which preceded the Ruhr occupation, the mark had fallen to 83,000 to the £ sterling. Nine months afterwards, when the Ruhr occupation had resulted in the complete discomfiture of German finance, the paper mark had fallen to the almost incredible level of 18 billion to the £ sterling. In other words, the mark in October, 1923, was worth in gold one-forty-millionth part of its value in 1914 at the outbreak of the war.

These numbers don't begin to describe the misery and suffering on the streets of Weimar Germany when 50 million mark banknotes, worth \$1 when they were issued (and would have been worth \$12 million nine years earlier), were all but worthless within a matter of days. Still, on May 31, 1921, Germany had managed to hand over to the Reparations Commission one billion gold marks in cash. By November of that same year, it was already begging for relief. France had a new finance minister, Frédéric François-Marsal, replacing Klotz, who was sent to a much-deserved retirement. The new minister believed that economic restoration of Germany just might be a good thing. Still, hostility to France was only intensifying across the Rhine. Though the German steel industry depended on French iron ore, known as “minette,” nearly as much as France's steel producers were

dependent on German coke, one German steel executive shouted in 1922, “They can choke on their minette.” Very quickly Germany learned to make do with scrap steel and ore from other sources.

Meanwhile, Keynes had been doing his best to see if there was anything that could be salvaged from what he rightly predicted would be a truly devastating blow that the treaty’s reparation provisions would deal to the Western world’s economic system. Even before the treaty was signed on June 28, 1919, Keynes had left Paris, with one final shot to Lloyd George:

Dear Prime Minister:

I ought to let you know that on Saturday I am slipping away from the scene of nightmare. I can do no more good here. I’ve gone on hoping even through these last dreadful weeks that you’d find some way to make of the Treaty a just and expedient document. But now it’s apparently too late. The battle is lost. I leave the [Heavenly] twins to gloat over the devastation of Europe, and to assess to taste [*sic*] what remains for the British taxpayer.

Sincerely yours,

J. M. Keynes.

In fact, of course, the Heavenly Twins had not really had their way at all, but by now Keynes was determined to take his campaign against the reparations to the people. Friends urged him to put his concerns on paper – among them, Virginia Woolf, who on seeing him on July 18 was worried, as she confided to her diary: “He is disillusioned, he says. No more does he believe, that is, in the stability of the things he likes. Eton is doomed; the governing classes, perhaps Cambridge too. These conclusions were forced on him by the dismal and degrading spectacle of the Peace Conference, where men played shamelessly, not for Europe, or even England, but for their own return to Parliament at the next election.”

The work Keynes finally produced – what some believe was truly his masterpiece, was certainly heavily influenced by Bloomsbury, especially Lytton Strachey’s magisterial 1918 work, *Eminent Victorians*. Keynes’s *The Economic Consequences of the Peace* ranged from caricatures of those in Paris whom he detested to

a brilliantly reasoned formula for revising the entire reparations structure, which he was confident could lead to a new era of peace and prosperity across the Western world.

First, Keynes set up the context – chaos, madness, and confusion threatening to overwhelm the Western world’s economy and undermine its political foundations, leaving the way clear for the arrival of Bolshevism, even anarchy. The war, and the abortive attempts at a stable peace that followed, had all but destroyed the delicate balance that existed in those halcyon days before the outbreak of hostilities. Then he picked apart the economic planks of the treaty – particularly the capacity of Germany to pay and the needs claimed by each of the European powers. In each case they were vastly overrated; indeed, by many orders of magnitude. Certainly there was some considerable hyperbole at work here, but not enough to enable even Keynes’s sharpest critics on both sides of the Atlantic to discredit the work. Especially since Keynes offered a solution – an eminently reasonable one, in fact, that seemed on the surface to cut through all the rhetoric and various national self-interests. The formula that Keynes proposed was a simple one. First, cancel with one stroke all war debts. Second, cap German reparations at \$10 billion, then deduct the value of various seized property like the German fleet, bringing the lump-sum total to \$7.5 billion, to be repaid in thirty annual installments of \$250 million beginning in 1923. This would allow the German economy to return to some semblance of stability. Finally, Britain must renounce all claims to this sum, turning her proceeds over to the “new states” of Central Europe, particularly Poland, Czechoslovakia, and Yugoslavia, that were in far greater need. Some portions of the bonds issued by the “former enemy powers” to help satisfy the reparations must carry some financial guarantees from the Allies. “All this implies some generosity by the United States,” Keynes concluded.

The problem with this entire structure was simple. It would never work. It ignored the immediate political realities, as well as the deeply embedded passions, not only of rival political leaders, but of the peoples of most of these countries. With Wilson in the midst of a losing battle to win approval of the treaty and the League of Nations from a hostile Senate, he had no interest in forgiving U. S. debts to Britain. Recall the wartime financial loan scheme that Keynes hated at the time, but was forced to accept. Now as a

result of this system, Britain had neither the interest nor the wherewithal to forgive the Continental Allies' debts without receiving comparable concessions from Washington. Particularly galling was Europe's new position with respect to the United States. Suddenly Europe, but especially Britain, was becoming a debtor region. For the political and financial leadership especially, it was demeaning to contemplate that for the first time, the colonies – the children, effectively – were holding the parents hostage.

Still, broad swaths of American and European readers embraced Keynes's work. To make certain that each word appeared as he wrote it, Keynes himself financed its publication on both sides of the Atlantic. Felix Frankfurter – the young lawyer, Harvard Law professor, and a cofounder of *The New Republic*, who'd actually come to Paris to lobby for the Zionist cause – got the book published in America and serialized in his new magazine. Keynes, it appeared, had pointed out every flaw – of personality and structure – that bedeviled the entire peace process:

The campaign for securing out of Germany the general costs of the war was one of the most serious acts of political unwisdom for which our statesmen have ever been responsible. To what a different future Europe might have looked forward if either Mr. Lloyd George or Mr. Wilson had apprehended that the most serious of the problems which claimed their attention were not political or territorial but financial and economic and that the perils of the future lay not in frontiers or sovereignty but in food, coal and transport. Neither of them paid adequate attention to these problems at any stage of the Conference....The financial problems which were about to exercise Europe could not be solved by greed. The possibility of their cure lay in magnanimity. Europe, if she is to survive her troubles, will need so much magnanimity from America that she must herself practice it.

And this process, with the mechanisms it had created, was grinding inexorably onward.

Keynes's monumental work, despite the widespread praise it attracted, never had much concrete impact on the peace process. Germany managed to make its first payment on the war reparations before the burden of what amounted to Mafia-style vigorish came crashing down on it. Keynes had pointed out that even at 5 percent interest, the

reparations burden would double every fifteen years so that by 1936, with \$750 million in annual payments (triple the sum he had called for), the overall reparations debt would have exploded to \$65 billion, an almost unimaginable sum to a nation that by then had suffered through more than a decade of hyperinflation, depression, and mass unemployment. There were projections that Germany would still be paying reparations until 1961 or beyond.

It was at about this point that France trotted out the third, and in some respects most potent, member of its tag team. Jacques Seydoux was born to the breed – son of a French diplomat, first in his class at the prestigious *École Libre des Sciences Politiques*, trained in the great French embassies abroad – London, Berlin, Athens. He finally returned to Paris in time to assume his greatest mission of all. He was, effectively, father of the blockade. Throughout the war, Seydoux was in charge of making sure that nothing the Allies, or indeed any neutral nation, produced got through to the Central Powers. Debilitated by a degenerative disease that struck him at the age of thirty-six, all but paralyzing him for twenty-two years, he hobbled at first on two canes, eventually navigating in a wheel chair. Throughout, he remained cheerful despite constant though rarely expressed pain. And he was tireless in his mission that was devoted to strangling Germany into submission. So it was scarcely surprising that, the peace concluded and the necessity of wringing desperately needed reparations funds from the loser, France turned to this quiet, intensely focused bureaucrat. As François Charles-Roux, a distinguished French diplomat and later principal aide-de-camp of General Charles de Gaulle in World War II, observed in 1932: “Jacques Seydoux found in his hands all the elements of one of the largest and most complex problems ever posed to human intelligence, every part of a work as broad as it was arduous, and which include among its parts dealing with ex-Allies, ex-enemies and ex-neutrals....What one might call the economic reconstruction of Europe was what occupied him totally.”

For five years Seydoux raced from conference to conference – London, San Remo, Boulogne, Spa, Cannes, Brussels, Genoa, and back to London. He brought, as Charles-Roux put it, “his moral force” to the efforts to find funds to rebuild France while at the same time keeping Germany from descending into its own inferno that approached,

on several occasions, civil war. The succession of conferences was yet another, miserable, legacy of the Peace Conference's abdication of its responsibilities. A viable agreement on the level and schedule of reparations might have set Europe on a workable path toward rebuilding strong, sustainable foundations and a lasting peace. As Wickham Steed described the situation:

Even Clemenceau understood [the treaty's] defects but trusted that time would help to remedy them. President Wilson, and to a still greater degree, Colonel House, felt that the best features of the Treaty were those which would permit of its gradual modification, through the instrumentality of the Reparation Commission and the League of Nations, when the passions and appetites that prevailed in Paris should have cooled down.

A nice rationalization, and certainly part and parcel of Wilson's dual desperation. First, there was his overwhelming desire to give some *raison d'être* for his beloved League of Nations. Second, there was his fear of the spread of Bolshevism westward. Certainly with the arrival of Rosa Luxemburg and Karl Liebknecht as early as December 1918, it was not unreasonable for Wilson to search for some mechanism that would monitor and calibrate the red menace with the means of extinguishing it. But both of these goals, at the time commendable, exhibited little or no understanding of the rapidly deteriorating realities in Europe, especially in Germany. Containing Bolshevism in Germany was as complex an undertaking – probably beyond the capacities even of the peacemakers in Paris – as was their effort to contain communist expansion everywhere else they turned.

In the end, this task was performed outside the entire Paris peace process, but led to accelerating chaos in Germany. By the early 1920s, a series of attempted putsches unsettled the Weimar government and led to a widespread feeling of near-anarchy in many portions of the nation. This in turn encouraged the rise of Bolshevik sympathizers and so-called workers or socialist parties. Some of these evolved into just the opposite. Violent right-wing organizations such as the National Socialist party, whose military wing, the vicious SA, or *Sturmabteilung*, the feared brown shirts or storm troopers,

attracted many of the same Freikorps thugs who had suppressed the early Bolshevik revolts in the days after the armistice.

By the end of 1922, about the only incentive the Germans had to make the reparations clauses of the Versailles Treaty work was the threat of the Allied occupation of its territory to enforce the terms. That threat turned into a reality in January 1923, when Germany, its fiscal back to the wall and with the economy in hyperinflation, defaulted on reparations payments. French and Belgian troops promptly moved into the Ruhr Valley, seizing the heartland of German industrial production. The occupation lasted two and a half years and led to widespread strikes and civil disobedience, including the infamous Beer Hall Putsch, Hitler's first, abortive attempt to seize power in Germany.

The arrival of French and Belgian forces led also to the inauguration of Gustav Stresemann as Reichskanzler on August 13, 1923, and an end to Germany's most pressing fiscal crisis. With economic recovery spreading to Europe from the United States, already into the flapper era of the Roaring Twenties, Stresemann brought a measure of stability. Issuing a new currency, the Rentenmark, on November 15, he managed to halt the crippling hyperinflation by refusing to print more of the new paper money, reigning in the spiraling economy. Meanwhile, he, Seydoux and a host of other Allied diplomats were shuffling back and forth to the string of economic conferences that finally culminated in the Dawes Plan which was signed in August 1924.

Charles Gates Dawes was America's answer to Jacques Seydoux. He was a brilliant Midwestern lawyer, banker, and utilities entrepreneur, whose great-great-grandfather, William Dawes, had ridden with Paul Revere to warn Massachusetts that the British were coming. Charles Dawes ran the entire Allied procurement system during the war. Afterwards, though a Republican, and flying in the face of his party, he urged the Republican-dominated Senate to approve the Treaty of Versailles, a losing proposition. In 1920 he was named the nation's first budget director, saving the government some \$2 billion in his first year of office. This quickly drew the attention of European leaders to his masterful command of the niceties of financial manipulations. By late 1923 the Allies were desperate, since Germany had all but reneged on its reparation payments, leaving France to stagger under the burden of reconstruction. Vast swaths of the Ruhr Valley

were still under French and Belgian occupation, depriving the Germans of income from its rich resources that could be used to pay reparations. The Reparations Committee asked Dawes to find a way out. And he did.

In a compromise that won him the Nobel Peace Prize in 1925, Dawes proposed a system that provided an immediate quick fix. His plan, issued in April 1924, included evacuation of the Ruhr region, reparation payments beginning at one billion marks in the first year, rising to two and a half billion per year after four years, and foreign loans, primarily from the United States, to help Germany through its immediate fiscal crises. The document contained a dash of Keynes, a dollop of Seydoux, and whiff of Lloyd George and Clemenceau. And for a time, it worked. But not for long. Like most of the structures established by the Allies, the Dawes Plan, while clever, even elegant in its outlines, failed to take into account the realities of the time. As Keynes had warned so eloquently, Germany simply couldn't make multi-billion dollar payments indefinitely.

So five years after the Dawes Plan, on June 7, 1929, twelve days after the death of Jacques Seydoux, a new Allied commission was assembled. Thomas Lamont and Owen D. Young on the U. S. side, with Carl Melchior on the German side – who for a decade had been pressing quietly the need for reduced reparations – came up with another, and as it turned out, final stab at bringing order out of chaos in post-war European finance and reconstruction. The Young Plan was actually the brainchild of this lawyer and industrialist who'd founded the Radio Corporation of America (RCA) while the Peace Conference was under way a decade earlier. By the time he was tapped to head the newest reparations effort, he had moved over to the chairmanship of the General Electric Corporation. Young was another financial genius, out of the same mold as Dawes and Lamont, but this time he took the long view. Reparations would be fixed at \$26.35 billion – a sum that approximated, when adjusting for inflation, the figure that Lamont had been pressing on the Peace Conference ten years before (though more than twice the figure that Keynes had thought even remotely realistic). But this time, payment would be made over the course of an all but inconceivable period of fifty-eight and a half years. In other words, somewhere around 1988, Germany would finally have satisfied its war debt. Well, not exactly.

Even before the plan was officially signed into being, Black Thursday intervened. The Wall Street Crash of 1929 rippled rapidly across Europe, as failing U. S. banks were forced to call in credits that had just barely been issued. Ironically, it was Thomas Lamont who, as acting head of J.P. Morgan & Company, sent Richard Whitney onto the floor of the New York Stock Exchange on Black Thursday to “buy [U. S.] Steel at 205 ... 25,000 shares,” in a vain effort to inject a jolt of confidence into the plummeting market and halt the collapse.

By 1931 more than a third of all Germans were unemployed. A year later, that figure reached 40 percent. In July 1932 the Allies agreed at yet another conference in Lausanne, to reduce the entire German obligation to a mere \$714 million. But six months later, on January 30, 1933, Adolf Hitler was sworn in as chancellor of Germany. The new Reichkanzler promptly repudiated the Versailles Treaty and all the war debts as well. Eleven months later, the Gestapo closing in on him, Melchior died of a stroke within weeks of marrying his long time French mistress, the aristocratic author Marie de Molènes. Europe was about to be plunged into a second world war having barely recovered from the first. And the grim prophesy of 1919 that a powerful, resurgent Germany could again prove a scourge to its neighbors and much of the civilized world, was about to come true.

On June 28, 1940, his panzer divisions having overrun France in a blitzkrieg attack, Hitler appeared on the Trocadéro to gaze at his Eiffel Tower. It was a sad, jarring parallel to Wilhelm I’s coronation at Versailles three-quarters of a century earlier. Hitler’s visit followed France’s surrender and the signing of an armistice in the same railroad car in the Compiègne Forest where the armistice of 1918 had ratified the German defeat in the last world war. This time there would be no reparations. Germany simply seized half of France. By the time the Reich had been defeated yet again, there was little left to reclaim. The Allies occupied the western sector, the Russians the east. The goal, this time, was to rebuild a new nation with as little of the baggage of the past as possible.

That was not the end of the issue raised so long ago in Paris, however. The ghosts of Versailles, Dawes, and Young lived on in Europe. In 1953 a final international conference determined that Germany would pay off what remained of its debt only after

the nation was reunified. Still, by 1980, a by now prosperous West German government had paid off the principal. In 1995, following reunification of the two halves of the nation, the new united German government said it would resume payments of the interest on that debt of so long ago.

Earlier, in 1938, on the eve of World War II, John Foster Dulles perhaps seeking to rewrite his own role in history, reflected back to those days of his youth and all the mistakes made in Paris – the roads not taken:

If through inadvertence the draughtsmen [Dulles among them] of the reparation clauses contributed largely toward a German psychology which has changed the political complexion of much of the world, so through lack of prescience they set up a force which has contributed to a profound change in the commercial and financial structure of the world...It was assumed that reparation could be permanently absorbed into an expanded world credit structure and there could be an indefinite postponement of the problem of actually transferring goods or services in payment of this portion of reparation. This conception might have been realizable if it had been held to modest limits.”

It was not, of course. So in some respects, Keynes was even more prescient:

If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp. Nothing can then delay for very long that final civil war between the forces of Reaction and the despairing convulsions of Revolution, before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is the victor, the civilization and the progress of our generation.

Keynes had never wanted Germany to become the whipping boy of Europe – pillaged, for the sake of domestic political profit, by the victorious Allies bent at the same time on destroying Germany’s ability to restore any degree of prosperity for its people.

Undeterred, the leaders of the major powers hammered out terms of payment that could only be described as confiscatory, effectively bleeding Germany white.

Did any good come of all these efforts through so many years, then? Certainly nothing the creators of the reparations system of the Versailles Treaty ever envisioned.

Still, Jean Monnet, a young deputy on the French delegation, had come to understand deeply the role coal and steel played in the intersecting political and economic life of Europe. After World War II he was named planning commissioner by DeGaulle, effectively the role exercised by Louis Loucheur after World War I. Monnet recognized that the same friction between Germany and France for control of the Ruhr Valley that so devastated relations between the two nations post-Versailles was threatening the fragile peace yet again. This time Monnet succeeded where Loucheur, Seydoux, and a host of others had failed.

Without the overwhelming burden of a system of crushing reparations hanging over their heads, the principal European nations, supported this time by the United States, agreed to Monnet's proposal – a European Coal and Steel Community. By 1958 it had given birth to the European Economic Community (known as the Common Market), and finally on February 7, 1992, the Maastricht Treaty created the European Union. By then, oil had long superseded coal as the global economic weapon of choice, while OPEC vastly outstripped the European Coal and Steel Community as the leading geopolitical power.

All the leaders gathered at Versailles had their own political motives that drove their economic priorities, just as they drew the borders they drew on the map of the world and the methods they used to juggle religious and ethnic groups. In each case, the consequences of their selfish actions proved equally catastrophic for the peace and stability of all the regions they touched. As Keynes wrote after the treaty was signed and the delegations and military forces headed home: “No political structure for keeping the peace would stand up if the economic foundations were rotten.” But as the twentieth century morphed into the twenty-first, motives turned out to be far less important than consequences.