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Teaching Case #17:

From World War to World Order:

Competing Plans to Manage the Economic Consequences of Global Conflict in 1919

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From World War to World Order: Competing Plans to Manage the Economic Consequences of Global Conflict in 1919

The First World War brought an unprecedented mobilization of global economic resources that reached far beyond the primary European theatre of conflict. Both sides built up substantial new institutional structures to facilitate wartime economic cooperation among friends and to try to deny critical resources to enemies. Yet, as transborder commercial ties deepened along critical supply chains, national governments also introduced national trade barriers and monetary controls to funnel scarce currency and natural resources into the war effort.[1] As the full international scope of economic warfare became clear, leaders from the Allied governments and from the Central Powers started to plan for the post-war world economy. Few of them believed that it would be possible to roll back time and return to the integrated world economy of 1913. In finance, the belligerent states would have to face a heavy burden of war debts (see Annex 1) and in trade they confronted a massive realignment of global supply chains, as production capacity expanded across the world to meet the demands of large-scale industrialized warfare (see Annex 3).

In the interwar period, economic policy focused on managing Allied war debts to the United States, German war reparations to the Allies, and the export flows that were supposed to fund this cycle of political debts. The terms of that debate were set in 1919 at the Paris Peace Conference that was held negotiate treaties with the defeated states, most famously the Treaty of Versailles signed by Germany.

One of the most striking analyses of finance and trade in the 1919 peace negotiations was written by the economist John Maynard Keynes, who served as an official in the British Treasury during the war and attended the conference as part of the British delegation. Keynes was a skilled journalist, and he wrote the *Economic Consequences of the Peace* to explain the peace negotiations to the general public after abandoning his official functions in frustration. He began the book by painting a picture of the world that was lost when the war broke out. He recalled that before 1914,

> *The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep.*[2]

The war destroyed the optimistic confidence of Keynes's breakfasting businessman by transforming foreign commerce into a tool of security politics. Keynes reflected that before the 1914, "the projects and politics of militarism and imperialism" that would "play the serpent to this paradise" were "little more than the amusements of [the] daily newspaper."[3] Keynes exaggerated the innocence of the pre-war world economy, for it was already deeply shaped by competition over territory, arms, and strategic resources. However, the war did bring a much more systematic integration between economics and security. In the financial realm, the war created large overhang of political debts in the form of huge war loans to governments as well as German reparations owed to the Allies to pay for war damages. Keynes argued that these highly charged flows of political debt would have to be managed through careful international coordination, hoping that this financial maneuvering would allow production and trade to return to market channels.

Other officials at the Paris Peace Conference believed that trade and production would also have to be managed deliberately and not simply left to markets because the war had injected national security into all aspects of economic life. This view was particularly strong in France, with the French Minister of Commerce, Étienne Clémentel, as the foremost spokesman. Clémentel was an influential figure in twentieth century economic history who shaped the Allies' war economy and the architecture of peacetime global order, as the founding president of the International Chamber of Commerce. In 1919, Clémentel announced that the peacemakers were "committing the gravest error in history in considering that the war was over at the date of the armistice, and in being so intent on restoring liberty of trade." In his view, "the economic war was just beginning, to last for twenty-five years. This war would not cease until the restoration of economic equilibrium."[4]

By the middle of the war, it was already clear that economic intervention – in some form – would be part of the post-war institutional order. The US government used its leverage as the main financial backer for the war to push the belligerent states to agree to form the first comprehensive inter-governmental international institution, the League of Nations.[1] When the US President Woodrow Wilson sketched his vision of the future League of Nations in fourteen points, he called for "the removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace."[5] The European leaders all agreed to this vague pronouncement, but they disagreed about how exactly to implement it.

When the peacemakers gathered in Paris in spring 1919, many fundamental questions remained unanswered. Was international security a pre-requisite for economic cooperation or would economic recovery bring peace? At root, this was a question about whether economic growth would resolve the overhang of war debts and reparations and the rivalries over strategic lines of

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[1] Founded in 1920, the League of Nations was the first comprehensive intergovernmental organization. Its functions spanned political cooperation, finance, trade, and social reform. Thus, while it is often seen as the forerunner for today's United Nations, it was also the forerunner for today's International Monetary Fund, World Bank, and World Trade Organization.

production. Against that optimistic view, many argued that some type of pre-emptive institutional intervention would be necessary to attenuate the political rivalries and economic imbalances resulting from the war and clear the ground for an integrated world economy to develop. This call for institutionalized intervention in the world economy opened further debate about what form such intervention should take and whether trade or finance should be prioritized.

Discussion about economic cooperation was also closely linked to questions of hard security, and the victorious Allies initially excluded Germany from negotiations in Paris partly so that they could try to resolve internal disagreements on this point. They did eventually agree on common peace terms to present to Germany (and this unilateral negotiating format was strongly resented in the defeated states). However, deep disagreements persisted in the Allied camp over the question of security. French leaders demanded military guarantees from the other Allies to secure the post-war territorial settlement and to allow national governments to draw-down armaments production in an orderly and controlled way following the war. In contrast, British leaders argued that disarmament would make military guarantees easier to negotiate by lowering the risk of war. Seen from either perspective, reducing spending on armaments had a strong economic rationale because it would give governments greater fiscal space to meet the mounting demands for social spending.[6] British and French leaders both agreed that disarmament would require robust international institutional support, but the League of Nations never achieved a durable system of security cooperation. The League did, however, become a central platform to collect and publicize statistics on armaments, providing a new system of mutual diplomatic surveillance and a channel for the general public to scrutinize military spending.[7] The League's inconclusive efforts to promote disarmament continued through the early 1930s and were an important factor in discussions about post-war economic recovery.

Keynes and Clémentel: Two Views of Security, Reparations, and Trade

The war brought a sharp reversal in the financial fortunes, as the United States displaced Britain as the banker to the world (see Annex 2). The United States was a net debtor before 1914, meaning that altogether Americans borrowed more from the rest of the world than they loaned. Europeans had been investing heavily in US banks, companies, and infrastructure throughout the nineteenth century because they could usually expect higher profits if they invested in the United States than if they made the same investment at home, given the breakneck pace of US economic growth. Those financial flows reversed sharply after 1914 when Europeans desperately needed dollars to import inputs for the industrial war machine.

Starting in 1914, European belligerents sold off many of their international investments and began to borrow heavily from the United States (See Annex 1). US war loans to Italy, France, and Russia were often funneled through Britain due to the strong financial ties between London and New York. Led by J.P. Morgan, Wall Street banks responded to the war by expanding their loans in Europe and by buying up many European investments in other parts of the world, especially in Latin America. After the United States joined the war in 1917, public lending – from government to government – supplemented private lending.[8]

The net result was that US public and private lenders ended the war holding substantial Allied war debts. It is important to note that these were not productive investments. The previous investments that Europeans had made in US railroads, mines, and other ventures in the nineteenth century could be expected to generate profits and lead to further economic expansion. In contrast, the dollars that were spent on the European war effort were often used up when a shell exploded or when a soldier ate his army rations. There were some spill-over gains in productivity, for example if industrial plant or transport infrastructure that was built for the war could be turned to civilian use, but in many cases, this was not possible or it was very costly. Because the Allied war loans were not productive investments, their repayment would require new funding from some other source – from exports, reparations, or new loans.

Led by France and Britain, the European Allies demanded war reparations from Germany at the Paris Peace Conference in order to offset their war debts to the United States, but there were two major problems with this solution. Firstly, US policymakers never accepted the idea that the Allies' repayment of war loans should be contingent on their receipt of reparations from Germany. Moreover, even if US lenders had accepted this linkage, it would simply shift the export burden over to Germany, meaning that German firms would have earn dollars to give to the Allies to give to US banks. Keynes and many of his compatriots thought that it would be a losing bargain to push Germany to export more in order to pay off Europeans' collective debts to the United States. Forcing a realignment of production on the scale required could undermine the fragile new system of democracy introduced in Germany through the Weimar Republic. Moreover, it would create an incentive for German firms – which were already very competitive – to undercut their French and British rivals on international markets. Speaking to a British audience about the efforts to impose repayment of reparations and war debts in in the 1920s, Keynes reflected:

> *…it is a question of how far we want to force down German wages in order that she may steal our export industries from us, and how much pressure we are prepared to put upon her in order to achieve that result.*[9]

When the Allies gathered in Paris in 1919 to set the terms for the post-war peace settlement, there were several different approaches on the table to manage the linkages between finance and trade coming out of the war.

Keynes proposed a new system of internationally guaranteed bonds that could be used to fund the payment of German reparations and Allied war debts, while also giving Europeans the credit they needed to buy imports for post-war reconstruction (see Annex 4). As a complement to his plan for financial cooperation, Keynes proposed a "Free Trade Union," which would be a general pact to eliminate protectionist tariffs.[10] This plan was fairly close to a Draft Convention for Equality of Trade Conditions that the British government prepared for the conference, and the US government also proposed its own draft of this convention. For Keynes and other British officials, the goal was to keep the United States on a path towards trade liberalization that Wilson had initiated, while also preventing economic nationalism from taking hold in post-war Europe.[11]

Alongside Keynes's plan to link financial cooperation and free trade, a compelling alternative proposal came from the French Minister of Commerce, Étienne Clémentel. The two men arrived at the peace conference with fundamentally different views about the relationship between security and economics. Keynes believed that markets could be trusted to resolve many of the conflicts over territorial control and strategic resources that stemmed from the war, remarking that "in a regime of Free Trade and free economic intercourse it would be of little consequence that iron lay on one side of a political frontier, and labor, coal, and blast furnaces lay on the other."[12] Clémentel and other French officials took a different view. Louis Loucheur, the French Minister of Reconstruction (and former Minister of Armaments) explained the post-war problem of critical raw materials in vivid terms:

> *Supposing…that you would have made your nations understand that tariff barriers must be eliminated. Where would the steel industry go? Naturally to the very place where it would find coal deposits, facilities to produce coke, and the possibility to obtain iron ore; it would go to the place where it would be the most economically efficient, consequently in one country, perhaps one sole country, best situated economically to exploit opportunities for production. It would thus concentrate in a single point the most powerful weapon from a political standpoint.*[13]

Clémentel shared Loucheur's concern that resource constraints would prevent French industry from winning an open competition with German rivals in key sectors like steel, undermining French security. Clémentel simply did not believe that a hands-off regime of free trade along the lines advocated by Keynes would give Allied producers secure access to cheap raw materials. Thus, Clémentel called for a coordinated system in which friendly governments would pool resources and grant one another preferential treatment in foreign trade (see Annex 5).

In the first instance, Clémentel's trade bloc would be limited to the European Allies and their new American partners. They would build on the institutional apparatus that the Allies had set up during the war to manage their resource needs. Clémentel also saw the wartime allocation of credit facilities among the Allies as a template for future financial cooperation that would ensure a tight link between post-war purchases of raw materials and international financial cooperation.[14] Clémentel argued that a positive system of economic cooperation among the Allies would reduce the need to draw funding and resources from Germany in the form of reparations. In his view, the peacemakers faced a stark choice:

> *They must decide if they will institute, through measures based on common agreement, an economic organization designed to assure the world a secure recovery in the aftermath of the upheaval, or if the only guarantee of this security that they envisage is a peace of reprisals and punishments.*[15]

He went on to explain that if "the Allies do not agree on the necessity to take common measures" to cooperate economically, France would have to demand "full reparations." Through reparations, it would compensate for its commercial isolation by securing "uncontested superiority" vis-à-vis Germany. This was the playbook that the French government eventually followed, demanding high reparations payments after it became clear that the US and Britain were not willing to cooperate on strategic raw materials and credit.[16]

Privately, Clémentel admitted the "material impossibility" that Germany could pay the total costs of the war. Like Keynes, he favored a "a sort of world fund for the reparation of war damages," and he argued that it should become one of "the principal organs of the League of Nations." However, unlike Keynes, Clémentel did not think that financial cooperation should be an explicit part of the Allies' opening gambit at the peace conference. Indeed, he said that it would "dangerous and naïve" to suggest that liabilities for war debts and reparations should be pooled. He expected that once the Allies had taken stock of the German assets that were available to fund reparations, they would naturally come around to the idea of a "world reparation fund."[17] At that point, they should "present it as a concession ceded by them to Germany, a concession that can be repaid with equivalent counter-concessions." Thus, while Keynes and Clémentel both believed that the war necessitated sweeping international economic cooperation, they diverged over tactics and substance. In short: Keynes proposed deep financial cooperation alongside a system of lightly institutionalized free trade. In contrast, Clémentel proposes a program of deep trade integration focused on strategic industries, with lighter credit coordination that was mainly intended to facilitate the purchase industrial raw materials.

Clémentel is blocked

As peace negotiations picked up pace in 1919, it quickly became clear that US leaders would not support Clémentel's proposals for resource-sharing among the Allies. The key forum for this debate was the Supreme Economic Council (SEC), which had been established as a continuation of Allied war administration in order to lay the groundwork for post-war relief and reconstruction. A key moment of decision came at a meeting of the SEC on April 4, when US delegates insisted that they would not support a prolongation of the blockade. The blockade had undergirded the Allied war economy by restricting commercial access to the Central Powers. The institutional infrastructure for the blockade was preserved temporarily during the peace negotiations in order to give the Allies priority access to scarce raw materials and also to provide leverage over defeated states during the peace negotiations. On April 4, the members of the SEC gathered to decide whether to dismantle the blockade infrastructure and to shift trade back to ordinary market channels. This was partly a debate about how to fund Allied war debts and German reparations through exports and partly a debate about how fully Germany and the other Central Powers should be reintegrated into the post-war trading system.

Clémentel represented France at this meeting. Keynes was not present himself, but the British representative, Robert Cecil, and the US representative, Bernard Baruch, both shared his opinion that a traditional program of free trade would be the surest path to rehabilitate the German economy, facilitate post-war reconstruction, and fund war debts and reparations. Cecil had been Britain's Minister of Blockade during the war, while Baruch was a leading financier on Wall Street who had orchestrated private loans to the Allies during the war. They attended the peace conference as economic experts on the British and US delegations, respectively.

At the meeting on April 4, Clémentel declared that French policymakers had based their peace plans on the assumption that "the organization of trade and commerce which had won the war was to be continued during the reconstruction period." This would mean that the Allies would maintain a direct system of resource allocation, in order to give one another precedence in the supply of strategic raw materials. This overt favoritism was justified, in Clémentel's view, because the war had been fought largely on Allied soil and, consequently, the Allies, especially France and Belgium, had suffered far deeper damage to their economic infrastructure than the Central Powers. Thus, Clémentel emphasized "the necessity of continuing some form of economic organization after the war and controlling raw materials in order to ensure that the post-war reconstruction could go on." The alternative to economic cooperation was economic nationalism, in his view. Clémentel predicted that the "separation of Allied nations" would wreak far-reaching economic damage.[18]

> *One of the consequences will certainly be that all nations will have to protect themselves (by levying high customs duties) if they are not able to rely on the fair support of their neighbors. Those countries who do not produce or manufacture such and such an article will have to endeavor to produce that commodity or to manufacture that product.*[19]

He cited the specific example of quinine, which was an essential input for medical products in war as in peace. Indeed, there had been a large post-war surge in demand for quinine in response a global flu pandemic that was killing millions. Clémentel noted that Germany had bought up a large stock of the cinchona bark that was used to produce quinine, forcing France to seek alternative supply chains. Given that the tropical cinchona plant could not be grown in mainland France, the French government would have to develop new supply chains overseas, in imperial and non-imperial territories. Thus, Clémentel believed that war-fueled economic nationalism in Europe would drive global commercial rivalries to secure quinine and other critical raw materials, if the Allies could not agree on a system of resource cooperation.[20] Reserving raw materials for Allied reconstruction was also a way to withhold materials from Germany. Restricting German access to global commodity markets would make it easier to force Germany to deliver critical supplies to the Allies such as cinchona bark and coal, and it would also provide leverage to enforce the political terms of the peace.

Bernard Baruch did not approve of pressuring Germany in this way. He tersely summarized the options on the table, as seen from the US perspective: "it was necessary to choose between two clearly distinct policies, either to give Germany the facility for recovering as rapidly as possible, or to declare frankly that it was desired to limit German industry." He argued that the United States would only agree to impose war reparations on Germany "based upon liberty of German Trade after the war."[21] Robert Cecil concurred that "every limitation you put and every difficulty you add to the German government must mean a diminution of their power of earning and a diminution of any reasonable expectation of getting a considerable sum."

Thus, Baruch and Cecil inverted Clémentel's logic. Clémentel had tried to argue that if the Allies did not give one another positive economic assistance in the form of secure raw materials and credit to buy these supplies, France would have to demand higher reparations. Baruch and Cecil argued that if the Allies were going to demand high reparations, they must integrate Germany fully into commodity markets so that it could fund reparations payments through export revenues. Keynes followed a somewhat different logic, though he was not present at the pivotal April 4 meeting. As explained above, Keynes believed that British manufacturers would suffer if their German competitors were prodded to export more to pay for reparations, and he favored a system of financial cooperation that would help avoid this outcome.

Keynes is blocked

Keynes strongly objected to plans for preferential trade in raw materials that came from Clémentel and his colleagues. Such discrimination would sow discord and could lead to economic and political upheaval. In the wake of the Russian Revolution 1917, Keynes feared the spread of "Bolshevism," writing in the *Economic Consequences of the Peace*:

> *If the distribution of the European coal supplies is to be a scramble in which France is satisfied first, Italy next, and every one else takes their chance, the industrial future of Europe is black and the prospects of revolution very good.*[22]

Keynes did believe that substantial new international structures were urgently needed in order to help war-torn European societies avoid revolution. In contrast to Clémentel, he supported targeted financial assistance but insisted that trade must remain equitable and open. Yet as Clémentel confronted strong opposition to his plans for coordinated control over strategic raw materials, Keynes's proposals for financial cooperation were also unravelling.

Keynes faced resistance in the British delegation from nationalists who had promised voters that they would secure high reparations from Germany. In Britain, a hard-fought parliamentary election came just after the Armistice, pushing British politicians to make extravagant promises about the peace to come. One of them memorably declared that "the Germans are going to be squeezed as a lemon is squeezed – until the pips squeak."[23] Although Britain's Prime Minister, David Lloyd George, did not go so far, he did tell crowds that he would force Germany to cover the full expense of the war. The election delivered a large crop of new nationalists in the Parliament, and they watched Lloyd George closely throughout the peace negotiations to make sure that he did not backtrack on his commitments. Lloyd George responded by appointing a trio of hardliners to represent Britain on the Reparations Commission at the peace conference instead of Keynes.[24]

The British negotiators were determined to make Germany pay, and their starting position was that the reparations bill should total £25 billion. This was roughly ten times the amount that Keynes and his treasury colleagues had determined that Germany would be able to pay. Accounting for German overseas financial assets and export capacity, they estimated that the upper limit of German reparations payments would be £2-3 billion. At the peace conference, US financial experts on the Reparation Commission agreed with this lower estimate and refused to accept a total above £6 billion. Louis Loucheur, who was the French expert on the commission, private agreed. As an industrialist, he knew the Germany economy well and told his American counterparts that any payments above £2 billion would be "monkey's money."[25] However, Loucheur also knew that French voters would revolt if he publicly demanded a lower sum than the British negotiators.

Two key procedural decisions made it much harder to reach a low reparations total, and both were mainly pushed by the hardliners on the British negotiating team. Firstly, they demanded that reparations cover Allied pensions paid to war widows and disabled soldiers as well as separation allowances that had already been paid to soldiers' families while they were away at the front. Lloyd George tried to argue that the addition of these costs on top of direct material damages would not increase the overall reparation bill, but only the allocation of payments between claimants (the British Empire would get more relative to France and Belgium). Yet a second key decision clearly indicated that the inclusion of pensions would, in fact, increase the overall bill. Lloyd George insisted that German repayment could be extended beyond the 30-year time horizon that the peacemakers had originally agreed upon. And, if German repayment could be extended across 100 years, it would be easier to use the new pension liabilities to push for a higher reparations sum, overall. Whether it was politically feasible to ask the German public to pay political debts for 100 years remained open to debate, however. [26]

As full implications of the reparations settlement became clear, Keynes sought alternatives. In March 1919, he wrote up a plan to cancel the war debts among the Allies while also reducing the reparations burden on Germany and the other defeated states. He anticipated that this arrangement would meet strong hostility from US political and economic leaders but argued that it was a fundamental question of war and peace that transcended financial considerations. The repayment of the Allied war debts, like German reparations, would "impose a crushing burden" and would poison post-war politics:

> *[The Allies] may be expected…to make constant attempts to evade or escape payment, and these attempts will be a constant source of international friction and ill-will for many years to come. A debtor nation does not love its creditor…There will be a great incentive to them to seek their friends in other directions, and any future rupture of peaceable relations will always carry with it the enormous advantage of escaping the payment of external debts.*[27]

The US peace delegation – which included many New York bankers as financial advisors – resisted all calls to cancel the US war loans, as a condition to reduce German reparations. In response, Keynes devised a "Scheme for the Rehabilitation of European Credit and for Financing Relief and Reconstruction." He replaced his proposals for "mutual cancellation" with a proposal for "mutual guarantee." He suggested that the Allies, the defeated states, and the neutral partners should all jointly guarantee international bonds. These bonds would be used to fund reparations, reconstruction, and the repayment of war debts. Such an arrangement would require a higher level of institutional cooperation than direct cancellation of debts – it would have to be backed politically by the new League of Nations. The technical details for Keynes's plan can be found in Annex 4.

In the US delegation, there was initially some sympathy for Keynes's plan to issue international bonds to fund reparations and war debts while also greasing the wheels of post-war reconstruction. Herbert Hoover, the US official who was leading post-war relief efforts on the ground reported that the basic assessment of post-war needs that underpinned Keynes's scheme "was extraordinarily correct." However, Hoover did not believe that the plan could not begin to work until the blockade was lifted.[28] Moreover, US bankers were reluctant to participate in an international lending scheme to aid Germany if this would merely enable the Allies to saddle Germany with a heavier reparations burden. Lloyd George's request to add pensions to the list of German liabilities stoked fears in the US delegation that the Allies were trying to inflate the reparations bill. From the US perspective, the European Allies' simultaneous demands for high reparations and international financial cooperation were hard to reconcile. Wilson observed:

> *You have suggested that we all address ourselves to the problem of helping to put Germany on her feet, but how can your experts or ours be expected to work out a new plan to furnish working capital to Germany when we deliberately start out by taking away all Germany's present capital.*[29]

Keynes privately admitted to his British colleagues that "there is a substantial truth in the President's standpoint."[30] As his plan for international reconstruction bonds ran aground, Keynes left Paris and began writing the *Economic Consequences of the Peace* to vent his own frustration and to expose the structural problems in the post-war world economy.

The unsettled post-war world

Neither Keynes nor Clémentel saw his vision of post-war international order realized in the 1920s, as the 1919 peace settlement left many questions in suspense. The decision by the US Senate to reject the Treaty of Versailles and forsake the League of Nations in 1920 considerably limited the available options. Indeed, both Keynes and Clémentel had been counting on substantial US participation in international affairs. Keynes looked to the United States to lead international financial cooperation, while Clémentel hoped that Europeans would be able to access its large bounty of natural resources through a system of trade preferences. Over the course of the 1920s, private US bankers participated in international schemes to help restore the finances of Germany and other newly reconstituted states in Central and Eastern Europe. Until the crash at the end of the 1920s, US banks funneled money into private businesses around the world. However, the US government kept largely aloof from this activity, and it was also reluctant to participate in trade cooperation.

Reparations hung over international political economy in the 1920s like a dark storm cloud. The peace conference did not set the total reparations sum to be paid by Germany or the final modalities of payment. The closest that the negotiators came to a workable compromise was proposal requiring Germany to pay £5-7 billion, in an attempt to conciliate the moderates and the hardliners (roughly twice the amount advocated by Keynes and the British Treasury). Unable to bridge this gap, Lloyd George, Wilson, and the other assembled grandees decided to wait until 1921 to set the final reparations bill for Germany, ostensibly to give experts time to assess the damages due.[31] In fact, the final bill was not actually set until 1929 after a bitter and inconclusive series of negotiations that kept nationalist animosities high on all sides. Crucially, German reparations and Allied war debts were never linked, and each of the Allied governments had to negotiate with US creditors independently. On these terms, new US loans were available for reconstruction but had to be negotiated on a case-by-case basis.

The large overhang of war debts and reparations had important implications for trade and production in the interwar period. For most of the 1920s, US banks were handing out new loans with one hand while they were clawing back war debts from the Europeans with the other hand. In order to end this unsustainable recycling operation, either the Allied debts would have to be cancelled or Europeans would have to sell more goods to earn the cash they needed for their debt payments. By extension, Germany would have to export more in order to pay the reparations that were supposed to offset the repayment of Allied war debts. Keynes observed: "there must be a readjustment of the balance of exports and imports. America must buy more and sell less. This is the only alternative to her making Europe an annual present."[32] Yet in the 1920s, the policy environment did not favor an expansion of European trade.

Under President Woodrow Wilson, the United States had begun to move towards a policy of somewhat freer trade during the war, but it still had quite high tariffs. Following a post-war boom and bust that hit US farmers hard, Wilson's successors ratcheted up tariffs considerably, culminating in the infamous Smoot-Hawley tariff of 1930.[33] In Europe, tariffs had been on the rise in the period before First World War (largely as a defense against cheap US goods) and the war brought new trade restrictions. The war introduced a powerful new justification for trade protection: national security. Critical supply shortages in the early years of the war vividly demonstrated the dangers of dependence on foreign supply chains for strategically important goods, and governments around the world introduced new trade restrictions to try to bring important lines of production onto domestic (or imperial) soil. This trend could be seen in states with a protectionist trade policy such as France and in traditional strongholds of free trade such as Britain.

The League of Nations became a forum for competing projects to re-organize the world economy, as the peacemakers transferred their unfulfilled ambitions for the post-war order to Geneva. These included plans to reduce trade barriers and to facilitate financial cooperation and rebuild the international gold standard. This work did not restore the integrated world economy that had been shattered by the First World War. It did, however, lay the institutional foundations for modern international governance to develop over the course of the twentieth century by establishing durable institutional links between questions of security and global economic order. The peace plans tabled by Keynes and Clémentel reveal how the unprecedented economic dislocation brought by the First World War helped to fuel international institutional innovation. The alternatives that they first outlined in 1919 continued to frame debates about the relationship between economic prosperity and military might through the Second World War. Keynes participated directly in the formulation of the international settlement after 1945 as one of the main architects of the International Monetary Fund, while Clémentel's protégés such as Jean Monnet continued his efforts to promote industrial cooperation, now as part of a system of European integration.

Reading Questions:

1. What were the main economic issues that were debated at the 1919 Paris Peace Conference after the First World War?
2. What factors gave US leaders more leverage in international economic policy after the First World War?
3. What was the most important policy priority for John Maynard Keynes, as he was thinking about postwar economic order?
4. What was the most important policy priority for Étienne Clémentel, as he was thinking about the postwar economic order?

Annex 1: Allied War Debts at the Time of the Armistice:

Debtor	To US	To UK	To France	Total
Belgium	$172	$422	$535	$1,129
France	1,970	1,683		3,653
Britain	3,696			3,696
Greece		90	155	245
Italy	1,031	1,855	75	2,961
Jugoslavia (Serbia)	11	92	297	400
Portugal		61		61
Romania		78	220	298
Russia	187	2,472	955	3,614
Total	$7,067	$6,753	$2,237	$16,057

Data Source: War Debt Supplement, *The Economist,* November 12, 1932, page 2., cited in Thomas J. Sargent, "Complications for the United States from International Credits, 1913-1940," in Debt and Entanglements Between the Wars, ed. George Hall and Debla Dabla-Norris (Washington, D.C: International Monetary Fund, 2019), 5

Annex 2: The US Shift from Global Debtor to Global Creditor

	US Investments Abroad	Foreign Investments in the US	US Net Debt
(June) 1914	5	7.2	-2.2
1919	9.7	3.3	6.4
1924	15.1	3.9	11.2
1927	17.9	6.6	11.3
1929	21.5	8.4	13.1

Data Source: US Bureau of the Census (1975: series U26, U33, 869), cited in Hugh Rockoff, "Until It's Over, Over There: The US Economy in World War I," in *The Economics of World War I*, ed. Mark Harrison and Stephen Broadberry (Cambridge: Cambridge University Press, 2005), 335.

Annex 3: The Post-war Raw Material Problem

Ore Production:

	1913	1914	1915	1916	1917	1918
USA	62,972	42,103	56,415	76,370	76,494	70,773
Germany	28,608	20,505	17,710	?	?	?
Luxembourg	7,333	5,007	6,139	6,752	4,509	?
France	21,918	11,252	620	1,681	2,035	1,672
United Kingdom	16,253	15,105	14,463	13,711	15,083	15,285
Spain	9,862	6,820	5,618	5,857	5,551	?
Russia	9,514	?	?	?	?	?
Sweden	7,476	6,587	6,883	6,986	6,217	?
Italy	603	706	680	947	999	695
Norway	544	652	715	880	?	?
Belgium	150	82	5	30	17	0.5
Algeria	1,349	1,115	819	939	1,065	782
Tunisia	597	248	286	367	606	?
Canada	136	222	361	250	195	188
Japan	172	136	136	159	?	?

Coal and Lignite Production:

	1913	1914	1915	1916	1917	1918
USA	517	466	482	535	591	615
United Kingdom	292	270	257	261	253	231
Germany	277.3	245	235	253	263	261
Austria	43.9	39	38	40.8	-	-
France	40.8	29.8	19.9	21.5	29	26
Russia	33.8	33	28	-	-	-
Belgium	22.8	17	14	17	15	14
Japan	21.4	22	20	23	26	28
British India	16	17	17	17	18	21
Canada	13.6	12	12	13	13	14
Hungary	9.9	9	9	-	-	-
Spain	4.3	4.4	4.7	5.6	6	-
Netherlands	1.9	1.9	2.3	2.7	3.1	3.4
Italy	0.7	0.8	1	1.3	1.7	2
World total	1342	1210	1190	1270	1335	1332

Data Source: Pierre Chancerel, "Raw Materials," in *1914-1918 Online: International Encyclopedia of the First World War,* 2015, https://encyclopedia.1914-1918-online.net/article/raw_materials.

Annex 4: John Maynard Keynes's Plan[34]

Scheme for the Rehabilitation of European Credit and for Financing Relief and Reconstruction[35]

1. The Revision of the Treaty

I suggest…the following settlement : —

(1) The amount of the payment to be made by Germany in respect of Reparation and the costs of the Armies of Occupation might be fixed at $10,000,000,000…[2]

2. The Settlement of Inter-Ally Indebtedness

In proposing a modification of the Reparation terms, I have considered them so far only in relation to Germany. But fairness requires that so great a reduction in the amount should be accompanied by a readjustment of its apportionment between the Allies themselves. The professions which our statesmen made on every platform during the war, as well as other considerations, surely require that the areas damaged by the enemy's invasion should receive a priority of compensation. While this was one of the ultimate objects for which we said we were fighting, we never included the recovery of separation allowances amongst our war aims. I suggest, therefore, that we should by our acts prove ourselves sincere and trustworthy, and that accordingly Great Britain should waive altogether her claims for cash payment, in favor of Belgium, Serbia, and France. The whole of the payments made by Germany would then be subject to the prior charge of repairing the material injury done to those countries and provinces which suffered actual invasion by the enemy; and I believe that the sum of $7,500,000,000 thus available would be adequate to cover entirely the actual costs of restoration...

With the Reparation problem thus cleared up it would be possible to bring forward with a better grace and more hope of success two other financial proposals, each of which involves an appeal to the generosity of the United States.

The first is for the entire cancellation of Inter-Ally indebtedness (that is to say, indebtedness between the Governments of the Allied and Associated countries) incurred for the purposes of the war. This proposal, which has been put forward already in certain quarters, is one which I believe to be absolutely essential to the future prosperity of the world. It would be an act of far-seeing statesmanship for the United Kingdom and the United States, the two Powers chiefly concerned, to adopt it.

3. An International Loan

I pass to a second financial proposal. The requirements of Europe are immediate. The prospect of being relieved of oppressive interest payments to England and America over the whole life of

[2] For reference: at the Paris Peace Conference, the British delegation demanded a reparations total of $25-35 billion which was roughly three times higher than Keynes's recommendation. Negotiations continued until 1921 when the Reparations Commission formally agreed to a total of roughly $33 billion. The terms of repayment were renegotiated over the course of the 1920s, but the total remained far above Keynes's recommendation.

the next two generations (and of receiving from Germany some assistance year by year to the costs of restoration) would free the future from excessive anxiety. But it would not meet the ills of the immediate present, — the excess of Europe's imports over her exports, the adverse exchange, and the disorder of the currency.

It will be very difficult for European production to get started again without a temporary measure of external assistance. I am therefore a supporter of an international loan in some shape or form, such as has been advocated in many quarters in France, Germany, and England, and also in the United States. In whatever way the ultimate responsibility for repayment is distributed, the burden of finding the immediate resources must inevitably fall in major part upon the United States…

The chief objections to all the varieties of this species of project are, I suppose, the following. The United States is disinclined to entangle herself farther (after recent experiences) in the affairs of Europe, and, anyhow, has for the time being no more capital to spare for export on a large scale. There is no guarantee that Europe will put financial assistance to proper use, or that she will not squander it and be in just as bad case two or three years hence as she is in now…

There is no answer to these objections as matters are now. If I had influence at the United States Treasury, I would not lend a penny to a single one of the present Governments of Europe. They are not to be trusted with resources which they would devote to the furtherance of policies in repugnance to which, in spite of the President's failure to assert either the might or the ideals of the people of the United States, the Republican and the Democratic parties are probably united. But if, as we must pray they will, the souls of the European peoples turn away this winter from the false idols which have survived the war that created them, and substitute in their hearts for the hatred and the nationalism, which now possess them, thoughts and hopes of the happiness and solidarity of the European family, — then should natural piety and filial love impel the American people to put on one side all the smaller objections of private advantage and to complete the work, that they began in saving Europe from the tyranny of organized force, by saving her from herself.

Annex 5: Étienne Clémentel's Plan[36]

The Economic Conditions of Peace

It is important, in the first instance, to establish among the allies a rational classification of the principal raw materials so as to determine which ones we control more or less completely, those that we only control partially and those that we have no interest in controlling.

By drawing on the results of these studies, the Allies will establish distribution quotas. But it must be understood that none of the Allies should see any natural monopoly they may have based on the more-or-less exclusive possession of a resource as a right to regulate the provisioning of the other Allies in an arbitrary manner. It is not sufficient that each of the Allies receive these resources in the needed quantities and in an equitable proportion. In addition, all the Allies must be guaranteed price and freight conditions that are roughly equivalent. This equalization will be the durable cement of the alliance.

Germany, invoking the necessity to restore full economic peace, will demand its share of resources, notably tropical resources…Here, Germany, in placing itself under the aegis of the League of Nations, will escape all responsibility. Of course, it would not be in the spirit of the Allies to deprive Germany of the means to live and resume work, once a just peace has been concluded and German militarism has been rendered harmless. Moreover, it is in their interest to reopen the German market to some of their natural and manufactured products. But this consideration should not prevent them from using their mastery over the production of raw materials as a source of leverage to persuade Germany to accept peaceful collaboration with other nations …

To conclude, it appears to me that after consideration the Government should take the initiative rapidly to convene a conference of the principal Allied states (USA, France, Great Britain, Italy, and Belgium) in order to establish an accord on the basis of the principle that were already accepted by France, England and Belgium in 1916, which should be enlarged and adapted to the present situation.[3] From this meeting we will seek to launch, with the Atlantic union as its center, an economic union of free peoples. We can propose the following agenda to our Allies:

1. Defining, in its entirety, the debt of Germany, considered responsible for the economic upheaval of the world, in order to charge it with the heaviest burden of reparations that it will be able to support.
2. In addition, the collective intervention of free nations, this intervention being considered as a moral advance conceded to Germany, and on the understanding that

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[3] Étienne Clémentel convened a conference in 1916 in Paris where the European Allies sketched preliminary plans for wartime and post-war economic order. They agreed to withhold trading privileges from the defeated states after the war (notably most-favoured-nation status) and to cooperate to provision one another with critical raw materials. On the latter point, the specific provisions remained quite vague, however. For more detail, see Georges-Henri Soutou, *L' or et le sang: Les buts de guerre économiques de la Première Guerre mondiale* (Paris: Fayard, 1989); Patricia Clavin and Madeleine Dungy, "Trade, Law, and the Global Order of 1919," *Diplomatic History* 44, no. 4 (September 2020): 554–79.

the devastated countries, which must be fully reconstructed, preserve an inviolable right of priority.

3. Rational and systematic use of the raw material weapon, as a means to pressure German industry to collaborate peacefully with other nations.
4. Freedom of traffic on all international river and rail routes…

In reality, this agenda will constitute the basis for the French program of economic conditions to be proposed during the peace negotiations.

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