Maynard Keynes made his name in 1919 with the publication of *The Economic Consequences of the Peace*, an account of the errors made by the Allied negotiators at Versailles that was widely read, quickly corroborated, and whose main lines of analysis have been accepted ever since. He died in 1946, shortly after struggling to renegotiate the post-war financial settlement imposed upon Britain by the United States – it is generally thought that the effort killed him. In both cases war with Germany had created severe financial and economic problems, both for Britain and the international economy. Taking a Keynesian slant on the development of British policy towards Germany in the era of the two world wars has therefore much to recommend it, especially as in the Second World War Keynes played an important role in the formulation of economic policy, both directly and indirectly. Furthermore, as Matthias Peter observes, in the course of this century Germany has displaced Britain as the dominant commercial power in Europe, the substantial external sectors of both countries linking their fortunes closely to those of the world economy. And finally, during this same period the conduct of international affairs altered, military and diplomatic considerations increasingly being displaced by a directly economic assessment of the relations between states. During the twentieth century the contest between states has become an economic one; this point was brutally demonstrated by the Second World War.

These three elements form Peter’s very promising starting point, and although in the event much remains unfulfilled, this is largely because of a failure to depart from conventional diplomatic historiography – quite simply, there is a disjunction between the substantive transformation of diplomacy that Peter correctly identifies, and the manner in which he goes about writing his historical narrative. This is pointed up by comparison with the British scholarship upon which Peter draws, for in the past twenty years the social and economic changes brought about in the course of two world wars have been widely debated by historians, politicians, and journalists. The Second World War has been especially controversial in this respect, playing an important role in discussions of the ‘decline’ of the British economy.
and in the creation of the welfare state—these two points being brought together, not uncontentiously, in the writings of Correlli Barnett. Moreover, British historians who write about aspects of Keynes’s work generally display a clear grasp of the relevant economics—examples here being Peter Clarke’s account of the background to the General Theory, and Robert Skidelsky’s second biographical volume covering the inter-war period; added to which two of the three biographies of Keynes are written by economists. Peter by contrast gives only the barest outline of the economic writings at issue here. The seminal How to Pay for the War of 1939/1940 is dealt with in one page (pp. 82-3) although Keynes’s essay was only one of many similar pieces that appeared at the time; it would be good to have an assessment of the manner in which his differed from the others, and the possible effects of this difference. The Economic Consequences of the Peace is nowhere given a detailed assessment, despite its great importance for the issue of a post-war settlement in the early 1940s. Likewise Walther Funk’s speech on the New European Order of 1940, which prompted much of the wartime discussion detailed by Peter, is provided with an exact reference (for which this reviewer was very grateful) but is nowhere adequately summarized.

Some readers, seeing the linkage in the title between Keynes and Germany, might jump to the conclusion that the book would deal in part with the nature of ‘Keynesian’ economic policy and the controversy over Keynes’s preface to the German translation of the General Theory, in which he seemed to endorse the success of Nazi economic policy in promoting recovery from depression. In fact this issue is not raised, nor for that matter does any of the inter-war history of unemployment, trade recession, international finance and slump enter prominently into the discussion. Given that the ‘transfer problem’—the problems in trade and finance created by the imposition of reparation payments which obliged Germany, as Keynes argued in 1919, ‘to hand over to the Allies the whole of her surplus production in perpetuity’—exercised policymakers throughout the 1920s, surprisingly little space is given over to this and related issues. More than three-quarters of the book is devoted to the 1940s, although this is in itself no bad thing, in view of the thoroughness with which Peter has trawled the Whitehall files.

The problem is rather what he does with his catch. The account of the wartime period shares personalities and key events with other
histories, but here the similarity ends. Peter’s treatment of the reception of the Funk Plan in Whitehall emphasizes its impact upon British war aims and the attitude to a post-war Germany in particular. The lines of argument are established early and alter little: they turn upon the twin imperatives of demilitarization and industrial recovery. Policymakers and their advisers (whose ranks in the UK included a number of academics serving the wartime administration) were at least clear that the prevailing French idea at Versailles – to make Germany pay the full costs of the war it had started – was a non-starter, for the same reasons eloquently argued by Maynard Keynes in 1919. In addition, during the period before Pearl Harbour politicians on both sides of the Atlantic sought to establish coherent war aims – in Britain to win over the American public, in America to placate a reluctant Congress. The first substantial outcome of this was the signing of the Atlantic Charter in August 1941, a policy which aimed, as Hugh Dalton pithily summarized it for the British Cabinet, to render a post-war Germany ‘fat but impotent’. Writing in the *New Statesmen* at the end of August 1941 Kingsley Martin, its editor, pointed out that this aim could not be realized without the creation of supranational institutions capable of ensuring European prosperity and preventing the re-emergence of aggressive military powers. Churchill’s stance at this time was that peace was to be secured by Germany having the butter and Britain the guns, a posture which lacked all credibility. Not only would this have been economically unattainable, it would also have been unacceptable to the British electorate. In late 1941 this and related issues became the object of discussion in Whitehall committees, and continued through to 1944, intersecting then with Morgenthau’s proposals for the de-industrialization of a post-war Germany. Most of Peter’s account is given over to documenting the twists and turns of this debate in committee.

Several points arise from this. First of all, the importance of social reform in Britain is neglected by Peter. The foundations of the new ‘Welfare State’ were laid down during the war in Whitehall committees, covering healthcare, education, social insurance, pensions, and housing; the necessary legislation began to be passed in 1944. As many historians have argued, this was part and parcel of a common sentiment that the social and economic divisions of pre-war Britain should be permanently banished. However, these reforms also did service as a component of British war aims, and were understood as such in
Germany; they provided a model for a post-war social order which had an international, as well as a domestic, dimension.

Secondly, given the troubled history of Britain and Europe since the later 1940s, it would be interesting to follow the European dimension of Kingsley Martin’s prescience concerning the need for supranational institutions, since the ‘European project’ is part and parcel of post-war reconstruction. France’s eventual recognition that the German economy could not be subjugated, but should be bound within a joint political venture, provided an important initial impulse. Britain’s German policy was recognized by many to be linked to a European policy, and it is a pity that this avenue goes unexplored.

The British Empire, which had become more of an economic reality during the 1930s and which in the shape of sterling area reserves was to be of such financial importance in the immediate post-war years, cut across this European dimension in British foreign policy. It also played an important part in American calculations, much of the negotiations over Lend-Lease arrangements, and latent hostility in Congress, being associated with Britain’s pre-war imperial role, and its role in international trade. Peter’s emphasis upon the painful role of imperial decline in the reorganization of British diplomacy is important, but this had many dimensions. Without American financial and material support Britain could not have continued the war beyond late 1940, and this imperative permeated all foreign policy considerations, including the post-war reconstruction of Europe.

Nowhere has this more relevance for Keynes than in his plans for the reorganization of the post-war international economy, culminating in the Bretton Woods agreements. Keynes’s own reaction to the Funk Plan was enthusiastic, since it involved a clearing mechanism which could in principle be used to overcome the inter-war difficulties in international trade and finance. Through many drafts and reports this original insight became a proposal for an international clearing union, but in negotiations with the US government before the Bretton Woods meeting in July 1944 the clearing union idea gave way to Harry White’s proposal for a funded system – what then became the International Monetary Fund. The IMF is a fair-weather institution that has generally worked best when little is demanded of it, not at all what Keynes had in mind. Instead, Keynes’s, and by extension Funk’s, plan was revived in the guise of the European Payments Union which, during the 1950s, played a critical role in the
development of intra-European trade, which to a great extent meant, of course, German trade.

Peter’s treatment of the reaction to the Funk Plan only touches on this history, which is, of course, an implicit, rather than an explicit, component of Britain’s policy towards Germany. But this is because policy is here conceived of as diplomacy, rather than as the result of diverse political, economic, and social forces. Through the footnotes in this book march memoranda from committees and between participants in committees, not statistics on trade and production, nor of consumption and employment. Yet this was what they were talking about all the time.

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