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The long shadow of Versailles

An unusual controversy on John Maynard Keynes between the German ordoliberalists Walter Eucken and Wilhelm Röpke

Karen Horn^{*†‡}

Abstract: Ordoliberalism and Keynesianism are not exactly known to fit hand in glove. Accordingly, the German economists Walter Eucken, head of the Freiburg school, and Wilhelm Röpke, from his Istanbul and Geneva exiles, were in near perfect agreement in their opposition to the interventionist “full employment” teachings of their English colleague John Maynard Keynes. An article by Röpke on Keynes in the Swiss newspaper *Neue Zürcher Zeitung* (NZZ) published in 1946 however met with “fundamental objections” by Eucken, and a controversy took off. The bone of contention between the two colleagues and rather dissimilar friends was Keynes’s famous earlier critique of the Versailles Peace Treaty, and the lessons to be drawn for the post-WW II situation. This paper tells the story of this unusual and puzzling controversy, quoting from the letters between the two, and contextualizes the exchange in order to make sense of it. It turns out that there was an economic, a human, and – most significantly – a political side to their disagreement. Eucken and Röpke assessed the economic development since 1919 somewhat differently, and Eucken felt compelled to defend Keynes against the heavy moral accusation of having contributed to the Nazi catastrophe. But perhaps most of all, he found it tactically unwise in 1946 to endorse arguments that would support an even harsher attitude by the Allies toward Germany after WW II. In a first translation, the paper’s appendixes contain Röpke’s NZZ article that sparked the controversy, as well as the rejoinder by Eucken’s former student Valentin F. Wagner. A new, full translation of an earlier NZZ article by Röpke on Keynes in lieu of an obituary is also provided.

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1 Introduction

Ordoliberalism, the political doctrine and research program that emerged during the first half of the 20th century in Germany,¹ is no monolithic dogma. It is an intellectual mould that needed

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‡ I wish to dedicate this paper to the memory of my parents, Ilse Ritter and Jürgen Horn, Walter Eucken’s students at the University of Freiburg in the late 1940s, and to my friend Thalie de Molènes, Carl Melchior’s French niece.

¹ The German term “Ordoliberalismus” originally came up in the late 1940s, inspired by “ORDO”, the name of an academic yearbook initiated in 1948. In contrast to the German term, the English term “ordoliberalism” is slightly misleading unless it is understood as an at least three-pronged notion. First, it is the name of a normative standpoint, as logically implied by the reference to liberalism in the term (ordoliberalism proper, “Ordoliberalismus” in German); ordoliberalism stands for free markets within an adequate framework of rules, as opposed to Laissez-

and will always need to be shaped and adapted to the ever-new challenges, and the policy advice that flows from it naturally always remains open to contestation. Historically, the remarkable diversity of the ordoliberal approaches already bears witness of this, with thinkers ranging from the members of the economic and legal Freiburg School with Walter Eucken and Franz Böhm to the more “sociological” group represented by Wilhelm Röpke, Alexander Rüstow, and, arguably, Alfred Müller-Armack.² While their overall outlook and ethical commitment was similar, there were of course plenty of internal debates going on. The focus of the present paper is on a specific controversy between Walter Eucken and Wilhelm Röpke, taking place in 1946.

1.1 Walter Eucken and Wilhelm Röpke

The economist Walter Eucken (1891–1950) is usually considered as the head of the “Freiburg school”.³ Together with his colleagues Franz Böhm and Hans Großmann-Doerth, both legal scholars at the University of Freiburg (Hollerbach 2005, 2007)⁴, he had launched a publication series under the title “Ordnung der Wirtschaft” (economic order) in 1937. In their joint preface under the programmatic title “Unsere Aufgabe” (our task), the authors stated the necessity of viewing economic order as an all-encompassing and ultimately ethical decision about the constitution of a country’s economic life (Böhm, Eucken, and Großmann-Doerth 1937/1989). As Eucken later explained, this order must be designed so “as to enable man to live his life along ethical principles” (Eucken 1952: 199)⁵. His key idea was that competition must be protected and maintained not just for the sake of efficiency but in order to prevent the accumulation of power, and that it is therefore crucial to keep the price mechanism functioning. The signals sent out by the changes of relative prices to the market participants are key indicators of scarcity, better than any other guide for economic action, and it is nothing but prudent to keep their signaling power intact.⁶ It is a key task of government to ensure this.

After World War II, Eucken shared his insights with both the French and American occupying forces and later with the bodies of German government that began to take shape. He was able to do so because he had preserved an impeccable political reputation in spite of having remained

faire. Second, it refers to the economic policy, or policy advice, focusing on the rules of the game (“Ordnungspolitik”). And third, it designates an academic research program still very much alive today which revolves around the question what a good social and economic order looks like, how it can be implemented, and what type of institutions and rules work better than others (“Ordnungstheorie”). I have argued elsewhere that these three dimensions, while interconnected, must be distinguished analytically (Horn 2022). Ordoliberalism as a world-view is normative, the research program not necessarily so; “Ordnungspolitik” is somewhere in between. Fèvre (2021b) introduces a fourth meaningful dimension, which is epistemological.

² As Röpke wasn’t involved in the foundational work of ordoliberalism in Germany due to his physical absence after 1933, one might be tempted not to consider him an ordoliberal at all – which is the case for Solchany 2015: 227, who also insists on the uniqueness of Röpke’s intellectual itinerary. While this is correct historically, I deem that the conceptual overlaps do warrant his inclusion. See also Wörsdörfer 2011, Kolev 2013, Horn 2010, 2011, 2019a, and Fèvre 2021a,b.

³ For a very succinct background, see, notwithstanding the different context, Horn 2019a. On Eucken specifically, see Klinckowstroem 2000, and particularly the very first Eucken biography, Klinckowstroem 2023.

⁴ Großmann-Doerth ended up becoming quite a liability, not taking enough distance from the Nazis (see Dathe 2015: 13). On Böhm see particularly Vanberg 2008.

⁵ This and all other translations from German-language originals are mine.

⁶ „The competitive order is able to coordinate investment correctly over time. With the price mechanism this order disposes of an instrument which helps to pin down disproportionalities and to subsequently correct them. This is in which this order is superior to all other types.” (Eucken 1952: 288)

in Germany throughout the Nazi era, having being opposed to the Nazis and being involved in various academic circles of the resistance against Hitler (see e.g. Horn 1990 and Goldschmidt 2005). From 1947 onwards, Eucken advised Ludwig Erhard, then Director of Economics in the German Bizonal Economic Council, and was a founding member of the board of scientific advisors to the Federal Ministry for Economic Affairs, created in 1948. Eucken's influence on forging the new economic order abruptly ended with his unexpected death in 1950.

At this point, in a sense, Wilhelm Röpke (1899–1966) took over. In the summer of 1950, he accepted a visiting professorship at the University of Frankfurt, and the German government under Chancellor Konrad Adenauer asked him to do a first report on the general course of economic policy (Hennecke 2005: 182). It had been a long way for Röpke to get there. He had needed to develop his influence on German politics from a distance. As he never muted his criticism of the Nazis, he had been forced out from the University of Marburg in 1933. After some time at Atatürk's university in Istanbul, Turkey, he was happy to take a chair at the Institut Universitaire des Hautes Etudes Internationales (HEI) in Geneva, Switzerland, in 1937. Röpke's oeuvre had begun with some works on business cycles (Röpke 1922, 1932), trade (Röpke 1923, 1925, 1931a) as well as capital and finance (Röpke 1929 a,b). Business cycle theory and policy occupied a major place in his early work, in contrast to Eucken who touched upon such issues only tangentially: He didn't quite believe in the possibility of a meaningful theory of business cycles in the first place (Eucken 1933, see Sala 2011). Their outlook on the business cycle was however similar, rooted in the Austrian monetary overinvestment theory which views credit-financed overinvestment as the origin of cyclical downturns and crises.⁷

During his exile in Istanbul, Röpke wrote a textbook, “Die Lehre von der Wirtschaft” (Economics), published in 1937.⁸ Cut off from much of the German debate and submerged by an acute sense of crisis, he then turned more and more toward broader societal issues, focusing on collectivism, socialism and the welfare state as well as secularization, the break-up of traditional family ties and village structures. Once the war was over and the Nazis ousted, he sought to get his voice heard again in Germany. As early as 1945, Röpke published a book in which he analyzed his country's path into catastrophe, and attempted to persuade the Western Allies that in the future, Germany should be a decentralized confederation, with a free market, a new currency, liberated prices, and openness for international trade (Röpke 1945a/56). While he shied away from moving back home, he was very active in the German public debate, giving talks or publishing essays and letters to the editor in daily newspapers (see e.g. Hennecke 2005 and Solchany 2015). In the summer of 1948, Ludwig Erhard – later to be German Minister for

⁷ See Eucken 1929. The basis of this thinking is perhaps best reflected in Hayek 1929a, to which Eucken by the way explicitly refers in his letter to Wolfgang Kunkel mentioned below (ThULB, Eucken papers), and also in Hayek 1929b and Hayek 1931. Eucken nevertheless neglects to integrate Hayek's ideas into his own work, mainly for reasons of asynchrony – and the reverse is also true (see Wohlgemuth 2013). As for Röpke, he was regularly in touch with the Austrians and a frequent visitor at the Nationalökonomische Gesellschaft (NOeG), the Austrian Economic Association in Vienna, which Hayek claimed to have revived and for which he served as secretary, while Ludwig von Mises was vice president (see Caldwell and Klausinger 2022, 209). For an analysis how Röpke and Eucken, while in agreement politically, evolved in distinct theoretical directions without ever giving up the Austrian monetary overinvestment theories of the business cycle as their basis, see also Kolev 2013: 175–84. While Röpke looks for “a policy of decentralized social cohesion” (Kolev 2013: 183) in order to avoid the necessity of an active stabilization policy, Eucken relies on the concept of a competitive order which, if properly put in place, should make such government intervention unnecessary.

⁸ The title of the English version, published only in 1963, is more programmatic: “Economics of the Free Society”.

Economic Affairs and ultimately Chancellor – reached out, and their influential “comradeship in arms” began (Waffenbrüderschaft, Hennecke 2005: 176). Röpke would become an important and faithful member of the so-called “Brigade Erhard”⁹.

1.2 Comrades in arms

The same term, “comradeship in arms”, can aptly be used to describe the relationship between Eucken and Röpke. They were close academic partners with a common cause, most of the time in agreement about liberal economic policy. They had first met in the 1920s, as young scholars. While the exact date of their first encounter is unknown, it is clear that they saw much of each other as members of the “German Ricardians”, an informal group put together by Alexander Rüstow, whose aim it was to improve economic advice and overcome the perceived stifling influence of the Historical School (Janssen 1998/2011, 2009). Eucken had taught at the University of Berlin from 1921 to 1925, then moved on to Tübingen and in 1927 to Freiburg. As for Röpke, right after his habilitation at the University of Marburg in 1922, he had worked in Berlin in a reparations commission of the Ministry of Foreign Affairs. In 1924, merely aged 24, he got his first chair at the University of Jena, before being called back to Marburg in 1929. Both Eucken and Röpke, in 1928, took part in a high-level reparations conference held by the Friedrich-List-Gesellschaft, a scholarly economic society, in Bad Pyrmont and Berlin¹⁰. Eucken was then 37 years old; Röpke just turned 29 a few days before the second leg of the conference.

Eucken and Röpke had needed some time for growing close. Even after some years of joint work, Eucken’s impression of Röpke as a scholar was mixed. Asked for confidential advice on nominees for a chair at the University of Göttingen, Eucken in 1929 expressed his doubts:

“He is fresh, also has a good mind, is energetic, hardworking and ambitious. But he works too quickly, he cannot drill, rather remains mostly on the surface. Actually a journalist by nature, not a scholar. Maybe something very good will come of him, but I am not quite sure after my last impressions from personal meetings with him and from his writings [...]”¹¹

Over time, Eucken learned to appreciate the younger colleague. In his later letters, reacting to Röpke’s outflow of new productions, Eucken regularly used words of praise such as “wirklich vortrefflich” (really excellent) or “wertvoll” (valuable)(see Röpke 1960). And so, on top of their intellectual cooperation, they became personal friends, likely prompted by the developments in Germany which appalled both of them and with regard to which they knew that they could trust each other. In this sense, it was a friendship of dissidents (Solchany 2005: 219) that united the generally kind, fatherly giant (Ritter 1950), oldest son of the philosopher and Nobel laureate Rudolf Eucken, and the notoriously irritable offspring of a rural medical doctor.¹² The bond

⁹ This nickname, meant as a joke, is seriously bad taste and says a lot about the early Federal Republic. It in fact mimics the name of a marine brigade, run by the antirepublican and antisemitic naval officer Hermann Ehrhardt, that was one of the main supporters of the “Kapp-Putsch” trying to overthrow the Weimar Republic in 1920.

¹⁰ The proceedings of this conference were published in two volumes, see Salin 1929 a,b. The Friedrich-List-Gesellschaft was named after the economist, politician and entrepreneur Friedrich List (1789–1846).

¹¹ Letter to Wolfgang Kunkel, December 15, 1929, ThULB, Eucken papers.

¹² Röpke was aware of this problem: “My nature is such that, unfortunately, I have a very thin skin, but once I have freed myself from the sting and find the other person ready for an honest debate, I forget so quickly that I almost have to force myself to remember why I was actually angry with him.” In the original: „Meine Natur ist so beschaffen, dass ich leider eine sehr dünne Haut habe, dass ich aber, wenn ich mich vom Stachel befreit habe und den anderen zu einer ehrlichen Aussprache bereit finde, so schnell vergesse, dass ich mich geradezu darauf

included their families, too. While they never switched from the formal “Sie” to the familiar “Du”, they always addressed each other as “mein lieber Röpke” (my dear Röpke) and “mein lieber Eucken” (my dear Eucken).¹³ After Eucken’s sudden death during a stay in England for a series of lectures at the London School of Economics (LSE) in 1950, Röpke movingly paid tribute to his colleague in the Swiss newspaper *Neue Zürcher Zeitung* (NZZ), expressing the “burning pain” of Eucken’s many friends – and obviously his own – “at being suddenly bereaved of a man to whom they were attached with love and adoration” (Röpke 1950b).¹⁴

1.3 Outline of this paper

It is unclear when exactly the correspondence between Eucken and Röpke began. Very few letters dated before 1945 have survived.¹⁵ On Röpke’s side, this is most likely due to his move into exile, while it was simply prudent for Eucken in the Nazi era to destroy any proofs of their connection.¹⁶ It is in the post-war correspondence that, in the fall 1946, the small but interesting controversy between the two unfolds that is the object of the present paper. It is a controversy triggered by one of many critical essays that Röpke wrote on John Maynard Keynes, the English colleague whose attitude, theoretical approach, and policy recommendations he disapproved of.

besinnen muss, warum ich ihm eigentlich gram war“ (Röpke, letter to Georges Révay dated July 27, 1953, quoted after Hennecke 2005: 141). Röpke’s irritability also runs through his reception of other people’s scholarly works, see Horn 2019a.

¹³ The combination of “my dear” and the family name may today appear peculiar also in another regard: the use of the family name would nowadays require that it be preceded by “Mr.”. In the old days, however, leaving out the “Mr.” was a sign of familiarity, without going the whole way to the use of the first name and “Du”. Another intermediate formula was “Du” and family name, an odd combination used by Eucken for his friend and colleague Gerhard Ritter. As for the use of the warm “Mein lieber ...”, Eucken normally limited it to family members, with the exception of Alexander Rüstow (and Röpke). Interestingly, he talked about Rüstow and Ritter using the first name, but never seems to have addressed them directly as “Alexander” or “Gerhard”. Just like Eucken, Röpke extended his use “Mein lieber” to very close friends whom he had known for a long time, for example Rüstow (and Eucken). See Röpke 1976 and Eucken’s various correspondence at ThULB, Eucken papers.

¹⁴ The passage continues: “But lasting will be their grief over a loss that can hardly be measured, and indelible the memory of one of the most of one of the most honest and best. He was righteousness incarnate, straightforwardness and goodness and goodness, a devoted friend, comrade and teacher, and a perpetually effective proof that in the case of a great scholar, character and spirit are inseparable”. In the original: „[...]brennender [...] Schmerz, plötzlich eines Mannes beraubt zu werden, an dem [seine Freunde] mit Liebe und Verehrung gehangen haben. Nachhaltig aber wird ihre Trauer über einen Verlust sein, der kaum zu ermessen ist, und unaustilgbar das Andenken an einen der Redlichsten und Besten. Er war die Fleisch gewordene Rechtschaffenheit, Gradheit und Güte, ein hingebender Freund, Kamerad und Lehrer und ein fortdauernd wirksamer Beweis dafür, daß im Falle eines großen Gelehrten Charakter und Geist nicht voneinander zu trennen sind.“ (Röpke 1950b)

¹⁵ In the archives, merely four letters by Röpke to Eucken can be found, dated July 16, 1931, November 16, 1933, December 17, 1937, and May 25, 1938 respectively (ThULB, Eucken papers).

¹⁶ Röpke mentions that their correspondence was interrupted after January 1943, the background being that the German police had intercepted a memorandum that he had drafted on how Germany should be treated once the war would be over. Had it been possible for the police to establish an ongoing connection between the two men, this could have been very dangerous for Eucken after the attempted coup against Hitler on July 20, 1944. See Röpke 1960: 9. And in fact, Eucken was denounced by a colleague, as he reported to Röpke in a letter dated May 28, 1945 (WRI, Röpke papers database, see also Caldwell and Klausinger 2022: 595). It must also be mentioned that Röpke’s carelessness may have prompted Eucken’s silence. In January 1943, Röpke had written a NZZ piece in which he praised Eucken’s essay “Wettbewerb als Grundprinzip der Wirtschaftsverfassung” (competition as a foundational principle of the economic constitution, Eucken 1942) as particularly courageous, since it pointed out the “complete fiasco” of the economic order brought about by the Nazis (Röpke 1943b). This was not wrong but very dangerous for Eucken and the entire “Gruppe Wirtschaftswissenschaft” (economics group) at the “Akademie für Deutsches Recht” (Academy for German Law) in whose proceedings the essay was published. Eucken warned the head of the group, Günter Schmolders, in a letter dated March 7, 1943 (ThULB, Eucken papers).

Keynes had just passed away on April 21, 1946. While newspapers and academic journals were full of regretful obituaries, as is the tradition, Röpke used the occasion to beg Keynes a sour farewell in the NZZ entitled “Keynes und unsere Zeit” (Keynes and our time)(Röpke 1946a).

This first article under consideration here did find Eucken’s applause. But that was no longer true for Röpke’s next article on Keynes, a possibly even more viscerally critical contribution in the same newspaper (Röpke 1946b) when Étienne Mantoux’s posthumously published book “The Carthaginian Peace, or the Economic Consequences of Mr. Keynes” came off the press. This second article prompted Eucken to raise, as he put it, some “fundamental objections”. Röpke reacted with hurt feelings, and wrote a lengthy reply. After another exchange, Eucken postponed any further discussion about the issue, considering it better to talk in person. He did share Röpke’s opposition to Keynesian interventionism, his exasperation at Keynes’s attacks on saving and on balanced budgets, and his worry about the risk of inflation. None of that was the issue here. The bone of contention between the two very dissimilar friends was something entirely different: it was Keynes’s critique of the Versailles Peace Treaty.

In the present paper, I tell the story of this unusual and puzzling controversy between the two key figures of ordoliberalism and contextualize it, drawing on Eucken’s and Röpke’s own writings and on some of the vast literature on ordoliberalism, Keynes and Keynesianism, full employment policy, the Versailles Treaty and the Weimar Republic. Section 2 introduces Röpke’s first article, and Eucken’s positive reaction to it follows in Section 3. In Section 4, I present and contextualize Röpke’s second, controversial article, and Section 5 covers the ensuing exchange between Eucken and Röpke. Section 6 then widens the scope by introducing a critical rejoinder in NZZ by Eucken’s former student Valentin F. Wagner. Section 7 finally tries to make sense of it all and concludes. In the appendixes, I provide a new, improved full translation of the first NZZ article by Röpke (A1), and, as a first translation, Röpke’s second NZZ article that sparked the controversy with Eucken (A2), followed by the critical rejoinder in the NZZ by Wagner (A3), for documentation and future research. The translations come with explanatory editorial notes, providing context and background information where helpful.

2 “Keynes and our time” (May 5, 1946)

It is hardly necessary to introduce John Maynard Keynes: famous English economist, fellow at King’s College at Cambridge University, pioneer of macroeconomic disequilibrium analysis, author of the “General Theory of Unemployment, Interest and Money” (1936), instigator of the “Keynesian revolution” in economics, advocate of deficit spending, experienced public servant and expert, father of the Bretton Woods system, public intellectual, Bloomsbury bohemian.¹⁷ After Keynes’s passing, the “Times of London” lamented in a long editorial that his death “deprives the world of one of its great men” (quoted after The New York Times, April 22, 1946); the “Economist” likewise mourned “a great man. In turn civil servant, pamphleteer, don

¹⁷ The number of publications on Keynes is legion, but the best – personal and intellectual – biographies are certainly still Moggridge 1992 and Skidelsky 2003.

and college bursar, editor, company chairman, patron of the arts, government spokesman and adviser, member of the Upper House – he touched no career that he did not brilliantly adorn.”¹⁸

Meanwhile in Switzerland, Röpke worked on his essay for NZZ. In this piece, he forces himself to produce a modicum of praise, calling Keynes “the most famous economist of our time” and “an eminent head”, comparing him even to “*Adam Smith*,”¹⁹ with whom Keynes bears a certain resemblance by the depth and extent of his impact”, praising “so rich and honorable a life”, revering “the man’s so extraordinarily versatile activity and the charm of his personality”. And yet, he clearly breaks the traditional ethical rule according to which one should speak only well about the dead. His essay in lieu of an obituary comes out as nothing short of a final reckoning.²⁰

2.1 Röpke and Keynes – early parallels

In contrast to Walter Eucken, who seems to never have met Keynes in person,²¹ Röpke was indeed in a position to comment, ever so superficially, on the Englishman’s personality. After leaving Germany in 1933, on a visit to Friedrich Hayek at the LSE, he had met with the Cambridge economist. The encounter was friendly and productive enough for Röpke to convince Keynes, serving as the editor of the “*Economic Journal*” all the way from 1912 to 1944, to publish his paper “Trends of German Business Cycle Theory” (Röpke 1933a), an attempt to bridge the widening theoretical gap between the Anglosaxon and German traditions.

At that point, Röpke did indeed find common ground with Keynes which he hoped to expand. In his book “*Crises and Cycles*”, first published in German in 1932, he repeatedly referred to Keynes and his “*Treatise on Money*” (Keynes 1930). He also wrote a positive review of the “*Treatise*”, celebrating it as a “literary event which cannot be neglected by anyone desiring to participate, with some inner justification, at the important debate about the future of our system of money and credit” (Röpke 1931a: 1742). In fact, in the early 1930s, Röpke assumed an unorthodox, intermediary role in the German-language debate on cycles. While he remained within the framework of the Austrian monetary overinvestment theory of the business cycle, he doubted that the practical lessons drawn from it were wise whatever the economic and political context, and so he sought to add something to it. The implication of the Austrian theory is that a spontaneous correction inevitably has to take place through the market mechanism. All that government or central bank intervention can end up doing is to impede the necessary liquidation and structural adaptation of the economy. According to that view, “a new period of recovery

¹⁸ The Economist, available online at <https://www.economist.com/free-exchange/2013/11/26/john-maynard-keynes>.

¹⁹ These and all other italics in the original. It may be worth noting in passing that while Röpke uses Smith at a benchmark here, he had very deep issues with the Scot as well, see Horn 2019a.

²⁰ Röpke, who had a habit of recycling his writings, later had the larger part of this essay edited and amalgamated it with another, publishing the translated result as Chapter 8 of his “*Economics as a Free Society*” (Röpke 1937/1963).

²¹ Eucken had made research trips to England in 1911 and 1912 for his Ph.D. dissertation, even went to Cambridge, and he returned to England with his wife in 1931, but to the best of my knowledge, there is no sign of any personal encounter with Keynes, neither then nor later. See Klinckowstroem 2023. Eucken did however have an encounter with Lord Beveridge in 1947, when the latter came to Freiburg (see Eucken’s letter to Valentin Wagner dated February 11, 1947, ThULB, Eucken papers). The socialist William Beveridge, director of the LSE from 1919 to 1937, had paved the way for the National Health Service in the UK and propagated the use of Keynesian fiscal policy in order to reach “Full Employment in a Free Society” (Beveridge 1944).

[...] will occur when the situation is ripe, *i.e.* when the crisis has fulfilled its purgatory mission,“ as Röpke (1933a: 429) explains in the paper submitted to Keynes. Röpke wasn't sure that things were so straightforward, and sought to produce a substantial theoretical innovation.

Röpke's theoretical innovation consisted in conceptually distinguishing between a “primary deflation”, inevitable for a return to equilibrium, and a “secondary deflation” accompanied by a public confidence crisis, which he described as disconnected, cumulative, and therefore highly dangerous: “a *circulus vitiosus* which constantly interferes with the attainment of a new equilibrium” (*ibid.*: 434; see also Röpke 1932: 119–34, and Röpke 1962: 216).²² In such an exceptional situation, he argued, credit needs to be expanded rather than restricted.

In this context, it is worth noting that in 1931, Röpke served on the so-called “Brauns-Kommission”, a panel of experts appointed by the German government for the study of unemployment relief (see Röpke 1931b). Two years before the country fell to the Nazis, already far into the Great Depression, the economic and social situation was dramatic: In 1929, unemployment had risen to 1.9 million people, in 1930 they were more than 3 million, in 1931 4.5 million (Statistisches Reichsamtsamt 1940). Röpke reports that the commission was “convinced that the crisis had reached a phase where something could be cautiously done to shorten the road to recovery” (Röpke 1933a: 430), and that he, together with some colleagues (he names Hans Neisser, Wilhelm Lautenbach – “the German Keynes” –, and Gottfried Haberler) had argued for an expansionary policy. What he sees at stake is nothing short of the free market order: “Expansion is necessary to save capitalism from complete decay” (Röpke 1933a: 439).²³

2.2 Röpke and Keynes – suddenly estranged

A long exile and a global war later, not much was left of Röpke's parallels or sympathies with Keynes. The estrangement was complete. As Lionel Robbins remarked at the first meeting of the Mont Pèlerin Society in 1947, Röpke once “was Keynesian, and is so no longer” (Caldwell 2022: 160) – which does not mean, however, that he ever gave up on “his own unique hybrid of Austrian and Keynesian policy” (Caldwell and Klausinger 2022: 671). But Keynes, the man, had become Röpke's nemesis. And indeed, in Röpke's 1946 NZZ article in lieu of an obituary for Keynes, even his rare compliments are poisoned, followed by insinuations and insults. He describes Keynes as a “strange man” equipped with “a strong temperament, often even a hussar-like recklessness”, insinuating that the Englishman was a volatile, frivolous character, pointing out that “this animated, impulsive and artistically sensitive mind [...] several times in his life [...] changed positions which he had just recently held with intelligence and vigor”.²⁴

Röpke seems to consider Keynes's life as wasted. He believes that Keynes shouldn't and even couldn't have been satisfied with the course of his life and his achievements: “[...] we consider it quite possible that Keynes himself, at the end of his life, did not find unrestricted pleasure in the seed he had sown.” He asks merely rhetorically: “[...] did he demolish more than was good,

²² The concept is analytically imprecise, see Klausinger 1999: 384, Kolev 2013: 180, and Grudev 2018.

²³ Caldwell and Klausinger (2022: 266–67) report that Hayek was so irritated by Röpke's position here that he wrote a reply which he wanted to see published in a German journal, but noted “in the enclosed letter ‘that it should not be published, if he thought that the immediate political danger of unemployment was so great that it must be alleviated [...] The paper remained unpublished’”. This underlines the extreme sense of emergency.

²⁴ All quotes from Röpke's essays are drawn from my translations provided in the appendixes.

and has he summoned into being spirits that he himself might have liked to get rid of?” It is clear that his answer is in the affirmative. In his view, Keynes’s influence on the world as well as his intellectual legacy have been, and still are, outright damaging.

2.3 Erroneous economic thinking and moral decay

The centerpiece of Röpke’s attack on Keynes in his first NZZ article is “full employment policy” (Vollbeschäftigungspolitik), which he portrays as a dangerous interventionist ideology that the Englishman has planted into people’s minds. Röpke deplores a whole new generation that Keynes accustomed to the erroneous “economic thinking which merely revolves around the question of how ‘effective demand’ can most safely be maintained at the highest possible level”. Such policy, Röpke warns, tramples underfoot the principles of competition, freedom of markets, elasticity of wages and thrifty finance. It creates constant inflationary pressure. Keynes gave “the blessing of his authority to the already strong tendency of governments to inflate” and, in his attacks on saving, he robbed “people of the feeling that they are doing the right thing when they [...] build up a reserve from their income for themselves and their descendants, instead of spending from an embarrassment of riches and calling, when need comes knocking, on the help of the state, which is becoming a great debtor”. In fact, Keynes is nothing short of a new Mandeville: “At bottom, his program of economic policy was: *Pecca fortiter*, i.e. do heartily what you desire and what was hitherto called sin!”

In Röpke’s view, this economic program produced moral decay, leading to a catastrophic “*watering down of norms* which constitutes the real core of our social crisis.” He wonders how Keynes “could be so *blind to those moral-political preconditions* without which human society cannot exist and which, even in the narrower sphere of the economy, are more important in the long run than a refined credit technique?” He therefore denounces “the social philosophy of the man who proudly calls himself modern, who believes that he can ‘make’ society and the economy, who has forgotten the mysterious forces of the soul and of society which cannot be squeezed into any mathematical equations, into any statistics and into any planning” (see also Röpke 1958). He considers Keynes a philosophically blind man, deriding his early “Treatise on Probability” (Keynes 1921) which he (mis)understands as a purely mathematical work.²⁵ In any case, he at once condemns and pities the man who, “in tragic contradiction to his own intention, joined the wreckers of the same bourgeois order²⁶ to which he felt he belonged.”

2.4 Röpke and full employment policy

Given this visceral reaction, the *bête noire*, full employment policy, deserves a closer look. Getting people into jobs seems as a good enough policy objective in the first place, so what is wrong with it? What precisely is Röpke’s definition of this policy, and what are the instruments he sees in its toolkit for policymakers? To answer this question, I will turn to Röpke’s other writings, earlier and later, beyond the NZZ article. It turns out that his take on the matter was settled early on, and in his “*Civitas Humana*” (1944/48), he finally describes “full employment

²⁵ The “Treatise on Probability” is however a philosophically ambitious epistemological work full of consequences for Keynes’s economic work; see Davis 1994, Muchlinski 1996, Runde and Mizuhara 2003.

²⁶ In the original: “bürgerliche Ordnung”.

policy” not so much as a transitory policy to counteract an acute crisis, as recommended by himself in the 1930s, but instead as an attempt at “keeping the boom going in all circumstances”, which implies a departure from the fundamental reliance on market forces. In his assessment, Keynes turned into a general rule something that makes sense only as an exception in a situation of crisis. Otherwise, if applied constantly, an artificial boom will be created that can only be kept going at the price of inflation, a social evil at least commensurate with unemployment (see also Röpke 1950a, Kolev 2013: 183, and Fèvre 2021a²⁷). To be sure, Röpke’s own conception has no room for an economy that, if left to its own devices, could be permanently stuck in underemployment disequilibrium. His worry is, at its core, a political one:

“[S]uch a policy of mechanical ‘full employment’ withdraws us ever further from the market economy and is bound to entangle us in collectivism. Economic collectivism, and the destruction of the market economy with its elasticity, political despotism, the most severe disturbance of international economic relations, a grim autarky, consumption of reserves and impoverishment of the national economy, anarchy and inflation; that is the price which will have to be paid for the obstinate continuance in such a course” (Röpke 1944/48: 214–15)²⁸.

Röpke’s critical position seems to have been determined to an overwhelming extent by the experience with dictatorship in Nazi Germany. As he explains in a brochure for the American Enterprise Association in 1952, “[w]e would do well to remember that the ‘full employment’ of the Third Reich is so far the only example of such a policy carried through in peacetime, with some measure of temporary success” (Röpke 1952a: 18).²⁹ The Nazi government, reaping the fruits of Chancellor Brüning’s³⁰ strict austerity politics, had indeed engaged in monetary and fiscal expansion, managing rather quickly to bring unemployment down. By 1935, the number of unemployed persons was back down to a little more than 2 million. “And we also should also remember the tragic price that had to be paid for this spurious success.” (ibid.)

Röpke’s definition of full employment policy focuses entirely on the monetary side. In a chapter on stabilization policy in his book “Economics of the Free Society” added in 1963 for the American public, he provides the following description:

“[...] a policy of forcible stabilization which, under the label of ‘full employment,’ has become popular in all countries. It is a policy which is shaped exclusively by reference to the question of how total demand, by means of the continual creation of new money (and with complete disregard for the deeper causes of equilibrium disturbances), can be maintained at a level sufficient to ensure the sort of ‘full employment’ which existed in peacetime in National Socialist Germany, and in all countries during and after World War II. In reality, of course, full employment of this type would be more accurately defined as abnormal ‘over-employment’ (Röpke 1937/1963: 218).³¹

²⁷ Fèvre (2021a: 30) puts it succinctly: “[...] there is room for a Keynesian moment, nothing more and nothing less.”

²⁸ Along the same lines see his letter to Hans Munz dated March 14, 1942, in Röpke 1976: 57–59.

²⁹ This brochure is atypically sober in its style and, likely for tactic reasons, refrains from any Keynes bashing – the name of the Englishman is only mentioned once.

³⁰ Heinrich Brüning (1885–1970), a centrist politician, served as Chancellor from March 1930 to May 1932. In the famous Borchardt controversy, Knut Borchardt defended Brüning against the accusation that it was his austerity politics that drove Germany into the arms of the Nazis insofar as after the Young plan, Brüning had no other options left. See Borchardt 1979 and Ritschl 2002.

³¹ This passage comes from a chapter that wasn’t present in the earlier versions of the book first published in German in 1937 under the as yet unpolitical title “Die Lehre von der Wirtschaft” (i.e. plain “Economics”). It

In Röpke's view, "full employment" is indeed an obvious goal for policy (Röpke 1943a), so much so that it became "one of the most seductive and one of the most dangerous slogans to the political life of the mid-twentieth century" (Röpke 1959/69: 168). And Keynes, with his promotion of "full employment policy", Röpke later complains in a letter to the fellow economist and liberal politician Hans Ilau, "*has done the utmost to give our era its inflationary bent and to undermine the faith of mankind in the free market.*"³²

3 Eucken's endorsement

Just like Röpke, Walter Eucken rejected and fought "full employment policy", and so it isn't unexpected that he found himself in general agreement with Röpke regarding this (quasi-)obituary. In a handwritten post-scriptum to a letter to Röpke from May 29, 1946, he indeed endorses it in passing, without any apparent hesitation:

"My wife and I read your article on Keynes with great interest. Indeed: a typically modern ambivalent figure. A co-destroyer of orders; a man who played recklessly with fire and contributed to the collapse."³³

The interpretation of the last sentence is straightforward: the "order" that was destroyed is most certainly the liberal pre-war global order; the "fire" that Keynes had played with in Eucken's view is the interventionist and inevitably inflationary "full employment policy" that he had been advocating and that his "General Theory of Employment, Interest and Money" had prepared the ground for; and the "collapse", finally, is Germany's fatal march into dictatorship and the ensuing catastrophe brought about by the Nazis – aided not least, in their beginnings, by their use of this very policy.

3.1 Eucken and interventionism

In his younger years, Eucken was likely even less inclined toward government interventionism than Röpke, whose notions of primary and secondary depression seem to have remained rather alien to Eucken's thinking. But Eucken did understand, too, that there may be situations of political urgency that make the use of expansionary instruments inevitable. This explains his (albeit only grudging) endorsement of the proto-Keynesian (Klausinger 1999; see also Fèvre 2018) "Lautenbach plan" (Lautenbach 1931) for Germany in the early 1930s, when unemployment was soaring, as noted, after two years of harsh deflationary economic policy. The "Lautenbach plan" had been proposed in 1931 by a senior official at the German Department for Economic Affairs by the name of Wilhelm Lautenbach. What made the draft plan acceptable for Eucken in the end was that its expansionist public works program financed through hidden money creation was to be preceded by a liberalization of prices and wages, which should allow for wages to drop and employment to pick up. At a ("secret") expert

consists of an edited amalgamation of Röpke's Keynes quasi-obituary in NZZ and the essay "Was lehrt Keynes?" (What does Keynes teach?), Röpke 1952b.

³² Letter to Hans Ilau, dated 16 November 1955 (Röpke 1976: 140).

³³ "Meine Frau und ich haben mit großem Interesse Ihren Artikel über Keynes gelesen. In der Tat: eine typisch moderne zwiespältige Erscheinung. Ein Mit-Zerstörer von Ordnungen; ein Mensch, der eben doch mit dem Feuer leichtfertig spielte und zum Zusammenbruch beitrug."

conference of the Friedrich-List-Gesellschaft, commissioned by the Departments for Finance and the Reichsbank in September 1931, Eucken thus endorsed the plan on the grounds of imminent existential danger³⁴ – danger, i.e., for the survival of the Republic³⁵. It was to no avail. Dictatorship frayed its way beginning in 1933.

In fact, Germany’s drama was that the Lautenbach plan, instead of being implemented as intended by a government of the Weimar republic, a liberal democracy, ended up as an inspiration for the economic policy of the Nazis. And then, it worked, at first – banks had fresh liquidity, employment picked up and all but disappeared. But after this achievement, Hitler’s dictatorship, among even worse evils, failed to roll back its economic interventionism, and as prices foreseeably began to spiral out of control, the Nazis administered them, froze the exchange rate of the reichsmark, and rationed import quotas, further disrupting international trade. All this “was decisive for Germany’s economic fate”, said Eucken, denouncing the introduction of the first elements of central planning into the economic order (Eucken in Horn 1949: 33³⁶). Had the Weimar government implemented the Lautenbach plan, he mused, maybe the Nazi revolution wouldn’t have come (Eucken 1951: 34, German version).

3.2 Eucken and Keynes

Eucken had presumably never met Keynes, and it took him longer than Röpke to engage with him in his published theoretical work. He also never made the discussion of Keynesianism a personal priority, to the difference of his friend who seemed to have set out on a life-long crusade after the mid-1930s. Like Röpke, Eucken had looked forward to Keynes’s “Treatise on Money”; as early as 1927, in a letter to his editor Oskar Siebeck dated August 4, he eagerly recommended the upcoming work for translation.³⁷ It may safely be assumed that his high expectations were based on the “Tract on Monetary Reform” (Keynes 1923) in which Keynes, as Feld, Köhler and Nientiedt (2021) point out, reached similar conclusions as Eucken (and Röpke, for that matter) regarding the inflationary pressure tending to result from government budget deficits (Eucken 1923). But these expectations were soon disappointed, and the apparent harmony was disturbed. In 1934, Eucken qualifies Keynes’s Treatise as “overestimated”.³⁸

How long it took Eucken to concern himself with Keynes in his writing is demonstrated by the fact that he only refers to him, and this merely in an indirect way, in the 1947 second edition of

³⁴ Borchardt and Schötz 1991: 148–49 and Feld, Köhler and Nientiedt 2021: 557. As Landmann (2022) emphasizes, this endorsement however in no way implies a change in Eucken’s theoretical reasoning, which remains neoclassical and non-Keynesian. Eucken holds on to the traditional understanding that markets tend to cure themselves; that disequilibrium calls for structural adjustment, which stabilization policy tends to prevent; that saving is systematically not a consumption-reducing and therefore bad thing, as Keynesians tend to allow for, but good because it ultimately enables production³⁴; and that the interest rate should not be manipulated, because it plays a crucial role in the natural process of equilibrating savings and investment.

³⁵ See Eucken’s third London talk, Eucken 1951: 41 (German version). It was used by Eucken’s editors E. Eucken-Erdsiek and K. P. Hensel as they put together a chapter for Eucken 1952, so there are some literal overlaps.

³⁶ This reference is to Jürgen Horn’s lecture notes from a course on business cycle and full employment policy taught by Eucken at the University of Freiburg in the winter term 1948/49, in my personal possession. According to Uwe Dathe, Eucken had asked some of his more advanced students to take notes and prepare scripts that he could later use as a basis for his writings. Jürgen Horn was likely one of them. His notes and other Eucken-related material will ultimately be kept at ThULB alongside Eucken’s papers.

³⁷ The book came out in 1930 and a translation was finally published in 1932 by Duncker & Humblot in Munich.

³⁸ Letter to Martin Wiebel dated August 14, 1934. Wiebel had studied with Schumpeter and completed his Ph.D. with Eucken. He went on to have a career as a journalist with Frankfurter Allgemeine Zeitung.

his introductory booklet “Nationalökonomie – wozu?” (Economics – what for?)³⁹. Eucken just states that “the era of laissez-faire is over” (1938/1947: 45), belatedly picking up the iconic title of the essay based on talks Keynes had given in Oxford in 1924 and in Berlin in June 1926, published a month later under the title “The end of laissez-faire” (Keynes 1926). Eucken simply takes note of interventionism as an observable – however deplorable – fact, jeopardizing the self-adjusting capacity of markets. He saw the weakness of laissez-faire in precisely this: that markets aren’t intrinsically robust against political and economic capture, and that interventions, even if meant as temporary exceptions, tend to persist (Horn 2019a).

Eucken’s relative silence on Keynes in his earlier publications does however not mean that he didn’t study his work. Eucken’s lecture materials – actually a frightful jumble of loose papers – as well as lecture notes by his students prove that he regularly returned to the Treatise on Money and, later, to the General Theory. In a 1940 letter to Röpke, he mentions his university seminar devoted to Keynes in more detail (“Keynes-Kritik), and resumes: “The longer I look at it, the more critical I become”. Among other things, he refutes Keynes’s take on savings as being secondary to investment, rather than their precondition, and criticizes the absence of any intertemporal considerations of production and relative prices. Faithful to the Austrian tradition, he considers that “this use of ‘global figures’ is after all very worrisome as it buries important insights into the connections which are essential for the analysis of business cycles.”⁴⁰

3.3 Eucken and full employment policy

Eucken’s definition of full employment policy is broader than Röpke’s: the policymaker’s toolkit here not only consists of increases in “credit”, i.e. in the money supply, but also allows for various other instruments such as public works, deficit spending, the manipulation of prices and currency devaluation (Eucken 1948: 79 and 1952: 57, 140). Even the nationalization of entire sectors of the economy counts as a possible tool (see Eucken in Horn 1949: 34). In his updates for the second edition of his “Nationalökonomie – wozu?” after the war, Eucken simply replaced the term “Konjunkturpolitik” (stabilization policy, Eucken 1938: 48–49) by the notion of “Vollbeschäftigungspolitik” (full employment policy, Eucken 1938/1947: 47). At this point, the two seem to have appeared to him as synonymous, with full employment policy however being the more ideologically loaded, topical notion.

In his critical description of post-war economic policy, Eucken now describes how public finance, trade policy and currency policy are all being subordinated to this full employment policy, to the effect that politicians no longer respect the tradition according to which a budget deficit must always be covered by help of increasing taxes and cutting spending. “One knows that this can make crisis and depression worse” (Eucken 1938/1947: 60). He also sees “no tenable economic basis for the view [...] that after a static state has been disturbed a new static state *cannot* again be reached.” (Eucken 1940/59: 254). Nevertheless, while Eucken shares

³⁹ The booklet was first published in 1938; and at that point, this reference to Keynes didn’t yet exist. The booklet has never been translated into English. Taking their innovative research agendas into account, Fèvre (2021a) points to some unrecognized affinities between Eucken and Keynes, the origins of which, on Eucken’s side, he traces back to the “Foundations of Economics” (Eucken 1940). This seems well-argued, except for the fundamental difference that this parallel is supposed to mark with regard to Röpke, whom Fèvre qualifies, in contrast to Eucken, merely as a critic and not as a competitor of Keynes. Taking Röpke’s specific business cycle theory into account, this seems not entirely convincing.

⁴⁰ Letter to Röpke dated December 7, 1940, ThULB, Eucken papers.

Röpke's dismay at the fact that Keynes "intellectually prepared some experiments of 'full employment policy'", he also defends him and admits that "the experiments sometimes are not in line with the intellectual work preceding them" (Eucken 1952: 57).

Eucken had at least five systematic objections to full employment policy. First, he accuses Keynes for his apparent conviction that "[o]ne cannot leave the provision of people with goods to an anonymous economic process" (Eucken in Horn 1949: 31).⁴¹ Behind such conviction he suspects an "elementary quest for security". In some sense, therefore, full employment policy is for Eucken not so much a doctrine but a specific attitude in economic thought embodying "a renaissance of mercantilist economic policy" for the long run (ibid.: 33). "It is a technic-global way of thinking, rather than economic in a proper sense" (ibid.: 42). Second, and following up on the secular stagnation thesis underlying Keynes's (1926) "End of Laissez-faire" as well as the assumption of a falling marginal efficiency of capital standing at the center of his "General Theory", Eucken rejects all this as "utterly untenable" (ibid.: 37).⁴²

Third, he worries that full employment policy throws a spanner into the works of the market. Neither will prices any longer correctly reflect the scarcity of goods and services, nor will interest rates reflect the scarcity of capital, and thus investment will be directed in inefficient ways (Eucken 1952: 142⁴³ and Eucken in Horn 1948: 39⁴⁴). "As a consequence, central allocation of capital will be necessary, which introduces an element of planning into economic policy" (Eucken in Horn, ibid.). Fourth, full employment policy relies on broad aggregates that are too coarse to achieve general equilibrium (ibid.: 142–43). And fifth, Eucken diagnoses a systematic policy dilemma:

"On the one hand, there is a compulsion for full employment policy – once mass unemployment is there. On the other hand, full employment policy allows imbalances to develop in other markets, which is exceedingly dangerous and, moreover, pushes economic policy in the direction of central planning." (Eucken 1952: 144)

This represents indeed, as Feld, Köhler and Nientiedt (2021: 556) have noted, a "slippery slope argument". There is a cumulative mechanism at work, with the disastrous effects observable – as Röpke noted as well – in Nazi Germany:

"When an intervention takes place in a specific part of the economic order [...], the entire economic and social order changes – not inevitably, but with a strong tendency toward a modification of all the other parts." (Eucken in Horn 1949: 38)

Eucken's solution for the policy dilemma is his concept of a carefully designed competitive order ("Wettbewerbsordnung"), a set of principles ensuring that the price mechanism remains

⁴¹ "Man kann die Versorgung der Menschen nicht einem anonymen Wirtschaftsprozeß überlassen." (Eucken in Horn 1949: 31)

⁴² „The world is not saturated, the lack of investment opportunities doesn't exist!" (Eucken in Horn 1949: 37). The same transpires from Eucken's own preparatory notes for his seminar entitled "Keyneskritik" (criticism of Keynes), where he asks: "Does the sentence really hold according to which the marginal efficiency of capital decreases as the quantity of already existing capital goods rises?", followed by a number of counterarguments. Eucken's course materials are kept at ThULB, Eucken papers.

⁴³ This is a quote from Eucken's "Principles of Economic Policy", published posthumously and to this day also not translated into English, except for a small excerpt in Biebricher and Vogelmann 2017.

⁴⁴ This reference is to Jürgen Horn's lecture notes from a course on economic policy taught by Eucken at the University of Freiburg in the winter term 1947/48, in my personal possession.

functional and that further government intervention is normally unnecessary⁴⁵. He proposes seven “constitutive” and four “regulating” principles that must prevail in any good economic constitution. Among the constitutive principles, the price mechanism is central, supported by stable money, open markets, private property, freedom of contract, economic liability and steadiness of public policy. If needed, the state can additionally rely on the four regulating principles, or corrective tools: competition policy to counter the tendency toward cartels and monopolies, income redistribution to make up for unequal opportunities, if these stifle market participation, internalization of external effects to substitute for not fully informative prices, and minimum wages to correct for anomalies in labor supply (Eucken 1952, chapters 16 and 17; see Horn 2010, chapters 4 and 5). This concept is encompassing enough to embody not only a criticism, but also a practical alternative to Keynes’ view; one can therefore follow Fèvre insofar as he prefers to consider Eucken more as a competitor with Keynes than merely as his critic, in contrast to Röpke, who got lost in his “staunch crusade” (Fèvre 2021a: 27).

4 “Lord Keynes – Beginning and End” (September 1, 1946)

In this next text on Keynes, published in the same Swiss newspaper on September 1, 1946, Röpke again starts out with some superficial compliments (“greatness of his character”, “incorruptibility and agility of his mind”) and then claims that Keynes “had some reason to be quite dissatisfied with the course of the world and to wonder bitterly whether [he himself] had not summoned the ghosts [he] could not get rid of.” To this he adds a little piece of gossip, vaguely mentioning a “well-known American economist who had invited Keynes in the last days of his life to an evening party in Washington together with the leading economists of the federal agencies, all devoted Keynes followers.” This person apparently had reported to Röpke that “[t]he event turned out to be a complete fiasco, since master and disciples no longer understood each other: If the former was appalled by the schematism and crudeness of the economic ideas held by those who had thought themselves his disciples, the latter were disappointed by the master who had become cautious and measured.”⁴⁶

More importantly, Röpke confronts Keynes with a drastically critical book that had just come out, entitled “The Carthaginian Peace, or the Economic Consequences of Mr. Keynes”, written by the young French economist Étienne Mantoux (1946). This shifts the debate: Röpke now

⁴⁵ John Jewkes, who wrote the introduction to the English collection of Eucken’s London lectures (Eucken 1951, version), doubted that this was really possible: “But I find it difficult to accept the view that, when everything has been done which can be done in these spheres [of fighting for open markets and stable money, my explanatory addition], full employment can then be taken for granted” (Jewkes 1951: 19). For this reason, he argues for an enlightened, more ecumenical approach to economic stabilization which would take all the well-taken liberal objections into account and which would prepare for the dangers, including the “appropriate institutional checks and safeguards” (ibid.: 25).

⁴⁶ E.A.G. (Austin) Robinson, a Cambridge economist, close Keynes associate (and husband of Joan), tells a similar story which however takes place two years before Keynes’s passing, mentioning “Keynes’s comment to Lydia and me at breakfast in Washington in 1944 after he had dined the night before with the Washington Keynesian economists: ‘I was the only non-Keynesian there’” (Robinson 1977: 58). The most plausible explanation seems to be that this is a coincidence rather than a contradiction and that Keynes himself delighted in such witty, self-deprecating irony, so that he made similar remarks to a variety of people over time. At any rate, this piece of gossip seems to have pleased Röpke so much – and indeed served his rather irony-free purpose so much – that he included it in the reprint of his first, otherwise unchanged NZZ article in the “Deutsche Rundschau” (Röpke 1946a).

vents his aversion against Keynes not so much on the grounds of the latter's interventionism, but because of his stance regarding the Versailles Peace Treaty concluded after World War I.

4.1 The Versailles Peace Treaty and German indignation

As a consequence of the Versailles Peace Treaty, Germany had ended up losing 13 percent of its territory and 10 percent of its population, 15 percent of its agrarian soil, and most of its trading fleet. The country was demilitarized, the Rhineland came under occupation, the colonies were distributed among the Allies. Germany was forced to pay reparations, the amount of which the original Treaty however had left open (and thereby also open to heated speculation). The amount was only determined in 1921, and changed several times afterwards. The Versailles Peace Treaty was signed on 28 June 1919 and entered into force on January 10, 1920.

As is well known, the Versailles Treaty had encountered deep indignation in Germany, and this sentiment, whether appropriate or not, never ebbed during the Weimar Republic (see, e.g., Lorenz 2008, especially 411, and also Marks 2013). Röpke, who had fought in World War I, got wounded on the French front and came home a pacifist (Hennecke 2005: 18–20), was no exception. More than a decade after the Treaty was signed, he held that “[a] normally feeling German cannot be expected to accept the accusation of guilt dictated by the Versailles Peace Treaty, nor to morally endorse the reparation duties as written down in article 231 of the Treaty” (Röpke 1931c: 70), denouncing the Treaty as “brutal” (ibid.: 29).

Nor was Eucken an exception, who had spent five years in military service as well as war and wrote in a letter to his mother dated May 11, 1919 (ThULB, Eucken papers), shortly after the terms of the Peace had been handed to the German delegation in Versailles, that he hoped for Germany to soon take up arms again “in revenge”.⁴⁷ Like many other Germans, Eucken didn't seem to fully take in that the war was lost, and was slow in accepting the military defeat as the new reality. Such rejection and denial were widespread.

The Treaty was loathed in Germany not only for its conditions, but also for the way it had come about, the defeated countries having been excluded from the talks; for the perceived breach of the American promises (President Wilson's 14 points for a “peace without victory”, however open to interpretation); and for its article 231, whereby Germany was to bear and recognize the responsibility to make good for the damages done in the war. Propaganda promptly termed this article 231 the “guilt clause”, which may secretly have pleased the more vengeful among the Allies – but in fact, but the term “guilt” is nowhere used in the Treaty, and clearly not in article 231.⁴⁸ Indeed, such wording would have been alien to the Treaty's legal ambition. The clause, drafted by the American diplomats Norman Davis and John Foster Dulles, was meant to provide the reparation claims with a robust legal – and precisely not moral – basis, an attempt to move away from the arbitrary will of the victors towards a system rooted in law (see Binkley and Mahr 1926, Marks 2013, Horn 2019b,c). Very few Germans however seemed to be in a position then to appreciate this attempt, and of course, even the word “responsibility” is ambiguously

⁴⁷ Similarly in his letters to his mother dated March 27 and June 24, ThULB, Eucken papers.

⁴⁸ Article 231 reads as follows: “The Allied and Associated Governments affirm and Germany accepts the responsibility of Germany and her allies for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the war imposed upon them by the aggression of Germany and her allies.” See Treaty 1919.

seated between the legal and the moral spheres, as is the term “aggression” used in article 231, which opened the door to misunderstandings and propaganda (Binkley 1929).

Eucken, at any rate, never made peace with the Peace. More than a decade later, in 1930, he published an article in the review “Die Tatwelt”, edited by his wife Edith Eucken-Erdsiek, in which he specifically attacked the “guilt clause”. His piece was a rejoinder to an article by the philosopher Julius Ebbinghaus (Ebbinghaus 1930), who had argued that what was scandalous about article 231 was not so much its postulating Germany’s guilt but that the Treaty demanded that Germans recognize it. Eucken, in his reply, puts the emphasis on denouncing the “moralism” of the Allies which, in his view, represented a breach with political tradition – a view which, by hindsight, seems somewhat misguided for the reasons mentioned above.

Eucken argues that questions of guilt should have no role to play in political treaties and denies the Allies any right to pass such moral judgment – simply because, “[a]ccording to Christian ethics man is forbidden to judge another morally.” This statement in itself would deserve a lengthy critical discussion. But that isn’t all: Eucken also rejects the notion of German “guilt” on historical grounds, considering that the evidence used to justify this clause as such was faulty. As a consequence, he demands a “revision of the whole Treaty” (Eucken 1930: 120). In his paper on the crisis of capitalism written two years later, he seems to have given up on this demand, but continues to lament the alleged guilt clause, “which excludes the complete elimination of war mood”, with the same argument (Eucken 1932: 313). This will likely also have been the core argument developed in his lectures on the Versailles Treaty that he offered to students of all departments of the University of Freiburg in the summer of 1931.⁴⁹

4.2 Keynes and the Economic Consequences of the Peace

Keynes, who had participated in the Paris Peace conference in preparation of the Versailles Treaty as an adviser on behalf of the British Treasury, had left the French capital by then, resigning from all related positions in protest and retreating to Cambridge to write a book. Only a few months later, by December, his “Economic Consequences of the Peace” began rolling off the printing press. The main message of the book, foreseeably enormously controversial from the first day,⁵⁰ is that the harsh terms imposed on Germany would lead to an economic and political collapse of the country, which would pull down the rest of Europe with it. It was a road to disaster. Keynes’s argument was moral, political and economic at the same time.

“The policy of reducing Germany to servitude for a generation, of degrading the lives of millions of human beings, and of depriving a whole nation of happiness should be abhorrent and detestable – abhorrent and detestable, even if it were possible, even if it enriched ourselves, even if it did not sow the decay of the whole civilized life of Europe.” (Keynes 1919/2007: 127)

Keynes estimated Germany’s ability to pay reparations at a maximum of 2 billion marks per year over the following three decades (Keynes 1919/2007: 150). He made his own proposals for a solution of the problem – including a revision of the Versailles Treaty, an accord regarding interallied debt, and an international loan. In a 1922 he published a sequel, “A Revision of the Treaty”, where he further reduced the amount of the reparations demanded from Germany.

⁴⁹ Course manual, Albert-Ludwigs-Universität Freiburg im Breisgau 1931: 10.

⁵⁰ See, pars pro toto, Veblen 1920 and Taussig 1920.

Keynes had of course become popular in Germany since having thus positioned himself against the terms of the Versailles Treaty. He continued working on the problem (see, e.g., Keynes 1929), and he also used this popularity to discuss his theory more widely. One of the instruments at his disposal in Germany was the journal “Wirtschaftsdienst”, where he published 51 articles between 1920 and 1932. This cooperation had come about through the economist Kurt Singer, who taught at the University of Hamburg and served, between 1920 and 1927, as the managing editor of the journal founded in 1916 by an institute named Hamburgisches Welt-Wirtschafts-Archiv (HWWA). The journal’s board was chaired by the Jewish banker Max Warburg, who had also been one of the experts in the German delegation for the Paris Peace Conference alongside his business partner and right-hand man Carl Melchior, one of the main delegates.

Melchior was familiar and friendly with Keynes (Keynes 1949, Hauser and Kreutzmüller 2019, Horn 2019b). Together, in an act of secretive diplomacy, Melchior and Keynes had been crucial in lifting the immediate post-war food blockade against Germany (Horn 2019b and Dimand 2019: 4, with reservations Marks 2013: 650, who speaks of the fabricated “myth of the hunger blockade”). Melchior and Keynes continued to cooperate in the years to come, exchanging data and analyses (see also Schuker 2014 and, near to a slur, Ferguson 1995, as well as, for a contrary position on Keynes’ alleged bias, Moggridge and Skidelsky 2015, Sampaio 2020).

4.3 Keynes, the General Theory and the Nazis

In 1936, three years after the Nazi’s rise to power, Melchior was dead, Singer in exile, Warburg on the verge of losing his bank and all his influence to the Nazis – and Keynes published his “General Theory of Employment, Interest and Money”. The work was immediately translated and grew world-famous. Keynes’s foreword to the German edition (Keynes 1936/1971: xxvi-xxvii), dated September 7, 1936, must have rubbed more than one reader the wrong way. For one, Keynes derides Germany as backward in terms of economic theory:

“Thus Germany, quite contrary to her habit in most of the sciences, has been content for a whole century to do without any formal theory of economics which was predominant and generally accepted. [...] Can I persuade German economists that methods of formal analysis have something important to contribute to the interpretation of contemporary events and to the moulding of contemporary policy? After all, it is German to like a theory. How hungry and thirsty German economists must feel after having lived all these years without one!” (Keynes 1936/1971: xxvii)

To the Ricardians around Rüstow, including Röpke and Eucken, these words must have come across as a mixture of ignorance and arrogance. Keynes just didn’t seem to be knowing – and in fact really didn’t know – what was going on in the German economic debate. But then Keynes carries on with another passage that has cost him even more sympathies:

“the theory of output as a whole, which is what the following book purports to provide, is much more easily adapted to the conditions of a totalitarian state [the German text carries the official expression: *Totaler Staat*], than is the theory of the production and distribution of a given output produced under conditions of free competition and a large measure of *laissez-faire*.” (Keynes 1936/1971, see also Schefold 1980: 175)

With these words, Keynes may have tried to make his book acceptable for German universities, which had been “gleichgeschaltet” (brought into line, “nazified”) since 1933. Still, it is clear that this passage must have come across as a disgraceful bow to the Nazis – and has continued

to do so (see, e.g., Rothbard 1992, Martin 2009). Röpke certainly read it that way, mentioning in his “Civitas Humana” that Keynes had “addressed himself with sympathy to his National Socialist readers” (Röpke 1948: 217). He nevertheless makes clear that he still considers him a liberal democrat. Indeed, Keynes had no sympathies for the Nazi ideology or policy. Very much to the contrary, “Keynes from the very beginning had never left any doubt as to his contempt of the Nazi regime and its crimes”, as Hagemann (2009: 76–79, and 2011) demonstrates. But apart from the awkward foreword to the “General Theory”, it didn’t help Keynes that Röpke saw “the policy of ‘Full Employment,’ the theory of which emanated from the Keynes School [...] translated into practice by National Socialist Germany” (Röpke 1948, *ibid.*).

4.4 The Mantoux connection

Who was Étienne Mantoux, the author of the 1946 philippic against Keynes? In fact, Röpke had been familiar with the young man, who, aged only 32, perished in an accident towards the end of World War II in Bavaria. Étienne’s father, the economic historian Paul Mantoux, had co-founded and then formally co-directed the Graduate Institute of International Studies in Geneva together with William Rappard. In this function, he was one of Röpke’s bosses since 1937, when the Institute had provided Röpke with a more than welcome opportunity to leave Turkey and settle down in Switzerland. Paul Mantoux had served as a military interpreter for the French Prime Minister Georges Clémenceau in the meetings of the ultimately decisive Council of Four⁵¹ at the 1919 Paris Peace Conference. Clémenceau aimed for “a Peace that would make France safe by destroying the economic power which Germany had attained”, as Hawtrey (1948: 235) reminds the readers in his review of Étienne Mantoux’s book. France, as Germany’s immediate neighbor, was driven by great fear, and one that was not irrational.

Paul Mantoux was clearly no fan of Keynes. He created a bit of a scandal when, in 1920, he seemed to challenge Keynes’s personal integrity in an interview with the Times by stating that “Mr. Keynes had written a clever book about the Council of Four, but Mr. Keynes had never been present at one of its meetings” (The Times, 14 February 1920, quoted after Skidelsky 1983: 398). This was taken up by others, notably by Charles H. Haskins (1921), who had been a member of the American delegation, making it necessary twice for Keynes to publicly refute the false and harmful insinuations (Jonung 2022: 409).⁵² As it turns out, the whole ensuing debate on whether or not Keynes had been present at the Council of Four was a matter of splitting hairs. Skidelsky provides a clear and succinct explanation: “The Big Four met sometimes with their advisers, sometimes without; Keynes was writing about the first set of meetings; Mantoux about the second” (Skidelsky 1983, p. 398, see also Jonung 2022).

Still, what transpires from the would-be scandal is the deep resentment that Keynes’s book had caused in France – and perhaps some bias in the Mantoux family. Paul Mantoux later published his notes from the deliberations in Paris, a priceless source for historians, complementing the

⁵¹ The other three were David Lloyd George (UK), Vittorio Emanuele Orlando (Italy), and Woodrow Wilson (USA).

⁵² Jonung 2022: 409. Jonung tells the story how this scandal gained quite some momentum later when Keynes was nominated for the Nobel Peace Prize – once in 1922, and again in 1924, both times by economics professors from Munich (Georg von Mayr and Walther Lotz in 1922, joined by Adolf Weber and Otto von Zwiedineck-Südenhorst in 1924). The nomination was highly controversial, and in the end, the prize was discontinued until 1926. Keynes never received it. Giving this prize to an economist would have been quite unusual anyway.

official minutes, the “procès-verbaux” (Mantoux, P. 1955/1992; see also Seymour 1956, Bell 1995, and Dimand 2019: 4–5).

In 1938, Étienne Mantoux and Röpke both went to participate at the Colloque Walter Lippmann in Paris; the young man, born in 1913, was then merely 25 years old but nevertheless bold and active in the expert conversation, as far as the minutes reveal (see Reinhoudt and Audier 2018, and also Horn et al. 2019). Röpke quite certainly knew and appreciated Mantoux’s lengthy critical review of Keynes’s “General Theory”, which he had published in 1937 (Mantoux 1937). Étienne Mantoux had studied political science in Paris and economics at the London School of Economics and Political Science, where he also attended Friedrich Hayek’s class. Later, he moved on to the Institute for Advanced Study at Princeton, USA, on a Rockefeller fellowship, before taking up arms in World War II and joining the French Liberation Army under Charles De Gaulle. It was during his stay at Princeton that he penned his pamphlet “The Carthaginian Peace, Or the Economic Consequences of Mr. Keynes”, which was to attract a lot of attention.

4.5 The not-so-Carthaginian peace

The powerful title and subtitle of Mantoux’s book sum up what it is about and where the conclusion is headed. The title ridicules Keynes’s criticism of the Versailles Peace Treaty as overdone – Keynes had used the phrase “Carthaginian Peace” in his “Economic Consequences of the Peace” (Keynes 1919/2007: 20), and the subtitle of course mocks Keynes’s own title.⁵³ In Mantoux’s view, which Röpke reports in his second article and finds “quite understandable”, Keynes contributed to a great extent to depriving France of the fruits of victory.

Put briefly, Mantoux holds that Keynes was severely wrong in his criticism of the Treaty; that the Treaty was by no means a “Carthaginian” or “Punic” settlement, destroying the defeated enemy; that it was rather too mild, as Germany’s economic recovery and rise to new military aggression in World War II later proved; that Keynes’ criticism had undermined the endorsement of the Treaty by the US Senate (it was never ratified in the US) and the success of the League of Nations (the American President Woodrow Wilson had earned the Nobel Peace Prize for his role as the leading architect of the League in 1919, but the US never joined); and that all this had ultimately led towards the second global catastrophe.

Mantoux’s conclusion therefore is a straightforward hawkish one, with a dramatic urge that Clémenceau might have appreciated in his time. The Allies’ mistake after World War I, Mantoux demands, should not be repeated now, in “the coming Peace”:

“[I]f the suspicion is allowed to grow among [Europe’s] peoples that the future is to be a continuation of the little game, the rules of which allow Germany to trample periodically over one half or more of Europe, then force Britain’s and America’s sons to die far away from home for its liberation, and finally forbid the victims to obtain fair redress on the ground that Reparations are an economic impossibility and large units and economic inevitability – then there is no extremity to which exhaustion and exasperation may not carry them [...]” (Mantoux 1946: 203)

⁵³ Keynes had himself returned to the same phrase in his pamphlet on “The Economic Consequences of Mr. Churchill” (Keynes 1925), where he criticized the decision made by the Chancellor to restore the convertibility of the pound at the pre-war parity with gold and the dollar, arguing that this would overvalue the pound and therefore require a deflation of prices and wages that could only result from severe unemployment.

4.6 Pitting Keynes and Mantoux

Röpke's second NZZ article is not a review of Mantoux's book in a classical sense.⁵⁴ Rather, it is an opinion piece in which he refers to the book to underpin his own criticism of Keynes – the man who, “through his cutting criticism of the peace treaties, had contributed like no other to their revision and to the formation of that bad conscience which dominated an influential part of public opinion in the victorious states until the Second World War.” Röpke does recount the argument developed in his young friend's book, but in doing so, he only picks out what feeds directly into his own sentiment: “[...] we confine ourselves to tracing the picture of the economist Keynes that confronts us from Mantoux's book”, which “is anything but flattering”.

For the reader it is difficult to distinguish whether and when Röpke cites Mantoux or speaks his own heart; the only way to get clarity on this is to execute a search for the corresponding passages in Mantoux's book. This complication may have been brought about by sloppiness or on purpose. In the German language, such ambiguity can easily be avoided – and it is a long-standing tradition of propriety to do so – through “indirect speech”, i.e. the use of the subjunctive I form. In professional journalistic writing, this is considered crucial. As Röpke, in this newspaper essay, chooses not to use this grammatical form, he makes Mantoux's arguments and numbers his own, reporting them as if they were facts. He thus continues his vendetta against Keynes, urging his contemporaries “to think about this author far more skeptically than would match his fame”. Röpke begins by stating (and thereby covertly quoting Mantoux) that

“hardly any of [Keynes's] predictions have come true and hardly any of the deductions have proved tenable. While Keynes had predicted the darkest future for the German economy after the territorial cessions and under the burden of reparations, the most important economic numbers (iron and steel production, coal production, savings, capital formation, etc.) showed, a few years after the stabilization of the mark, a level exceeding that of 1914, in some cases even quite considerably so.⁵⁵ While Keynes had explained that Germany could be expected to pay at most 2 billion marks in annual reparations over the next thirty years,⁵⁶ Hitler could proudly declare in September 1939 that since 1933 his country had on average spent seven times that sum per year on armaments alone.⁵⁷ While Keynes had prophesied Germany's denudation of capital as a result of the peace treaty, it eventually resulted that Germany had received a total of 35 to 38 billion from abroad as capital from 1920 to 1931 and had paid 21 billion in total as reparations.⁵⁸”

On the basis of these numbers Röpke is optimistic that “Mantoux will convince any well-intentioned reader” that “the Treaty of Versailles was anything but a ‘Punic peace’. Versailles did not break Germany, enslave her, or deprive her of her future.” Röpke attacks Keynes not only for the allegedly mistaken calculations of Germany's capacity to pay, but also for the “*flawed theories* on which [he] based his so gloomy forecasts at that time.”

⁵⁴ There were a number of proper reviews, however, see, e.g., Warren 1946, Heilperin 1946, and Hawtrey 1948.

⁵⁵ Röpke never refers to Keynes's book directly but takes all these numbers from Mantoux. There is no sign of his having checked them independently. See Mantoux 1946: 86, table „Production and Trade of Coal in Germany”, and 162–63. (This and the following three notes were of course not included in Mantoux but have been added by me, after tracing the covert references, as an editorial explanation.)

⁵⁶ Mantoux 1946: 111 and 163.

⁵⁷ Mantoux 1946: 163. Hawtrey's (1948: 236) comment is sharp: “That in the nineteen-thirties Germans could find 15 milliards of reichsmarks a year for armaments is as irrelevant as that they could levy 400 million francs a day on France for occupation costs.”

⁵⁸ Mantoux 1946: 155.

What are these “flawed theories”? Röpke uses this notion specifically for the so-called transfer problem, according to which the required reparation sums, once internally raised, may not so easily be transferred because of the negative balance of trade (see, e.g., Keynes 1929). Since a negative balance of trade (a surplus of imports over exports) as such doesn’t say much, as it can be driven either by the exchange of goods and services or by capital flows, Röpke castigates this idea as “bad theory, neither compatible with experience nor with logic”, and blames “the young Keynes who, with his authority and great literary talent, promoted such a *misconception* and exaggeration of the “*transfer problem*.” He was not the only one to view things this way, e.g. the Swedish trade theorist Bertil Ohlin debated Keynes as well (see Ohlin and Keynes 1929). Misconceived as it may have been, the problem had nevertheless been considered serious enough in Germany for the Friedrich-List-Gesellschaft to organize the two large conferences on the issue in 1928 (as mentioned before); with Eucken and Röpke as introductory speakers.⁵⁹

Röpke now notes that Keynes, in his last essay before his passing (Keynes 1946), came to the conclusion that the import capacity of the United States would not prevent the required German trade surplus. Röpke reads this as a late testimony to his own conviction that there was no real transfer problem after all. It gives him quite some satisfaction to see that Keynes “thus corrects the widespread opinion that the dollar may become dangerously ‘scarce’ in the course of the next few years due to a tendency of the American balance of payments toward surplus.”⁶⁰

Röpke also establishes “a clear, if indirect, connection between the Keynesian agitation and the fatal *German inflation*, which was one of the most important stages of the whole later disaster.” The logical link is that since Keynes publicly doubted that Germany would be able to pay the reparations expected by the Allies, the German government had no incentive to keep the national budget in balance. This made it difficult for those politicians who tried to do so. Röpke goes so far as to write that if “German statesmen who, like Wirth and Rathenau”, tried to play by the imposed allied rules and “professed a ‘*fulfillment policy*’, reaped a life-threatening unpopularity for it, Keynes was indeed not innocent of this.”

Röpke insinuates that Keynes was at least partly to blame for the murder of Walther Rathenau, German Minister for Reconstruction and, from February 1922, Minister for Foreign Affairs. Rathenau, a Jew, was shot in June 1922 by right-wing extremists. And Röpke’s blame game continues: “[I]t was Keynes who, like hardly anyone else, gave the cue to all those politicians, parties and popular currents which ultimately led Hitler to power [...]”. Without the belief that the Versailles Treaty was the source of all misery “is doubtful whether the horrible catastrophe of the Third Reich would have been possible.” In his view, it was not the harshness of the treaty that was to be blamed for its political effects, but the way it was described to the Germans – first and foremost by Keynes.

The disastrous effects of the Keynesian influence, in Röpke’s eyes, do not end with the Nazis and war. Röpke fears a boomerang effect: If now, after World War II, the Allies considered that the Versailles Treaty had been too soft and that they had been wrong to heed Keynes’s warnings, as Mantoux believes, then a truly “Punic peace” might this time be around the corner. While

⁵⁹ Carl Melchior, who took part in all negotiations, was to attend the Berlin meeting of the Friedrich-List-Gesellschaft, too, but had to cancel his participation and his talk at the very last minute. Rudolf Loeb, co-owner of the bank Mendelssohn & Co. stepped in for him. See Salin 1929b.

⁶⁰ The “dollar shortage” was a widely discussed phenomenon at the time; see e.g. Harris 1947, Haberler 1948, and Balogh 1949, also *The Economist* 1948. It refers to the problem that, for various reasons, buyers in some country may not be able to get hold of the dollars that they need in order to pay for their imports. For a discussion of the problem, its different theoretical explanations and possible solutions see Horn 1950.

Röpke whole-heartedly endorses Mantoux's criticism of Keynes, he dreads the consequences of the young man's hawkish demands. At this point, he parts company and clearly distances himself from Mantoux. Now, in 1946, Germany, bombed to pieces, "is really threatening to sink". Röpke compares his country to "a swimmer who once fooled the world with unfounded cries for help and now, when he is really in danger of drowning, may be heard too late."

And indeed, Germany was on her knees. At the Potsdam conference of the "Big Three"⁶¹ in July/August 1945, the Allies had shoved the Morgenthau plan off the table, which would have made Germany a purely agrarian country, but the country was split up, under occupation, its assets destroyed or seized, destined to self-sufficiency. People were suffering hunger. The Marshall plan (officially the "European Recovery Program", ERP), which would also help the German population and its economy get off the ground, was only to be drafted in 1947.

Perhaps sensing that he might have gone too far, Röpke then backs down a little, conceding that "[o]f course, Keynes *neither willed nor foresaw* all these consequences". But in his view, "it is undeniable that Keynes's work 'The Economic Consequences of the Peace' is one of the famous books that form an important link in the causal chain of history." Röpke ends his article, once again, by depicting Keynes as a tragic figure.⁶² From Keynes's last essay, he quotes the remark that the analysis ultimately depends on whether economic nationalism will paralyze the working of the invisible hand. "He *praises the 'classical medicine'*"⁶³, Röpke rejoices, musing "how much concern, bitterness, and disappointment must have accumulated in this man's breast to be finally discharged in the sigh about *'modernistic stuff, gone wrong and turned sour and silly'*"⁶⁴. At the end of his life, he infers, Keynes should – and might – have become the strongest force in the battle against the confusion of minds of his own making. It is time, Röpke writes, to "refuse to concede the role of a reliable and trustworthy intellectual leader of our time to a man who had so many errors to correct and sadly left so many others uncorrected".

5 The exchange between Eucken and Röpke

In September 1946, after the publication of his second NZZ article, Röpke went on his first journey to Germany after the war and was Eucken's private guest at Goethestrasse no. 10 in Freiburg (see Hennecke 2005: 167). It was the first time that they saw each other again after many years spent in inner or outer exile, and they were both deeply moved. One guess is that Röpke handed Eucken his article at that point; Eucken only secured a regular subscription of the NZZ beginning in the summer of 1948. At any rate, the two friends do not seem to have discussed the article then. It was only in his first long letter to Röpke after the visit – he had only sent a very brief note before – that Eucken wrote to him about the NZZ piece. This time, his reaction was clearly not positive, and the controversy took off.

⁶¹ Harry S. Truman (USA), Winston Churchill (UK), and Joseph Stalin (USSR).

⁶² The idea that Keynes regretted what he had written or said earlier shows up quite regularly in the writings of his critics, see also, e.g., Wiskeman's Keynes quote with regard to the 1919 book. After her telling Keynes that she wished he had never written that book, he replies "So do I" (Wiskeman 1968: 53). This has often been quoted. But here again, I would recommend to take such gallantly self-deprecating remarks with a grain of salt.

⁶³ Keynes 1946: 185. (This note and the next are not included in the original, but have been added by me here.)

⁶⁴ Ibid.

5.1 Eucken's "crucial difference"

Eucken dedicates more than two-thirds of his 1,5-page typed letter dated October 19, 1946, to Röpke's second NZZ piece⁶⁵. After three paragraphs on other matters, he begins by politely emphasizing the overall agreement between Röpke and himself, preparing the ground for his upcoming criticism. In this case, he writes, he sees "a crucial difference" – not only with regard to particular points, but also with regard to the underlying "fundamental attitude". Eucken then states what he actually considers a minor point, namely that "Keynes's prognoses were in no way proved wrong by the factual development". The capital shortage that Keynes saw did occur after the stabilization of the mark in 1923, he writes, and it was only overcome with the help of large foreign credit. In his view, the fact that so much foreign credit was necessary proves that the "denudation of capital" had formerly very much been a factual reality. Eucken also doesn't think that the high German production numbers after stabilization in the Thirties are a valid proof that Keynes was wrong. He explains that production had only picked up because, thanks to the large amount of foreign credit, it had been possible to restore Germany's "manufacturing apparatus" – something Röpke doesn't go along with, as we will see.

Eucken then turns to the point he deems more important, i.e. the "overall attitude". In the specific context of the Versailles Treaty, he strongly defends Keynes. In his assessment, the Englishman correctly understood that the Versailles Treaty was unreasonable, and that it did not establish a sufficient new order.

"Against this, he tried to awaken reasonable forces and reaped considerable success in doing so. One cannot accuse him of the fact that the efforts in the mid-Twenties did not lead to a final success. But he was on the right side. And it is not his fault that the Briand-Stresemann policy⁶⁶ didn't lead to a final positive result or that his ideas were misused by nationalists."

So Eucken urges Röpke to review his position, hinting at his work on the international economic order.⁶⁷ "You have shown in your own, very valuable work how the international economic order was destroyed. But this destruction happened on the basis of the Treaty which you now attempt to defend." The next sentence is interesting, too: "We move into a wrong opposition if, in our own endeavors, we judge positively a Treaty that is on the straight line toward disaster." There is a pragmatic undertone to this sentence, a worry that it might not be particularly wise, in Germany's situation after WW II, to endorse Mantoux's analysis, given Mantoux's hawkish recommendations. But most of all, Eucken is still concerned with the idea of order. He thus sticks narrowly to his line of reasoning from the 1930s. The destruction of an existing, viable order was then and now his main sorrow. In 1932, he had written:

"In all of the significant terms of the Versailles Treaty the absence of the older organizing principles is in evidence [...] it is not the war that is responsible for the disintegration of foreign relations, as so often and wrongly claimed – but rather the poor design of the peace treaties, which should have put an end to the war and establish a new and balanced state system. The treaties now in force are not the outcome of the principles of an older power politics, as is likewise said quite wrongly; instead, the treaties have brought about a destruction of a balanced state system that had only temporarily been abandoned during the era of the French Revolution [...] The preservation of so many elements left over from the

⁶⁵ Letter from Eucken to Röpke dated October 19, 1946, WRI, Röpke papers database.

⁶⁶ The German and French Ministers of Foreign Affairs, Gustav Stresemann and Aristide Briand, labored for a reconciliation between the two nations. Their common efforts were rewarded by the Nobel Peace Prize in 1926.

⁶⁷ This work culminated in the book "International Order", first published in German in 1945, Röpke 1945b/59.

war in the current ‘peace’ coupled with the destruction of external political stability has [...] provided a severe shock to the necessary political foundation of international economic relations.” (Eucken 1932/2017: 64)

In the exchange with Röpke in the fall of the year 1946, Eucken now leaves it at that, offering to talk about the issue at greater length in person. To never discuss political disagreement in writing seems to be a long-standing principle of his, a rule to which he adhered already before not leaving written traces became potentially a question of life or death.⁶⁸ In a hand-written postscript, Eucken begs Röpke to not misunderstand his remarks: “I am just eager to have no unclear spots in our relationship, and I believe that this article is not in line with your great and indispensable activity.” In another letter, written November 1, 1946, Eucken reiterates his objections. “I am very keen on convincing you. The more I think about it, the more it becomes evident to me that this articles in not in line with your important work.” Again, however, he expresses his hope for Röpke not to get him wrong, i.e. not to be upset.

5.2 Röpke’s self-defense

But to no avail – Röpke was hurt, just as Eucken seems to have expected. He replies almost promptly to Eucken’s first letter, insisting that he never intended to defend Versailles as a whole. He writes a narrowly typed letter, 2,5 pages long, dated October 31, 1946. This letter is a mixture of political reasoning and emotional blackmail, a defense of his own point of view without any concession to Eucken, ending however in a handwritten note: „I don’t necessarily stand by all my formulations. I am quite ready to reconsider.” In the main body of the letter, he enters the topic head on after merely a short first paragraph on organizational matters: “When I gave you my article Nr. 2 on Keynes, I didn’t expect so encounter such harsh objections. Yes, I had assumed that here as well, we would be in general agreement. I am all the more shocked by your reaction.” He then shoots off his long response on two full pages without any paragraph breaks (but with a list of ten points which, as he emphasizes, he could lengthen considerably). He begins by insinuating that Eucken, because he had remained in Germany throughout the Nazi era, may have been blinded by the “ongoing, utterly intense and hardly resistible effect of an intolerant patriotic interpretation of everything that is linked for us to the term ‘Versailles’”, so much so that it is difficult to judge impartially or even revise an earlier judgment.⁶⁹

Röpke then reminds Eucken of the courage with which his friend, “in a truly scientific manner”, had adopted and fought for a “heterodox position” in the earlier debate on reparations in Germany, in the 1930s, and urges him not to betray his scientific reputation and integrity this time. He explains that when he composed his text, he had particularly thought of Eucken when formulating that “at that time, in this situation which was certainly not indifferent for their country, German economists fought Keynes and the official theories of Berlin, which were largely inspired by him, with arguments which they reencounter today in large part in Mantoux’s book.” This takes us back to the two reparations conferences organized by the Friedrich-List-Gesellschaft in Bad Pyrmont and Berlin which both Eucken and Röpke had

⁶⁸ See letter from Röpke to Eucken dated July 16, 1931, ThULB, Eucken papers.

⁶⁹ The full sentence is: “In Germany, we have been so much exposed, for more than a decade, to the ongoing, utterly intense and hardly resistible effect of an intolerant patriotic interpretation of everything that is linked for us to the term ‘Versailles’, that it was and still is extraordinarily difficult to keep a truly impartial judgment or to revise our earlier judgment.” The use of “we” is odd, since Röpke wasn’t in Germany – so this is probably only directed at Eucken.

attended in 1928, at the beginning of their careers. The conference was supposed to provide policy-makers with the necessary expertise for the upcoming renegotiations of the Dawes plan.

In his talk and the underlying written expertise for the first leg of the conference in Bad Pyrmont, Eucken had given an introduction to the relationship between raising and transferring reparations (Eucken in Salin 1929a, 11–15, 315–28), while Röpke analyzed the problems that transfers could encounter. He essentially argued that there wasn't much of a transfer problem, and clearly not insofar as the absorption capacity of Germany's international trading partners was concerned (Röpke in Salin 1929a, 15–22, 329–64; here 17). He also explained that it is irrelevant whether the trade balance is active or passive; the only thing that matters is that there is a trend toward more exports (see on this also Schüller 2013). He thus rejected the “preferred sentence of the economic amateur” according to which “the view that the present passivity of the German trade balance allows one to infer the impossibility of a transfer” (ibid.: 362).

In those debates, Röpke reminisces in his letter, he had felt all the more esteem for Eucken as the latter, despite his quite different position towards “international questions”, didn't fall prey to the temptation of a “right-or-wrong, my country” type of patriotism. This latter remark harkens back to another controversy between the two that dates back to 1931, where Eucken seems to have accused Röpke of linking the plea for free trade to an “anti-German pacifism”, and cosmopolitanism, and Röpke replied with a rejection of all nationalism.⁷⁰ This scenario is not implausible, given that Eucken's path had started out in a more nationalist environment than Röpke's, and it had taken him a while to unlearn some of his earlier beliefs. As a matter of fact, Eucken had been active in the German nationalist movement and in his father's circle, the so-called Eucken Bund, “both of which propagated antiliberal solutions to the postwar ‘spiritual crisis’”, as Caldwell and Klausinger (2022: 244) briefly comment. It was only in the course of the Twenties that Eucken evolved toward a liberal stance; possibly under Rüstow's influence (see Caldwell and Klausinger 2022: 245, Dathe 2009, Solchany 2015: 199, Klinckowstroem 2000 and 2023, and also Wegner 2020). A pinch of nationalism may however have stuck.

Röpke's list of ten points, which he states as facts that Eucken, he insists, ought to accept or at least view as defensible, deserve being quoted here:

- “1) that the absolute condemnation of the Versailles Treaty popularized by Keynes, especially with respect to Germany, was based on faulty economics and on gross exaggerations,
- 2) that the Treaty of Versailles, bad as it certainly is as a whole, left Germany intact as a political and economic unit and did not deprive it of the possibility to recover in a surprisingly short time [...], despite inflation (for which you certainly do not want to blame the reparations) and despite the burdens of the Treaty.
- 3) that the fact that foreign credits contributed considerably to this rapid recovery does not argue against this view, since they belong precisely to the global economic balancing factors which Keynes had not taken into account.
- 4) that the undeniable great shortage of capital, then as now, was primarily the result of the war and defeat, not of the Treaty of Versailles, and that the shortage of capital in war-ravaged countries like France was hardly less.
- 5) that, by the way, as Colin Clark has recently shown in his “Conditions of Economic Progress,”⁷¹ the economic recovery in Germany was surprising even before the flow of foreign credits.

⁷⁰ See letter from Röpke to Eucken dated July 16, 1931, THULB, Eucken papers.

⁷¹ Clark 1940. (Note not included in the original, but added by me here.)

- 6) that the devastating effects of German inflation and “leftist” German domestic policies have been greater than those of the economic provisions of the Treaty of Versailles.
- 7) that the weakness of the German governments in the face of inflation found its best alibi in the Keynesian theory of catastrophe.
- 8) that this catastrophe theory had a poisoning effect on the whole further development of German domestic policy and that without it the eventual victory of Hitler is hardly conceivable.
- 9) that the actual fatal errors of the Versailles Treaty lie less in the treatment of Germany than in the overall conception of global politics and the world economy, or rather in the lack of such a conception.
- 10) That even here, however, it must be carefully examined what was the consequence of the war and what was that of Versailles and what was that of other acts of postwar policy.”

Röpke ends by expressing his desire to continue the conversation with Eucken in person at some point, which is however complicated by the fact that he feels unwelcome in Freiburg and that his travelling to Germany from Switzerland requires a lot of tedious paperwork.

5.3 Burying the hatchet

Eucken, in his answer dated November 22, 1946, tries to comfort Röpke and to persuade him that another visit would be feasible and most welcome in Freiburg. This letter is again 1,5 pages long, and the Versailles/Keynes controversy is mentioned only briefly at the end, in a soft and conciliatory tone:

“About the problem of the Versailles Treaty, we must speak in person. I do see in your answer several points in which we converge. What matters is to place the Treaty in a context of global history, in a line of development which we – I believe – evaluate in the same or similar way. After all, the Treaty is a manifestation of nationalism. But in this way, with nationalistic means, the world cannot sufficiently be ordered.”⁷²

In conclusion, Eucken again attempts to appease his friend and comrade in arms: “Please, don’t view such differences in our views not as something fundamental. I think, on the contrary, that it is inspiring and productive when such discussions arise.” These words end the controversy and everything seems to be perfectly well again. The hatchet is buried. Röpke is all happiness and gratitude. In a short note written only five days later, he admits that Eucken’s letter made him “very happy and has chased many spleens.” The rest of the note is of organizational nature, with regard to an upcoming meeting in Switzerland, which however won’t materialize⁷³.

6 “Keynes and the Reparations” (September 24, 1946)

There is one puzzling detail, though. In Röpke’s long letter of self-defense dated October 31, 1946, he tells Eucken that he has received much friendly feedback for his article, which he self-confidently interprets as a factual confirmation of his position: “You also mustn’t ignore this perspective, which it easier to evaluate from my location here.” What Röpke seems to have banished from his memory is that there was a least one reaction, and not an unimportant one,

⁷² Letter from Eucken to Röpke dated November 22, 1946, ThULB, Eucken papers.

⁷³ See letter from Röpke to Eucken dated December 16, 1946, WRI, Röpke papers database.

that wasn't friendly by any means: Valentin F. Wagner's critical essay in the NZZ published on September 24, 1946. Röpke had even explicitly mentioned it in his own first letter to Eucken after his stay with him in Freiburg, lamenting the "perfidious essay which Wagner has published during my absence to Freiburg in the *Neue Zürcher Zeitung*".⁷⁴

Valentin F. Wagner (1895–1959) was a professor of economics at the University of Basel, Switzerland, a specialist in monetary theory, and he had written an indeed devastating rejoinder. Röpke couldn't stand Wagner anyway. In a letter to Eucken dated July 16, 1946⁷⁵, even before this specific controversy broke out, Röpke had complained deeply about Wagner: "Since my great book successes, some colleagues have regarded me as fair game against whom any slander and indecency are permitted. The leader in this is Wagner in Basel, [...] a sinister fanatic, without any sense of humor, burning with ambition, without any way of life or manners."⁷⁶ Röpke must have been aware, though, that Wagner had once been a student of Eucken's, having attended his class in Berlin, and that the two continued to be in touch – without however being anywhere near as close as Röpke and Eucken, which one can tell already from the much more formal forms of address: "Sehr verehrter Herr Kollege", "Lieber und verehrter Herr Kollege", turning into the somewhat more familiar and affectionate "Lieber Herr Wagner" ("Lieber Herr Eucken") only after Eucken's visit at Wagner's home in Riehen near Basel in June 1947.⁷⁷

At any rate, Wagner sent Eucken his NZZ rejoinder to Röpke's second piece, and Eucken thanked him in a letter dated November 1, 1946. He admits coming to "the conclusion that Keynes and other critics of the reparations were right in the end." The Versailles Peace Treaty and the reparations "have contributed to the destruction of orders without creating new, useful ones. While the agitation against the reparations often did exceed the right measure, one may not hold this against Keynes and the other critics. It happens all the time that the right ideas are being misused by way of exaggeration." At the same time, Eucken rather unsurprisingly reminds Wagner that he was "quite critical" with respect to some of Keynes's later work.

"But his fight against the reparations was right and in line with the correct opinion that this would cause unforeseeable damage. Keynes was one of those men who like Stresemann or Briand tried to make a peaceful coexistence of nations and economies possible again after the war 1914/18. While these attempts were unsuccessful in the end and prevented by the forces of chaos, one still has to value very highly the attempts themselves, which almost worked out."

In a way, and by a leap of speculation, one can read Wagner's rejoinder as a piece that Eucken would have liked to write but didn't, for obvious reasons of loyalty and friendship. At any rate, he did not intervene and try to bring about some kind of reconciliation, as he had done in other cases where Röpke felt ill treated by Eucken's students.⁷⁸ Eucken quite agreed with Wagner.

⁷⁴ Letter from Röpke to Eucken dated October 2nd, 1946, WRI, Röpke papers database.

⁷⁵ Letter from Röpke to Eucken dated July 16, 1946, ThULB, Eucken papers.

⁷⁶ In the original: "Seit meinen grossen Bucherfolgen haben mich einige Kollegen als Freiwild betrachtet, gegen das jede Verleumdung und Unanständigkeit erlaubt sind. Führer dabei ist Wagner in Basel, vor dem ich auch Dietze sehr warnen möchte, ein finsterer Fanatiker, humorlos, brennend vor Ehrgeiz, ohne jede Lebensart oder Manieren."

⁷⁷ See the 25 letters between Wagner and Eucken kept at ThULB, Eucken papers, here especially those from Eucken to Wagner dated November 1, 1946 and June 26, 1947.

⁷⁸ One example is when, in 1941, Friedrich Lutz wrote a negative referee report on a paper by Röpke titled "A value judgment on value judgments" for the *Quarterly Journal of Economics*. See the letter from Eucken to Röpke dated October 10, 1941.

6.1 Wagner's rejoinder

Wagner is merciless. He begins his article by stating the need “to put some facts and truths into perspective”, a task which he takes upon himself as “a scientific and at the same time a human duty in view of the distortions” contained in Röpke's account. He accuses Röpke of having engaged in no less than a “campaign of which he is apparently making his life's mission and whose goal is to prove that Keynes was not a great scholar, but merely the inventor of fatal economic heresies.” Wagner goes back to the sources and explains what Keynes originally said, focusing on the transfer problem, the existence of which Röpke had earlier called into question:

“Keynes put forward the thesis that reparation claims in significant amounts would necessarily lead to serious global economic disturbances. He justified his opinion with the fact that only relatively small export surpluses could be attained through a gradual transformation of the German balance of trade under the pressure of the payment obligations. The attainment of a huge export surplus of a permanent character, i.e. for a period of 30–40 years, would be *impossible by way of automatic market transfer of reparations* and under the given conditions and, if forced, would lead to serious disturbances. Keynes, therefore, was not at all of the opinion that Germany could not pay”.

Wagner insists that the starting point of Keynes's criticism was the assumption that both the raising and the transfer of reparations should take place within the framework of a relatively free market system; something that Röpke would find difficult to disagree with. “For the raising of funds, this means that it is done only by taxation and that no further coercive interventions are undertaken; for the transfer, it means that the creditor is simply provided with the sums of money raised.” What was implausible in Keynes's eyes, however, was the idea that the market would automatically bring about an adequate restructuring of the German production structure and generate the export surplus out of which the reparations would be paid in real economic terms – and all that without major upheavals. “But Keynes also doubted that the raising of such large sums was possible within a liberal economic order from a political, social, and human point of view.” Wagner concludes that Keynes was far from underestimating Germany's economic ability to pay. Quite to the contrary:

“[E]ven this payment could be expected only under quite extraordinarily favorable circumstances, namely, a corresponding willingness of the Germans to pay, a minimum of friction in the internal transformation process, the absence of strong restrictive trade barriers, i.e. a willingness of the Allies and the neutrals to absorb the German flow of goods, the absence of severe slumps, and the precondition of a progressively growing world economy.”

Since it was highly questionable from the very beginning that these conditions could be fulfilled, Keynes's estimates had been, in Wagner's assessment, not too low, but too high. Wagner also takes issue with the evidence that Röpke copies directly from Mantoux: the fact that the production of iron, steel and coal, the volume of savings and capital formation exceeded the level of 1914 a few years after the stabilization of the mark. “This cannot [...] be regarded as a refutation of Keynes's theses. [...] For the assessment of reparation capacity [...], the figures of the balance of trade are decisive.” Wagner explains:

“[D]uring the six ‘fat’ years of 1924–1929, average imports and exports were approximately equal to the average of the semi-decade 1909/13, imports outweighed exports, and the balance sheet showed a deficit only slightly different from the deficit of the immediate prewar years. Thus, in these good years a trade surplus could not be attained to pay reparations; but the

significant surplus of the years 1930/32 was already a consequence of the crisis. It was no evidence of a growing ability to pay, but a consequence of economic collapse.”

Against Röpke’s (and Mantoux’s) claim that the “capital denudation” prophesied by Keynes never occurred, given that Germany managed to pay a total of 21 billion in reparations between 1930 and 1931 and received 35–38 billion in loans from abroad, Wagner argues that this fact proves the opposite of what Röpke wants to prove. The inflow of foreign capital on such a scale in such a short period of time, he writes, were nothing but a symptom of a very pronounced lack of capital.

“On the one hand, enormous sums were demanded, but on the other hand, nothing was done to collect them. This was left to the market process [... which however] did exactly the opposite of what it should have done: it moved huge amounts of capital to Germany, i.e. it made foreign countries formally pay for reparations to foreign countries and, in addition, it made billions available for investment in Germany itself.”

Wagner argues that, since the sum of the reparations paid through market means, taking into account the compensating foreign credits, was zero – or at best amounted to a few billions –, it is impossible to claim that the reparations could have been transferred without difficulties. He then turns to the insinuation that Keynes had his share of guilt in future events, especially in Hitler’s rise to power.

“In view of such serious accusations against a scholar of world renown, one will not be able to blame me if I point out that Prof. Röpke published a book in 1931 under the title ‘Der Weg des Unheils’, which is nothing but an outcry against Versailles and the reparations. The book culminates in the sentence written by Mr. Röpke: ‘The world knows that the reparations are dynamite in economic as well as in political terms’ (p. 74).”

In disingenuous and poisoned magnanimity, Wagner refrains from further quoting from that pamphlet, but he does report that Röpke held that reparations were one of the main causes of the chaos in the world economy, that “Germany had been driven into inflation by this ‘unbearable’ burden”, that reparations had exceeded Germany’s ability to pay, and that their collection was impossible in a market system. “Thus, at that time, he was quite in agreement with Keynes.” Wagner’s final verdict is that “anyone who was himself once a vehement agitator against Versailles and reparations is certainly not entitled to make such serious and, moreover, frivolous accusations in this respect as Röpke made against Keynes.”

It may have been this last blow that made Röpke condemn Wagner’s essay as “perfidious”. It indeed challenged Röpke’s personal integrity. The readers could only conclude that he should be humbler, given that he obviously once had committed the same mistakes he now accused Keynes of, in his continued obsessive rage; and that if he himself had changed his mind on Versailles, he should refrain from denouncing Keynes’s changes of mind in other areas, instead of depicting them as results of a character flaw. Whatever he would hold against Keynes, it was now likely to backfire. Wagner scored his goal. And Röpke, who usually recycled his writings, reworked them and even had them translated into English at some point, would never use this particular NZZ piece again, except for the one piece of gossip on Keynes mentioned earlier.

6.2 Röpke’s “Road of Calamity”

What was that compromising book that Wagner unearthed? It is “Der Weg des Unheils” (The Road of Calamity), a pamphlet written by Röpke on behalf of the German Ministry of Foreign

Affairs (Hennecke 2005: 80). It was published in 1931, on the eve of the Lausanne conference in 1932. Röpke had kept close ties with the Ministry, where he had served in a committee on reparations in 1922. By now, all reparations regimes so far had failed, not only the Dawes plan of 1924, but also the following Young plan of 1929, which reduced the amount of reparations but was harsher insofar as it ended the transfer protection of commercial debt and effectively put an end to the trend towards more public and private debt. And the Great Depression, which had begun in October 1929 at the New York Stock Exchange, swept the German economy off its feet. It was in this desperate situation that Röpke's official task was to help the German government find international support for an end of the reparations. And that is what he delivered.⁷⁹ In a first contribution to the "Zeitschrift für Politik", a monthly political science review run by the Bavarian School of Public Policy, he argued almost the same (Röpke 1933b).

"The best solution would be a complete forgiveness of the reparations, of course with the exception of German bond debt", he urges, recommending that "a thick line now be drawn under this most excruciating chapter of post-war history, with all parties considering the necessary sacrifices and concessions as a gift, yielding thousandfold, in view of a hopefully lasting and sincere friendship between Germany and its political creditors" (Röpke 1931c: 89). In writing, he takes back several of his earlier positions (ibid.: 79–83). He says he no longer believes that the expected volume of reparations might be bearable. He no longer believes that reparations are a minor item in global trade. He also no longer believes that the transfer problem is unimportant. And on top of all that, he stresses the "psychological and moral side" of the reparations, whose fundamental logic he now finds dramatically flawed:

"How should the world economy ever regain the fund of trust, goodwill and political stability without which it cannot prevail, if there is a large country of Germany's importance in the middle of it, a country which must pay a considerable part of its national income every year as proof both of its defeat and of its humiliation to the victors in a war whose destructions and passions are falling more and more into oblivion?" (Röpke 1931c: 73)

That the reparations must end is, for him, an insight that nobody can refute, even if one isn't German but a member of a different nation, even if one hates the Germans and considers them barbarians (ibid.: 79). The psychological reserves of the country have been depleted, he warns, making the reparations "the catastrophe that one didn't quite see coming" (ibid.: 84). It is the reparations that have made people nervous, have destroyed economic and political peace in the world, and are making the economic systems more and more dysfunctional every day. "The reparations have proved to be a sandbank sufficiently deep under the surface of the sea that it impairs traffic at high tide but doesn't entirely prevent it – but which, at low tide, means doom" (ibid.: 85). Stopping the reparations is not just a matter of saving Germany, it is a matter of saving the world, of saving civilization (ibid.: 114). Other arguments that Röpke will reject in 1946 are there as well. For example, he mentions the German capital shortage (ibid.: 50–52) and the outrageous debt taken up abroad after the Dawes plan (ibid.: 53). And he explains:

"The truth is that the burden of the reparations *forced* Germany to incur huge debt abroad, willingly or not. The truth also is that it was only this foreign debt that allowed Germany to pay reparations at all. Germany tried to persuade the countries that were to receive reparation payments that the enormous foreign debt was a sign of the burden being too high and that paying reparations with borrowed foreign currency contradicted the fundamental idea of the

⁷⁹ In Röpke's book, nothing indicates that this is a commissioned work.

Dawes plan. Germany cannot be held responsible today for the fact that the reparations creditors didn't heed this hint." (Röpke 1931c: 56)

Wagner is right: Much of this sounds almost like Keynes 1919, in content as much as in style. How can this be explained? I would venture to see the same mechanism at work that was operating in the context of his development of a synthetic theory of the secondary depression – and in Walter Eucken's ultimate endorsement of the Lautenbach plan. This is the year 1931, and Röpke by now had a clear – and unmistakable – sense of the imminent existential danger for the German Republic. The country was in turmoil, the future was more than bleak. Hitler's paramilitary organization, the SA ("Sturmabteilung"), already terrorized the country, and with his populist nationalist demagoguery, his party, the NSDAP, was gaining more and more public support. In the 1930 general elections, the NSDAP grew to be the second largest party after the Social Democrats. The Nazi dynamic was unleashed, and it would be unstoppable.

Röpke's melancholy words in a second piece for the "Zeitschrift für Politik" after the 1932 Lausanne conference, which did end the reparations, bear witness of this. "The reparations are dead", he writes, but he cannot rejoice: What is missing, in his assessment, is the necessary political and psychological détente. He realizes that the preconditions for such a détente are not given in Germany – a country already "seized by political intoxication, drifts into increasing political and economic isolation, and falls prey to inner decomposition" (Röpke 1933c: 306). The review published his piece in 1933, the very year in which the Nazis took power and Röpke was forced out of his home and country.

Two years before that, in 1931, Röpke's unmistakable sense of imminent danger may well have made him adopt lines of argument that he deemed strategically helpful even though he could only see them as exceptions to the rule. Wagner didn't take this possibility into account; rather, he held Röpke strictly accountable for his words. That was tough, but in some sense only fair, particularly in comparison with Keynes and Röpke's harsh verdict on him. The Englishman, too, had written his "Economic Consequences of the Peace" under a strong sense of political emergency and had maneuvered for alleviating the burden of the reparations. Not only in their economics of crisis, but also in their worry about the future of the global order, and even in their dramatic prose, Keynes and Röpke were quite similar. Keynes of course never bothered to think about their similarities, and Röpke would never have admitted the idea in the first place.

7 What to make of the controversy

The purpose of this paper was to narrate and contextualize the controversy between Röpke and Eucken. Now it is time to take stock. What was really the core of the disagreement between the two colleagues, comrades-in-arms and friends? How deep was it? And did they manage to agree in the end, or did they simply agree to disagree and carry on? But before trying to deal with this, a digression might be interesting, one that deals with the elephant in the room: What is, after all, the correct or at least the most plausible assessment of the economic and political consequences of the Versailles Peace Treaty? Was it really such a bad treaty that inevitably had to lead into disaster? And did it, really? Or was it something (or someone) else that did? Couldn't the catastrophe have been avoided? What were the crucial problems?

7.1 The elephant in the room: a digression

The evaluation of the Versailles Peace Treaty is a historians' wasp nest. The number of scholars who have written about the Treaty is legion, the controversy runs deep, and it is still quite a challenge to detach the conclusions arrived at in this scholarship from the various national backgrounds, inherited narratives and beliefs. Also, this is not the place to survey the literature. Suffice it to say that at hindsight, it seems easy but not very meaningful to prove Keynes's calculations wrong – they were a *ceteris paribus* forecast at the beginning of an evolving, unstable process, where everything economic and political was interrelated and endogenous. His political intuition and worries were clearly correct: the Versailles Treaty had not created a reliable, stable new world order, and so there was a ticking bomb left in the ground. Röpke and Mantoux may have had a point insofar as politicians in Germany and abroad took up Keynes's warnings in a self-serving, simplistic manner. But then, the criticism and accusations of guilt should not have been directed so much at Keynes, but perhaps at those politicians.

As for the question about the crucial problems that led from Versailles to the end of Weimar, Ritschl (2012) offers the provocative and nevertheless convincing intuition that the debate, at the time and for many decades after, was mainly beside the point. It is so helpful that I will report it briefly in the following paragraphs. Everybody was focused on the amount of the reparations, but that, he argues, was not really the problem. In this line of thinking, the contemporary and historical verdict on the treaty wouldn't have needed to be so devastating if only the incentives had been designed correctly within the procedures that were consecutively set up. But such as they were, moral hazard was everywhere because the incentives reinforced the defeated country's unwillingness to pay, creating a protracted unfriendly rapport de force with the Allies and an unhealthy economic situation for Germany as well as for the whole world.

Everything began with the misinterpreted guilt clause, which wasn't understood in Germany. When the concrete amount of reparations was first determined in January 1921, Germany was confronted, on top of its existing public debt, with three types of bonds, with one type, the so-called c-Bonds, never intended to be paid (Ritschl 2012: 2, with a reference to Feldman 1995). And then the varying "reparation regimes" systematically distorted the incentives for policy-makers. As Ritschl explains, it was in particular the transfer protection of commercial claims under the Dawes plan that induced moral hazard for both Germany and her commercial creditors abroad, enabling the country to borrow massively in international markets – as correctly noted by Wagner – and systematically crowd out reparation debt by commercial debt.

The intended side-effect was that Germany could shift the burden on others, as Wagner also pointed out in his rejoinder to Röpke, "paying reparations on credit, depleting the currency reserves of other countries through inflation, and similar measures of financial warfare" (Ritschl 2012: 5). This way, "Germany ran what is commonly called a Ponzi scheme, financing reparations and debt service with even more debt. As most of this credit came from the US, a huge credit recycling machinery was put into operation, based on American credit that helped Germany to pay her reparations, which in turn helped the European Allies meet their US obligations." (ibid.: 10) This changed with the Young plan, but then it was too late. Germany could only implement a harsh austerity policy and "wait until the scheme had proved to be unsuccessful" (ibid.: 15), which of course came at extraordinarily high social cost.

For Ritschl, the main culprit in the course of events therefore is not so much the Versailles Peace Treaty, but rather the Dawes plan, which made the reparations unenforceable and thus contributed to the "road to calamity", to use Röpke's phrase. Ritschl says he "cannot discard

the view” that the Dawes plan itself was a result of moral hazard, since it served the interests of the American banking industry which strove to regain access to the German credit market (ibid.: 10). This seems to have been as little understood at the time as the adverse incentive effects of the Dawes plan. This also may explain why, after the break in Nobel Peace Prizes in 1923–1925 mentioned above, Dawes of all people was one of the two first persons to receive the award again, together with UK Foreign Secretary Austen Chamberlain.

7.2 Peace again: conclusion

The controversy between Eucken and Röpke had three main components: putting it somewhat abstractly, they disagreed about the adequate interpretation of the balance of payments, about the responsibility of professional economists in their political advice, and about situational wisdom (or clever political tactics). It is impossible to know whether the two really spoke about any of these aspects of their disagreement when they next met in person. If they did, it is well possible that they ended up in great harmony – and not just because Eucken would have sought peace. Rather, they simply weren’t far from each other.

What the controversy unsurprisingly shows is that as economists, they still had their different outlooks, with Röpke very much influenced by his earlier focus on business cycles, trade, and money, and Eucken looking at the world through the lens of order. Their opposition to Keynes and Keynesianism, their rebuttal of full employment policy, credit expansion, and deficit spending however merges these two perspectives. Politically, they shared similar ideals anyway. Regarding the Versailles Peace Treaty, they were both unhappy with it and once had hoped for repeal or revision, and now, after the end of WW II, they were profoundly worried for the future of Germany – and the world. In their worry that, this time, the peace settlement could really be disastrous, truly “carthaginian”, they ironically ended up more or less the same place as Keynes in 1919. And they did have ample reason to be worried, not least because another brutal dictatorship was among the victors – the USSR, under no other than Stalin.

In this situation, Röpke’s enthusiastic endorsement of Mantoux’s book, which vindicated the Versailles Treaty as rather too soft, must have seemed careless, even though he clearly distanced himself from the young man’s hawkish recommendations. Disclaimers, especially such partial disclaimers, easily get lost in the public debate. But Röpke’s stance was also contradictory, and it was no wonder that Eucken stumbled over it and Wagner castigated him. His visceral aversion to Keynes, which Mantoux catered to so vigorously, led Röpke into contradicting himself, and his last-minute disclaimer – it comes only toward the end of his article – couldn’t salvage him.

Where the difference triggered by Röpke’s self-contradiction played out was in identifying the original sin. For Röpke, Keynes seems to have been the source of all evil, while for Eucken, everything led back to the Versailles Peace Treaty: that’s where the drama began and where all the seeds of evil were sown. That’s where, in his view, the formerly well-functioning traditional principles of international order went out of the window; that’s where Germany was submitted to an impossible reparations scheme that deeply upset the economic interconnection of the world. And indeed, had the Versailles Treaty looked differently, history might have taken a very different course. The Weimar Republic might have survived, Hitler might have died an insignificant painter, and Keynes might have been just another economist. The Keynes phenomenon, in a way, was a product of Versailles. That still made the Englishman and his legacy an influence to fight against from the ordoliberal point of view, intellectually and

politically – but Eucken wasn't ready to logically place Keynes at the beginning of the historical causality chain and see in him the main culprit of all later economic, political, and human evil. Eucken wasn't prone to reading history backwards.

Röpke however wasn't so level-headed. Not reading history backwards, through the lens of the catastrophe, didn't come naturally for him. He needed a scapegoat. Notoriously irascible, he systematically sought to discredit Keynes not merely for his theories and his influence, but also as a person. Reading his vitriolic articles on Keynes, not just those in NZZ used and translated here, it is rather difficult to follow Bombach who once generously remarked that “there was never even the slightest touch of personal resentment against Keynes in Röpke's later anti-Keynesianism” (Bombach 1981: 310). Interestingly, Bombach writes this just after hinting at a psychological explanation for all the bitterness and animosity: the “disappointment in front of the disregard that those who had quite successfully paved the way for Keynes's theory in Germany were dealt with by the international academic world and particular by Keynes himself” (Bombach 1981: 309). This may well be true, as may be other psychological explanations that take the harsh circumstances of Röpke's life into account. Exploring this is not the purpose of this paper. What remains for us today is the challenge to regard with charity, as research in the History of Ideas demands, a moralistic author who was himself uncharitable.

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Appendixes

Appendix A1

Keynes and our time

Wilhelm Röpke, May 5, 1946, *Neue Zürcher Zeitung*¹

Translated by Karen Horn

When *John Maynard Keynes* recently died at the age of 62, the most famous economist of our time left us, and also one of the leading dramatis personae of this segment of our century. The history of these decades, which begin with the end of the First World War, can probably no more be written without the name of this strange man² than without that of an Einstein, Churchill, Roosevelt or Hitler. Only in such a comprehensive consideration will his importance clearly emerge. But how shall we judge his influence? Is he the Copernicus of economics that many celebrate him as, the man who banished the ghosts of an economic policy frozen in the chains of tradition and who opened the gate to prosperity and stability? Or did he demolish more than was good, and has he summoned into being spirits that he himself might have liked to get rid of?

It is difficult to answer these questions in brief, since a fair judgment would not only have to take into account the man's so extraordinarily versatile activity and the charm of his personality, but would also have to exhaust scientific problems which have nourished the greater part of the economic disputes of our time and which have given even the experts pause. But after everything has been said that has to be said to the praise of the deceased and all pros and cons have been well considered, there remains a decisive rest which compels us to regard his influence and his *intellectual legacy* with more mixed feelings than seem to do most of the authors of the obituaries dedicated to him. These feelings do not lack the tragic note, either, if we consider it quite possible that Keynes himself, at the end of his life, did not find unrestricted pleasure in the seed he had sown.

One of the utmost stimulating, but often also confusing peculiarities of this animated, impulsive and artistically sensitive mind was that several times in his life he changed positions which he had just recently held with intelligence and vigor. In the author of the "Economic Consequences of the Peace" (1919) and of the famous reconstruction supplements of the "Manchester Guardian," which in the early Twenties promoted the program of a free-trade and Malthusian liberalism, it is difficult to recognize the same man who later proclaimed the "End of Laissez-faire", who had the presumption, with utterly weak arguments, to defend autarky, and who then, with his own country's transition to economic and monetary nationalism, intellectually

¹ All italics in the original. All footnotes in this appendix are my own editorial notes, added for background and context. The present text, in its German version, was edited and amalgamated with the essay "Was lehrt Keynes?" (Röpke 1952b) to form, once translated, Chapter VIII of "Economics of the Free Society" in the 1962 edition. In the process, various passages were clarified, softened, or omitted altogether. While some modifications are just matters of style, others are interesting for their change of emphasis. A choice of the most notable alterations will be annotated here.

² In the original: "dieses seltsamen Mannes". This term was softened in Röpke 1937/1963, to become "of this singular individual" (ibid.: 221).

prepared and justified that of the other countries as well. Indeed, it even was his fate – initially not even without visible pleasure and in any case without protest – to become the intellectual authority for National Socialist Germany’s economic policy. From this eventful trajectory of life spoke a strong temperament, often even a hussar-like recklessness, and yet in two essential points he remained more consistent than he appeared to be. For all his criticism of “capitalism,” he never became a socialist but always *remained a liberal* who professed the freedoms of the bourgeois world³ and believed to be serving them in his – we believe odd⁴ – way. On the other hand, it was one of the constants of his development that, in the course of his increasingly comprehensive researches in monetary theory, he came to look for the real defect of our economic system in the organization of its finances, and made proposals for the improvement of this organization ranging from the moderate ones of his “Tract on Monetary Reform” (1923) to the radical ones of his last great work, “The General Theory of Employment, Interest and Money” (1936).

This is not the place to pay tribute to the merits for the *advancement of theory* that Keynes earned through these works. No doubt they are considerable, even if one is of the opinion that he has coarsened much that others had formulated more cautiously, and even if one would like at best to ascribe to him the role of the one who has set minds in motion by the vehemence and boldness of his appearance. But precisely because he was endowed with the gift of reaching the wider world, it had to be asked again and again whether the practical results of his theories and proposals, which were intended to serve an improvement of the existing economic system, did not ultimately shake its foundations, so that Keynes, in tragic opposition to his own intention, joined the wreckers⁵ of the same bourgeois order⁶ to which he felt he belonged.

One can be of the opinion that there are times in which vigorous measures to increase the money supply prevent disaster, but it is not with impunity that an eminent head gives the blessing of his authority to the already strong tendency⁷ of governments to inflate. One can be of the opinion that under certain circumstances the increase in government debt is the *lesser evil*, but it is not with impunity that one makes a maxim out of it. It may happen – as in the depression of the years 1931 and 1932 – that all means for the rapid elimination of mass unemployment fail, except the increase of “effective demand” through credit expansion, but it is not with impunity that one treats with barely concealed contempt the established rules and institutions upon which the orderly course of economic life depends in the long run, if it is not to be put under constant inflationary pressure. One can uncover in the process of saving many a problem overlooked by earlier and more fortunate generations, but it is not with impunity that one robs people of the feeling that they are doing the right thing when they save and build up a reserve from their income for themselves and their descendants, instead of spending from an embarrassment of riches and calling, when need comes knocking, on the help of the state, which is becoming a great debtor. Just as in extreme distress at sea one may cut the masts and let the cargo go overboard, so too in economic life there may be storms that force us to temporarily abandon the principles of free international economic trade, but it is not with impunity that one declares these principles obsolete as soon as they are inconvenient for the *policy of “full*

³ In the original: „bürgerliche Welt“. Interestingly, this term was translated – and thereby clarified – as “democratic freedoms” in Röpke 1937/1963: 221.

⁴ In the original: „wunderliche“. This term was softened in Röpke 1937/1963, to become “singular”.

⁵ In the original: “Zertrümmerern”. In Röpke 1937/1963: 222, this became “grave-diggers”.

⁶ In the original: „bürgerliche Ordnung“, this time clarified as “liberal democracy” in Röpke 1937/1963: 222.

⁷ In the original: “der ohnehin starken Neigung“. In Röpke 1937/1963: 222, this became “the chronic propensity.”

employment” on which we have now fixated ourselves under the shock of the last depression. Competition, freedom of markets, elasticity of wages and thrifty finance are no sufficient guarantees of prosperity and stability; indeed, there are extraordinary situations in which one can grant exceptions from these excellent principles, but it is not with impunity that one tells the crowd that it may now trample them underfoot in good conscience.

These bitter⁸ thoughts come up when we try at this moment to draw the conclusion of so rich and honorable⁹ a life. It was not with impunity that he gave his mind free rein and indulged in his delight in paradoxes, and that he was such an astute mind and such an attractive personality only increased the mischief, since it only made his teaching all the more seductive. He has accustomed a new generation to an economic thinking which merely revolves around the question of how “effective demand” can most safely be maintained at the highest possible level, and which may now prove fatal since an entirely different economic situation has for the foreseeable future abolished the preconditions of the whole theory, and the reverse question arises as to how an inflationary boom can be slowed down in time. But he has done worse than that. Not only did he demolish what was decayed, but by his preaching of pragmatism in economic policy and his crusading against principles deeply rooted in the moral-political soil, he proved himself at the same time to be one of the strongest forces of that *watering down of norms* which constitutes the real core of our social crisis. At bottom, his program of economic policy was: *Pecca fortiter*, i.e. do heartily what you desire and what was hitherto called sin! Whether or to what extent Keynes was right on the level of economic theory and economic technique may be disputed for a long time to come; that he was very wrong on the higher level of social philosophy and political ethics should already be clear today.

That Keynes not only acted in this way, but evidently did so even with the best conscience, indeed with the same sense of pursuing a beneficial mission which distinguishes his so numerous followers all over the world, is something which probably has deep reasons connected with the type of man and the type of philosophy he represents. How is it that a man so extraordinary in the best sense, whose mind embraced so much, and who was at least as much artist and organizer as he was scholar, could be so *blind to those moral-political preconditions* without which human society cannot exist and which, even in the narrower sphere of the economy, are more important in the long run than a refined credit technique?

In order to understand what type of man and philosophy we are dealing with here, we recall with benefit another name in the history of economics. We mean none less than *Adam Smith*, with whom Keynes bears a certain resemblance by the depth and extent of his impact. Both Adam Smith and Keynes were men whose interests extended far beyond the confines of economics. But while Smith, in addition to his main work on the “Wealth of Nations” (1776), has left us a book on the “Theory of Moral Sentiments” (1756), without which the deep moral-philosophical background of his much-misconstructed economic doctrine escapes us, Keynes, in addition to his economic works, wrote a monograph on the theory of probability. For Smith, who had written his book on the “Wealth of Nations” as part of a planned giant opus on the cultural history of mankind, economics was an organic part of the larger whole of the intellectual, moral, and historical life of society; for Keynes it was part of a mathematical-mechanical world order. One was a humanistic mind of the 18th century, the other a geometric one of the 20th century; a deistic moralist the one, a *positivistic scientist* the other. For the

⁸ In the original: „bitteren“. In Röpke 1937/1963: 223, this became “bitter-sweet”.

⁹ In the original: “reich und ehrenvoll“. In Röpke 1937/1963: 223, this became “full and immensely influential.”

one, the cosmos of human society and human economy was the result of the working of an “invisible hand,” something that had become and was alive and which human reason was able to comprehend and also to destroy, but not to recreate; for the other, the result of mechanical quanta, to be assessed and directed by an all-supervising technical human intelligence. The teachings of the one were a promising beginning, those of the other the end product of a process of disintegration in which the crisis of a thoroughly rationalistic society finds its expression. On the lesser level of economics, the road from Adam Smith to Keynes has certainly been one of progress in many respects; on the higher level of the whole intellectual development it is just as indubitably a fatal regression.

Thus we finally recognize in the teachings of Keynes the social philosophy of the man who proudly calls himself modern, who believes that he can “make” society and the economy, who has forgotten the mysterious forces of the soul and of society which cannot be squeezed into any mathematical equations, into any statistics and into any planning programs, and who in his impatience wants to see rapid results without knowing their price any longer. To him applies what a French peasant philosopher wrote years ago: “Pour conjurer les diverses crises, pour sauver la société, on propose des remèdes rapides et bouleversants (nationalisation, monnaie fondante, autarchie économique, etc., sans parler de la guerre à laquelle tout le monde pense en silence). Ces remèdes donnent la fièvre aux nations. Fièvre consomptive, hélas! et non réactive, qui, au lieu de balayer les impuretés, détruit les réserves. Les nations cherchent le salut dans ce qui les tue. Chaque essai novateur représente un coup de fouet qui communique à l’organisme collectif une vigueur factice au prix de la consommation d’une réserve vitale. On dilapide les plus obscures, les plus profondes ressources du corps social (je pense à des choses aussi diverses que la stabilité monétaire, la continuité et la saine spécialisation professionnelles, l’insertion de l’individu dans les vieux cadres locaux, familiaux et religieux) au profit d’une réussite éphémère, d’une euphorie d’agonisant. Le salut de l’heure présent a pour rançon la dégradation de l’avenir. Que sait-on aujourd’hui de la vraie politique, de cette sagesse patiente et silencieuse qui regarde, qui crée des réserves?”¹⁰ (Gustave Thibon, *Diagnostics*, Paris 1942, pp. 22 to 23.)

It is not in no small degree this character of Keynes’ doctrine which explains its wide success in those countries where the type of man corresponding to it is particularly numerous. The more distant a person is, by milieu, habit, way of life and social conditions, from the realization that the *real infirmity of our civilization* lies in the profoundly unnatural character of our lives, our society, and our thinking, but not in our still deficient mastery of the art of increasing government debt, of permanently lowering the interest rate, of pumping up “effective demand,” of making the exchange rates jitter and of manipulating the balance of payments, – the more likely he will be to have fallen for the teachings to which Keynes has given course. Conversely, however, the success of these doctrines shows us how widespread the type of man is that they address, and how sick is an age which produces this type. The progressive recovery for which

¹⁰ “To ward off the various crises, to save society, rapid and disruptive remedies are proposed (nationalization, melting currency, economic autarchy, etc., not to mention the war that everyone is thinking about in silence). These remedies give the nations a fever. A consumptive fever, alas! and not a reactive one, which, instead of sweeping away the impurities, destroys the reserves. Nations seek salvation in what kills them. Each innovative attempt represents a whiplash that imparts to the collective organism a false vigor at the cost of the consumption of a vital reserve. The most obscure, the deepest resources of the social body (I am thinking of things as diverse as monetary stability, continuity and health of professional specialization, the insertion of the individual in the old local, family and religious frameworks) are squandered for the benefit of an ephemeral success, of an euphoria on the deathbed. The salvation of the present time has for ransom the degradation of the future. What do we know today about true politics, about this patient and silent wisdom that looks on, that creates reserves?” (translation mine)

we hope and whose first signs we believe we can already spot today will therefore manifest itself, among other things, in the growing number of people who free themselves from the spell of Keynes' teachings and sober up to recognize not only their economic weaknesses but also their socio-philosophical errors. All the more freely will they then be able to appreciate the true merits of this man whose life lacked neither grandeur nor tragedy.

Appendix A2

Lord Keynes – Beginning and End

Wilhelm Röpke, September 1, 1946, *Neue Zürcher Zeitung*

Translated by Karen Horn

In accordance with the fatal law of the duplicity of cases, after John Maynard Keynes, whose death occasioned an overall appreciation in this place (No. 782 of May 5, 1946)¹, another representative of modern England, the so versatile writer *Herbert George Wells*², has now also departed from life. It is difficult to compare the two, and probably they themselves felt their dissimilarity most strongly. And yet they do have things in common which become all the more apparent the more we distance ourselves from them. At the very least, they should be united by the tragic circumstance that, at the end of their lives, they had some reason to be quite dissatisfied with the course of the world and to wonder bitterly whether they themselves had not summoned the spirits they could not get rid of. Whether Wells possessed this degree of self-knowledge, we do not know, but doubt it; probably he did not understand until the end that the philosophy of an *atheistic-mechanistic positivism* he so effectively advocated is one of the main causes of today's terrible state of the world, and therefore, because he did not see the rescue through intellectual conversion, ended in despair and bitterness.

That we can assert self-knowledge with considerable certainty in the case of Keynes speaks for the greatness of his character and the incorruptibility and agility of his mind. Therefore those are probably right who lament the premature death of the man who alone would have been able to repair the intellectual damage he had done and, with his authority, call to their senses a whole younger generation whose minds he had confused by his teachings. This ties in with the report we have received from a well-known American economist who had invited Keynes in the last days of his life to an evening party in Washington together with the leading economists of the federal agencies, all devoted Keynes followers. The event turned out to be a complete fiasco, since master and disciples no longer understood each other: If the former was appalled by the schematism and crudeness of the economic ideas held by those who had thought themselves his disciples, the latter were disappointed by the master who had become cautious and measured.³

It is perhaps a doubtful compliment – but in a certain sense, it nevertheless is one, too – if those who best knew this man who will still occupy the world for a long time had expected from him, even in his age, an unbiased and possibly unsparing criticism of his work, after having recanted so often before. We have double cause to lament that Keynes died before the publication of a book whose author, one of the great hopes of the intellectual youth of France, became one of the last victims of this cruel war and thus has not lived to see the great attention his work has found in a short time. It is a book which offers a criticism as pitiless as it is altogether deserved, though not of the whole of Keynes's lifetime achievement, yet of its first and especially glorious section. It is entitled "*The Carthaginian Peace, or the Economic Consequences of Mr. Keynes*"

¹ Röpke, W. (1946a), Keynes and our time, *Neue Zürcher Zeitung*, May 5; see above. All footnotes in this appendix are my own editorial notes, added for background and context. All italics in the original.

² H. G. Wells (1866–1946) was a novelist and journalist; in his political views, he was a socialist, member of the Fabian Society. Over his lifetime, he evolved to become an atheist. See Gardner, M. (1995), *Introduction to H. G. Wells, The Conquest of Time*, New York, Dover Books.

³ Source unclear; see my comments in the main body of the paper.

(London, Oxford Press, 1946)⁴, and its author is Étienne Mantoux, son of the well-known historian, economist, and diplomat Paul Mantoux, and like his father equally at home in French and English culture, a young but exceedingly gifted scholar who dared to throw down his chivalrous gauntlet to Keynes, without suspecting that it would fall down before a dead man. In a graceful manner, Harold Nicolson saluted both dead men in *The Spectator* (June 14, 1946), exclaiming, “*With what delight, appreciation and generosity would Maynard Keynes have read this brilliant indictment!*”⁵

Étienne Mantoux deals with the early Keynes who, at that time after the First World War, had acquired first and lasting fame through his book “*The Economic Consequences of the Peace*” protesting against the Versailles Peace Conference⁶, and who, through his cutting criticism of the peace treaties, had contributed like no other to their revision and to the formation of that bad conscience which dominated an influential part of public opinion in the victorious states until the Second World War. From this preoccupation with a book that not only established Keynesian fame, but in a real sense made history, a work has emerged from the hand of our dead French friend that captivates the reader most strongly through its literary mastery and its consistently compelling logic. But it is also an extremely important book, because it shows us that ominous period in a completely different light than the author of the “*Economic Consequences of the Peace*” had taught his contemporaries, and because it forces us to think about this author far more skeptically than would match his fame. Certainly, the revision of our judgment on the period of history that begins with the Versailles Peace Treaty is far more important than that of our judgment on a single man, however eminent, and certainly the first task was closer to Mantoux’s heart than the second. Since, however, we are concerned here with the man who has influenced present economic thinking and promises to continue influencing it in such a profound – and, we believe, ultimately objectionable – way, and not with international politics between the two world wars, we shall stick primarily to *this* side of the book we are to praise.

If we thus confine ourselves to tracing the picture of the economist Keynes that confronts us from Mantoux’s book, it will hardly surprise the insiders that it is anything but flattering. But even he who learned early on to recognize the brittleness of the arguments on which Keynes had built his fight against the *economic provisions of the Treaty of Versailles* is happy to be reminded that hardly any of the predictions have come true and hardly any of the deductions have proved tenable. While Keynes had predicted the darkest future for the German economy after the territorial cessions and under the burden of reparations, the most important economic numbers (iron and steel production, coal production, savings, capital formation, etc.) showed, a few years after the stabilization of the mark, a level exceeding that of 1914, in some cases even quite considerably so.⁷ While Keynes had explained that Germany could be expected to

⁴ Mantoux, É. (1946), *The Carthaginian Peace, or The Economic Consequences of Mr. Keynes*, London, Oxford University Press. The term “Carthaginian Peace”, or “Punic Peace”, refers to antiquity, to the harsh peace terms imposed on the Carthaginian empire by the Roman republic in the aftermath of the Punic wars.

⁵ The passage continues: „How agreeable would have been the confrontation of the veteran with the apprentice economist, between the sagacious, gentle, ruminating eyes of Maynard Keynes and the flashing, excited eyes of Etienne Mantoux! But each of them is dead.“ Nicolson, H. (1946), Marginal comment, *The Spectator*, June 14: 606. Harold Nicolson (1886–1968) was a British politician, diplomat, writer and journalist, married to the writer Vita Sackville-West, who had become acquainted with the famous Bloomsbury group – with Keynes as a well-known member – through her friendship with Virginia Woolf. Nicolson had served at the Paris Peace Conference.

⁶ Imprecise denomination: the Peace Conference was held in Paris; the Treaty was signed in Versailles.

⁷ Röpke never refers to statistics or to Keynes’s book directly and instead takes all these numbers from Mantoux. See Mantoux 1946: 86, table „Production and Trade of Coal in Germany”, and 162–63.

pay at most 2 billion marks in annual reparations over the next thirty years,⁸ Hitler could proudly declare in September 1939 that since 1933 his country had on average spent seven times that sum per year on armaments alone.⁹ While Keynes had prophesied Germany's denudation of capital as a result of the Peace Treaty, it eventually resulted that Germany had received a total of 35 to 38 billion from abroad as capital from 1920 to 1931 and had paid 21 billion in total as reparations.¹⁰

One may be of the opinion that these miscalculations are less serious than Mantoux assumes, especially if one considers that the original reparation plan was never carried out, thanks in no small part to the effects of Keynes's warnings. Far more serious seem to us the *flawed theories* on which Keynes based his so gloomy forecasts at that time. Whether the reparations were just or unjust, reasonable or unreasonable, shall not be a matter for discussion here. However, we have always held that one would be doing economic science a very bad service if one tried to force from it the proof that reparations necessarily wrecked the German economy and currency and that they brought more harm than good even to the world itself. We have never been able to convince ourselves that it is advisable in any country to justify with bad theories even a cause that seems good. The opinion, which has become so popular, that the internal raising of the reparation sums does not in any way determine whether they can be converted into the currency of the creditor states at all, since this "transfer" presupposes a previous surplus in the German balance of payments¹¹, has always appeared to us as such a bad theory, neither compatible with experience nor with logic. The same holds for the opinion, which has become no less popular, that since the reparation payment ultimately means a corresponding additional export on the part of Germany, the recipients are thereby more harmed than helped.

We must not forget that it was primarily the young Keynes who, with his authority and great literary talent, promoted such a *misconception* and exaggeration of the "*transfer problem*." Since his authority is now so much used for other and more current theories, it is well to be reminded by Mantoux of how controversial a role the economist Keynes played at an earlier stage of his activity; indeed, not a few will be surprised today, when they revisit the subject matter, at how indiscriminate Keynes was then in his arguments and in their formulation. Even he, however, who wants to judge this more mildly will have to admit today that experience and logic have decided against the most important economic theories and assumptions with which Keynes wanted to prove the impossibility or catastrophic harmfulness of the German reparations.

It is not without interest to recall today that at that time, in this situation which was certainly not indifferent for their country, German economists fought Keynes and the official theories of Berlin, which were largely inspired by him, with arguments which they reencounter today in large part in Mantoux's book. It results from this that this critique need not be associated with any particular political position. For Mantoux, it is part of a *justification of the policy of Versailles* as a whole; even he who wants to raise reservations against it will receive a strong impression from it and admire the talent of the young scholar so tragically wrested from us. For him, Keynes is not only the economist whose trustworthiness is overestimated, but also the

⁸ Mantoux 1946: 111, 163. These numbers can be found in Keynes 1920: 214 (in German currency) or, in dollars, in Keynes 1919/2007: 150.

⁹ Mantoux 1946: 163.

¹⁰ Mantoux 1946: 155.

¹¹ „Aktivsaldo der deutschen Zahlungsbilanz“. What is meant here and in the following is a surplus of the trade balance driven by exports: Germany needs to earn through exports the money it needs for transfer of reparations.

author and politician who contributed to a great extent to depriving France of the fruits of victory. This is very understandable. But while it is certainly permissible to differ on these questions even today – a right which even English admirers of Mantoux’s book claim – there can hardly be any longer any doubt about the baleful character of other effects of Keynes’ famous juvenile work. We will point out the most important ones.

First of all, it does not require any violence to see a clear, if indirect, connection between the Keynesian agitation and the fatal *German inflation*, which was one of the most important stages of the whole later disaster. Those who experienced that period actively or as mere observers in Germany know that in the struggle against the real cause of German inflation, namely the budget deficit, nothing paralyzed the energy of the good-willed and promoted the plans of the less numerous bad-willed so much as the catastrophe theory covered with the global authority of Keynes. Confirming the ancient adage that what confuses people is not so much the facts as the opinions about the facts, it was not, after all, the reparations that were to blame for the German monetary and financial wreckage, but the *theories* that shifted the responsibility for German inflation from the shoulders of governments and parliaments to the fatum of the “passive balance of payments.” If a man like Keynes proved that reparations must defeat all efforts within Germany, why make the heroic and unpopular attempt to keep the national budget in balance through rigorous restraint of government expenditure, draconian taxation, and vigorous encouragement of production? That the task was not impossible was proved by the fact that it succeeded under the most unfavorable circumstances imaginable in November 1923, when no other option was left¹². If those German statesmen who, like Wirth¹³ and Rathenau¹⁴, professed a “*fulfillment policy*”¹⁵ reaped a life-threatening unpopularity for it, Keynes was indeed not innocent of this.

On the other hand, anyone familiar with the most recent German history will confirm that it was Keynes who, like hardly anyone else, gave the cue to all those politicians, parties and popular currents which ultimately led Hitler to power when, with excessive exaggeration of the contexts and magnitudes, they whipped up the German people by *agitating against the “tributes”* and educated them in the belief, which still seems ineradicable today, that “Versailles” was the main source of all misery. One cannot understand German history to this day without noting the decisive effect that emanated from these slogans of “tribute burdens,” the “Dawes colony” (which also played a major role in Communist demagoguery), and “Young slavery.” It is doubtful whether the horrible catastrophe of the Third Reich would have been possible without them, and still today, we fear, the reference to “Versailles” is the main theory of exoneration for the majority of the German people. But one should know, finally, that it was not the objective harshness of this Peace Treaty that is to be blamed for its political effects, but the way it was described to the German people, against the truth of the facts and against the evidence of logic. The *destruction* of this *mythology of the Versailles Peace Treaty* and of reparations is one of the supreme prerequisites for the cleansing and clarification of political

¹² This policy was implemented by Wilhelm Marx (1863–1946), a centrist German Chancellor from November 1923 to January 1925 (and again later, from May 1926 until June 1928).

¹³ Joseph Wirth (1879–1956) was centrist German Chancellor from May 10, 1921 to November 14, 1922.

¹⁴ Walther Rathenau (1867–1922) was a liberal German Minister for Reconstruction under Chancellor Wirth and, from February 1922, Minister for Foreign Affairs. He was murdered in June 1922 by right-wing extremists.

¹⁵ „Erfüllungspolitik“, a vilifying term used mainly by the extreme right. After the ultimatum from May 5, 1921, forcing Germany to demilitarize, extradite war criminals and abide by the annuity payment plan determined by the Allies, or else the Ruhr area would be occupied, the German government aimed at fulfilling these demands and demonstrating thereby to the Allies that the fixed annuity of 3 billion marks was simply not sustainable.

thinking in Germany, without which a future for the German people is no longer conceivable. Because it is so effective in bringing about this destruction, the book discussed here can hardly be overestimated in its importance. Its effect on the Germans is however considerably impaired by the fact that it was completed at a moment when conclusions for the *future* suggested themselves that were different from those that impose themselves today.

This brings us to a third point. Mantoux will convince any well-intentioned reader that the Treaty of Versailles was anything but a “Punic peace.” Thanks in no small part to the literary activity of the young Keynes, its effects have been extraordinarily exaggerated, and today we recognize that the French historian *J. Bainville* probably came closest to the truth with his label “une paix trop douce pour ce qu’elle a de dur.”¹⁶ Versailles did not break Germany, enslave her, or deprive her of her future, and the alarm cries raised at the time – the most pervasive of which emanated from John Maynard Keynes – have proved false. What are the implications for today’s situation?

When Mantoux wrote his book, he believed he had to reckon with the danger that the victors, under the repercussions of the world opinion created essentially by Keynes about the unreasonableness of reparations, would treat Germany too leniently. And therefore, he demands that all inhibitions should be overcome this time. We are sure, however, that the author, were he alive today, would be the first to call this demand bizarrely outdated. Possibly the danger of an *unreasonably harsh treatment of Germany* has always been greater than that of an unreasonably mild one, but today, when Germany is really threatening to sink, there can be no doubt which of the two dangers has become reality. Whoever wants to learn about this may read the devastating and careful essay by *Prof. Ferdinand A. Hermens*, “The Economics of Potsdam”, which has just been published in the July issue of the excellent American journal “The Review of Politics” (Notre Dame, Indiana).¹⁷

But the very conclusions which such an honest and intelligent mind as Mantoux thought he had to draw only a short time ago prove that the false alarm of 1919 is not entirely blameless if today the development, beyond all warnings, has led to the opposite extreme. Germany resembles a swimmer who once fooled the world with unfounded cries for help and now, when he is really in danger of drowning, may be heard too late. The worst consequence of the false pessimism spread by Keynes after the First World War may perhaps consist in that, after this experience, one now believes one must be on one’s guard against a new “propaganda of pity” – today, when there is truly no longer any need for propaganda and the facts themselves speak a devastating language. This is now really a “*Punic peace*,” with the only difference that, while the plow is being pulled over the ruins of the new Carthage, the danger of war, which was thought to have been banished, is looming hugely in a quite different place.¹⁸

¹⁶ Bainville, J. (1920), *Les conséquences politiques de la paix*, Paris, Nouvelle Librairie Nationale: 25. Jacques Bainville (1879–1936) was a French historian and journalist of nationalist and monarchist convictions.

¹⁷ Hermens, F. A. (1946). The Economics of Potsdam, *The Review of Politics* 8(3): 381–403. Ferdinand A. Hermens (1906–1998) was a German-American political scientist and economist. After emigrating from Germany in 1934 and beginning his academic career in the United States, he served at the University of Cologne, Germany, from 1959 to 1971. He is often quoted as the founder of the Cologne School of Political Science, close to ordoliberalism and the Freiburg School. In his book on the “Economics of Potsdam”, he analyzes the possible consequences of the Potsdam conference in July/August 1945, which prescribed that Germany should become self-sufficient as far as possible; with reparations consisting of the removal of plants, machinery and tools; and with the confiscation of German assets. In a critical review, Ernest Hamburger (1947) later emphasizes that at least the Morgenthau plan was dead, which would have destined Germany to a purely agrarian future.

¹⁸ Röpke clearly refers to the Soviet threat here, as the Cold War was building up.

Of course, Keynes *neither willed nor foresaw* all these consequences, and of course it would be a great wrong to place the slightest doubt in the purity of his intentions. He also did not want his theory of reparations to lead anybody to the conclusion one day that, after their new defeat, as much as possible should be taken away from the Germans at once, so as not to suffer again the alleged trouble with the annual sums to be paid out of current production. Nor would he have approved, perhaps, of the conditions under which his earlier proposal to make reparations by German forced labor would one day be realized, an idea which had been rejected by Wilson at Versailles at the time as a barbaric regression (Mantoux, p. 123). Of course, it was also far from him to lull the world, by his gloomy prognoses about the German future, “into a sense of security against the danger threatening from National Socialism, and to thus contribute to its not being averted in time because *Hitler’s economic possibilities* were so fatally underestimated. But it is undeniable that Keynes’ work “The Economic Consequences of the Peace“ is one of the famous books that form an important link in the causal chain of history. That the causal chain has led to a good end in the present case can hardly be claimed.

This is the book that established the fame of John Maynard Keynes and lent his name an authority that has certainly benefited his later works. There is much that can be said in praise of this book and its author even today, except that it identifies the author as an economist and social philosopher who deserves unconditional confidence for the conscientiousness of his reasoning. With this book the real career of Keynes began. Now it so happened that almost simultaneously with Mantoux’s work, which deals critically with the beginnings of Keynes, a last essay of his appeared posthumously in the June issue of the “Economic Journal”, as the conclusion of his literary activity.¹⁹ The essay, dealing with the future development of the American balance of payments, is utterly important and interesting, since it establishes in careful analysis a thoroughly optimistic view of the import capacity of the United States and thus corrects the widespread opinion that the dollar may become dangerously “scarce” in the course of the next few years due to a tendency of the American balance of payments toward surplus²⁰.

But what gives very special weight to this last work that we owe to Keynes are the concluding remarks which reflect in an almost moving way the anxiety with which, at the end of his life, he observed certain tendencies in economic policy however earlier encouraged by himself. After appreciating in his essay the forces that justify his optimistic prognosis, he feels compelled to make the qualifying remark that his analysis ultimately depends on whether or not an economic nationalism that despises classical doctrines will paralyze the “natural forces” or “even the invisible hand that works toward equilibrium.” He *praises* the “*classical medicine*” and now speaks of “modernistic stuff” that has clouded the vision of many, however much he hastens to add that we can no longer rely on the “classical medicine” alone.²¹ It would be too much to ask that this man, at the end of his life, should abjure all that he has taught, and we ourselves would not even wish that. He still does not want to renounce the idea that variable exchange rates and “overall import control”²² should remain the most important instruments of

¹⁹ Keynes, J. M. (1946). The balance of payments of the United States, *The Economic Journal* 56(222): 171–87.

²⁰ „Tendenz der amerikanischen Zahlungsbilanz zur Aktivität“. The “dollar shortage” was a widely discussed phenomenon at the time; see e.g. Harris 1947, Haberler 1948, and Balogh 1949, also *The Economist* 1948. It refers to the problem that, for various reasons, buyers in some country may not be able to get hold of the dollars that they need in order to pay for their imports. On the basis of research at the University of Cambridge, Horn (1950) discusses the problem, its different theoretical explanations and possible solutions.

²¹ Keynes 1946: 185.

²² Keynes 1946: 186.

an enlightened economic policy. But how much concern, bitterness, and disappointment must have accumulated in this man's breast to be finally discharged in the sigh about "*modernistic stuff, gone wrong and turned sour and silly.*"²³ Are not those right who mourn in him, who at the end of his life paid homage to the wisdom of the classics, the man who might have become the strongest force in the battle against the confusion of minds largely of his own making? But are not others also right who, without failing to recognize his eminence, nevertheless refuse to concede the role of a reliable and trustworthy intellectual leader of our time to a man who had so many errors to correct and sadly left so many others uncorrected?

²³ Ibid.

Appendix A3

Keynes and the Reparations

Valentin F. Wagner, September 24, 1946, *Neue Zürcher Zeitung*

Translated by Karen Horn

If I take the liberty of making a few remarks on the essay “Lord Keynes – Beginning and End” from the pen of Prof. Röpke (cf. “N.Z.Z.” No. 1551) published in this paper, I would like to put some facts and truths into perspective for the attention of those readers who are not in a position to follow the state of scientific opinions themselves. This becomes a scientific and at the same time a human duty in view of the distortions contained in the account which Röpke sketches of Keynes’ position on the reparation problem. In his criticism, he draws on the recently published book by Étienne Mantoux, which, however, is no more than a welcome aid in the campaign of which he is apparently making his life’s mission and whose goal is to prove that Keynes was not a great scholar, but merely the inventor of fatal economic heresies. I do not know Mantoux’s book, and I therefore stick only to Röpke’s account. This is all the more permissible because in his article he does not actually say much about the content of the book¹ and in any case gives his remarks the character of a personal verdict. On this verdict, I would like to make a few remarks.

Did Keynes, as he fought against the economic clauses of the Treaty of Versailles and, above all, advocated a reduction of German reparations to a “reasonable” level, grossly err in the evaluation of German ability to pay? Was his opinion that the transfer of such large sums was not possible over the long run or, if forced, must lead to serious shocks to the world economy, even to its collapse, a false theory and at the same time a mistaken prognosis, based on a irresponsible presentation of evidence and an unscrupulous use of arguments? Did Keynes, by the effect which he exerted with his two books on the public opinion of the world, both on that of Germany and of the victorious countries, lightheadedly deprive the Allies of the fruits of their victory? Is it true, in particular, that it was Keynes who, with these books, “like hardly anyone else, gave the cue to all those politicians, parties, and popular currents which ultimately led Hitler to power”?

These questions contain serious charges, and in today’s situation it is not merely of historical interest to know whether these accusations are valid or not. Mantoux’ book was due because the course of history over the past 28 years must have forced Keynes himself to raise the question whether he had done well to write his books on the peace treaties. With Mantoux, Prof. Röpke holds that Keynes had completely erred in his assessment of the German ability to pay, and that his assertion according to which the transfer of reparations was impossible and would lead to the most serious world economic shocks has also been disproved by events². Hardly any of Keynes’ predictions have come true, and hardly any of his deductions proved tenable. The German economy did not collapse under the burden of territorial cessions and reparations; on

¹ He actually does, but this is difficult to recognize even in the German original since, instead of quoting openly from Mantoux with references, Röpke silently appropriates the latter’s accounts and numbers. For the sources of the numbers mentioned in this paragraph, see the footnotes in the appendixes A1 and A2. All footnotes in this appendix are again my own editorial notes, added for background and context. All italics in the original.

² From here on, the remainder of this paragraph is an indirect quote, easily recognizable as such in the German original by the use of the subjunctive form.

the contrary, it took a fabulous upswing, so that a few years after the stabilization of the mark all the relevant economic figures exceeded the level of 1914. While Keynes had predicted a great shortage of capital for Germany, 21 billion had instead been paid by Germany as reparations between 1920–31, and in the same period foreign countries had provided it with 35 to 38 billion in capital. While Keynes had estimated Germany's ability to pay reparations in 1919 at a maximum of 2 billion annually for 30 years, he was later impressively refuted by Hitler who, for 6 years, had spent seven times that sum per year on armaments alone.

These are the only statements in the long article which are not mere assertions but want to be justifications for Röpke's very theses which I have formulated as a question above. Let us consider this proof of evidence a little more closely. In his first book, Keynes put forward the thesis that reparation claims in significant amounts would necessarily lead to serious global economic disturbances. He justified his opinion with the fact that only relatively small export surpluses could be attained through a gradual transformation of the German balance of trade under the pressure of the payment obligations. The attainment of a huge export surplus of a permanent character, i.e. for a period of 30–40 years, would be *impossible by way of automatic market transfer of reparations* and under the given conditions and, if forced, would lead to serious disturbances. Keynes, therefore, was not at all of the opinion that Germany could not pay; he estimated, as Röpke also mentions, the German ability to pay in the most favorable case at 2 billion marks during 30 years and the cash value of these annuities, including the other payments, at 40 billion.³ A payment of 160 or even a payment of 100 billion, however, was for him outside "the limits of reasonable possibility."⁴ Keynes further qualified his thesis in two regards. While he economically considered an annuity of 2 billion to be possible, he doubted from a *political, social and human point of view* whether such a payment could be enforced for over a span of 30 years. The second constraint concerned the upper limit. He considered higher payments possible under the following three conditions: A "substantially" higher payment could be obtained if the Allies treated the German economy with special "care" for a period of 5–10 years, by granting large loans, providing ships, food, raw materials, by creating markets for German goods, in short, on condition that the Allies were willing to make Germany the greatest industrial power in Europe or even in the world, "for Germany is capable of very great productivity."⁵ Germany could also pay more in nominal terms if the value of money were to fall sharply, and finally more could be expected if almost revolutionary improvements in production methods were realized.⁶

Since these conditions were not of immediate practical relevance, Keynes, in his proposal, went below that sum whose payment he considered possible in the most favorable case and, as he expressly states, out of political, social, and human considerations. The present value of the annuities to be paid was to be fixed at 30 billion marks, and this amount was to be paid, without carrying interest, in 30 installments of 1 billion each.⁷ In the second book, "A Revision of the Treaty", completed in December 1921, Keynes modified his proposal. He now envisaged 30 annuities of 1¼ billion, going exclusively to France and Belgium.⁸

³ These numbers are in Keynes 1920: 214 (in German currency) or, in dollars, in Keynes 1919/2007: 150.

⁴ Keynes 1920: 164 or Keynes 1919/2007: 114.

⁵ Keynes 1920: 165–66 or Keynes 1919/2007: 114–15.

⁶ Keynes 1920: 166 or Keynes 1919/2007: 15.

⁷ Keynes 1920: 214 or Keynes 1919/2007: 150.

⁸ Keynes 1922: 174.

Let us now ask first, starting from the estimate of the German ability to pay of 60 billion in 30 annuities, whether Keynes thus grossly underestimated German possibilities. Deciding this question is already complicated by the fact that the concept of the ability to pay can have different contents. Keynes never claimed that it was theoretically and practically impossible for Germany to raise, say, 300 billion in 30-50 years. An annuity of 6–10 billion would have corresponded to a reduction in the standard of living of 10–15%, measured in terms of German national income between 1925–29. In view of the fact that in Germany around 1929 approximately these sums were spent on alcohol and tobacco – in 1930 the revenues from internal excise taxes on alcoholic beverages and tobacco alone amounted to nearly 2 billion marks –, an ability to pay in this sense and of this amount could actually be assumed, at least in the abstract.

With this assessment, however, the decisive questions are by no means answered. It is now important to know what the conditions are under which such enormous amounts or the masses of goods corresponding to them could both be raised within Germany and be transferred abroad. The obvious *starting point of Keynes' criticism and proposals* is the *assumption* that both the raising and the *transfer of reparations should take place within the framework of a relatively free market system*. For the raising of funds, this means that it is done only by taxation and that no further coercive interventions are undertaken; for the transfer, it means that the creditor is simply provided with the sums of money raised. According to a certain theoretical view, the market process, under the influence of the described raising and transfer, automatically brings about a restructuring of the German production structure, and it also generates the necessary export surplus out of which the reparations are paid in real economic terms.

Now Keynes doubted the correctness of this theory and, above all, the actual effectiveness of this automatism. To be precise, I must say that he did not actually dispute the logical correctness of the theory and that he also recognized the effectiveness of the market process in principle. Keynes however doubted that this automatism could, without disturbance, raise and transfer in the real economy those significant amounts which were under discussion at the time he wrote his books. Thus, for him, it was first a problem of scale. But Keynes also doubted that the raising of such large sums was possible within a liberal economic order from a political, social, and human point of view.

I need not fear being refuted by anyone when I state that over the years probably all economists have come to the result that the capacity of this automatism is probably very limited, so that, in any case, annuities in the order of magnitude of Rm. 3 to 10 billion, payable through decades, far exceed its capacity.

I am therefore of the opinion, which I am sure is also shared today by most economists, that Keynes did not underestimate Germany's economic ability to pay reparations with his figure of Rm. 2 billion annually for a period of 30 years, well understood: within the possibilities of a market system. One must even say that even this payment could be expected only under quite extraordinarily favorable circumstances, namely, a corresponding willingness of the Germans to pay, minimal friction in the internal transformation process, the absence of strong restrictive trade barriers, i.e. a willingness of the Allies and the neutrals to absorb the German flow of goods, the absence of severe slumps, and the precondition of a progressively growing world economy. Since the fulfillment of these conditions was highly questionable from the outset, one must admit today, in retrospect, that not only this estimate by Keynes but also his own lower proposals were too high.

Mr. Röpke, however, disagrees. He declares that he has never been able to convince himself that it is advisable to justify with a bad theory even a good cause. He sees one such bad theory in the transfer theory, which he characterizes as an untenable nonsense. We must then conclude from this attitude and from the reference to Germany's ability to pay for rearmament that according to Röpke, reparations could have been raised and transferred up to the amount of those sums that Hitler spent annually on rearmament.

But what about the evidential value of those facts that Röpke cites in order to show that reality has refuted Keynes? The fact that the production of iron, steel and coal, the volume of savings and capital formation exceeded the level of 1914 a few years after the stabilization of the mark cannot, after what has been said above, be regarded as a refutation of Keynes' theses. After all, Germany's productive capacity was beyond question for Keynes as well. For the assessment of reparation capacity in the sense paraphrased above, the figures of the balance of trade are decisive. Here we are not told that, during the six "fat" years of 1924–1929, average imports and exports were approximately equal to the average of the semi-decade 1909/13, imports outweighed exports, and the balance sheet showed a deficit only slightly different from the deficit of the immediate prewar years. Thus, in these good years a trade surplus could not be attained to pay reparations; but the significant surplus of the years 1930/32 was already a consequence of the crisis. It was no evidence of a growing ability to pay, but a consequence of economic collapse.

Finally, as for the argument that the capital denudation of Germany prophesied by Keynes did not occur, since Germany paid a total of 21 billion in reparations between 1930 and 1931 and received 35 to 38 billion in loans from abroad, it must be said that this fact proves the opposite of what Prof. Röpke wants to prove with it. When a country receives foreign capital on such an enormous scale in such a short period of time – never has an economy, not even America in its rise, seen an inflow of such enormous sums in such a short period of time –, then this is, I believe even according to the logic of the classical theory which Mr. Röpke holds so dear, the symptom of a very pronounced lack of capital. In reality, these figures are evidence of the whimsical and highly paradoxical reparations policy that was pursued. On the one hand, enormous sums were demanded, but on the other hand, nothing was done to collect them. This was left to the market process, and one even went so far as to "commercialize" the reparations. This process, however, as it occasionally does in other cases, did exactly the opposite of what it should have done: it moved huge amounts of capital to Germany, i.e. it made foreign countries formally pay for reparations to foreign countries and, in addition, it made billions available for investment in Germany itself. To formulate it more vividly in other words: *Germany did not pay any reparations at all in an economic and real sense, as far as reparations are concerned that were to be transferred through the market process.* After the outbreak of the global economic crisis and the onset of the depression, reparations were not even paid in this fun way any longer, as foreign capital stayed away.

So these are the proofs Mr. Röpke brings forward to support his accusations against Keynes. He discreetly refrains from mentioning the outbreak of the crisis and from referring to the catastrophic depression into which the world, and especially Germany, was thrown. After all, the picture of those years of global economic collapse, with its enormous masses of unemployment, economic despair and social disintegration, could perhaps awaken in the reader a memory of Keynes' dark prophecies. The author also ignores some other facts. There is no mention of the circumstances under which Keynes raised his warning voice. The reader is not told that the book on the economic consequences of the Peace Treaty was written in the autumn

of 1919⁹, and the second [book] in the autumn of 1921¹⁰, thus both at a time when the economic and political conditions and prospects were viewed with the gravest concern by anyone reasonable. Above all, however, the decisive fact is concealed from the reader that the amount of the reparation debt was not specified in the Peace Treaty itself and was not fixed for the first time until the spring of 1921.¹¹ Therefore, for two years, politicians in charge as well as demagogues, often united in one person, could to raise before parliaments and in election campaigns the most fantastic reparation demands, which were beyond any real possibility. Thus, in September 1919, the French Finance Minister Klotz, in a speech before the Chamber, estimated the cash value of the German reparation debt at 300 billion gold marks, payable from 1921 in 34 annual installments of about 18–20 billion! In the British khaki elections¹² immediately after the armistice, Lord Cunliffe¹³ had demanded far more, namely an annuity of 28.8 billion over a period of approximately the same length. At the Paris Conference of January 1921, a payment plan was envisaged with an annuity rising from 2 to 6 billion and a gross sum of 226 billion. On top of this, however, an additional annuity, to be calculated according to certain criteria, was to be paid, the amount of which considerably exceeded the basic rate. These are just some of the demands that were made at that time. Keynes' struggle is therefore only understandable against the background of these completely unreal and chimerical orders of magnitude. It was not until the London Conference that the present value of the reparation debt was fixed at 132 billion, and even the milder provisions of the Dawes Plan stipulated an annuity of 1.5–2.5 billion for a period of more than 60 years, which could rise to 2.5–3.4 billion as prosperity increased. The Young Plan, which reduced the annuities once again, also determined a gross total sum for the same period in the amount of 117 billion.

Everyone knows that the Dawes Plan as well as the Young Plan remained mere paper. In view of the fact, proven by experience, that the sum of the reparations paid through market means, taking into account the compensating foreign credits, was zero – or at best amounted to a few billions –, it will be truly impossible to claim that the reparations could have been transferred without difficulties. So, if one does call experience to bear witness, then it can probably only be described as a devastating confirmation of Keynesian predictions.

Mr. Prof. Röpke sums up his reflections in the scathing verdict that one “must¹⁴ refuse to concede the role of a reliable and trustworthy intellectual leader of our time to a man who had so many errors to correct and sadly left so many others uncorrected?” This recommendation is based not only on the thesis that Keynes erred in the question of reparations, but also on serious accusations regarding the historical-political effects of Keynes' wrong predictions. According to Mr. Röpke, these calamitous effects are the following:

1. There is a connection between the Keynesian agitation and German inflation, since it was this agitation which encouraged the government not to balance the budget, which would have been quite possible, and instead to turn to the money press.

⁹ Keynes, J. M. (1919), *The Economic Consequences of the Peace*, London, Macmillan.

¹⁰ Keynes, J. M. (1922), *A Revision of the Treaty*, London, Macmillan.

¹¹ This happened at the London Conference in March 1921.

¹² The term is used for any national election which is heavily influenced by wartime or postwar sentiment; it refers to the color of the British military uniform.

¹³ Walter Cunliffe, a British banker, served as Governor of the Bank of England from 1913 to 1918. He was later a British delegate at the Paris Peace Conference, chairing the subcommittee that was to determine Germany's ability to pay.

¹⁴ The word „must“ is not part of Röpke's original.

2. It was Keynes “who, like hardly anyone else, gave the cue to all those politicians, parties and popular currents which ultimately led Hitler to power,” namely, the cue that the “tributes” and “Versailles” were the source of all misery. With this, he becomes one of the originators of the disastrous “mythology” according to which Versailles was a “Punic” peace.

3. Keynes contributed, albeit unintentionally, “by his gloomy prognoses about the German future” to “lulling the world into a sense of security against the danger threatening from National Socialism”, and he was partly to blame for “its not being averted in time because *Hitler’s economic possibilities were so fatally underestimated*”. Therefore, it cannot be denied that Keynes’ writing “is one of the famous books which form an important link in the causal chain.”

In view of such serious accusations against a scholar of world renown, one will not be able to blame me if I point out that Prof. Röpke published a book in 1931 under the title “Der Weg des Unheils”¹⁵, which is nothing but an outcry against Versailles and the reparations. The book culminates in the sentence written by Mr. Röpke: “The world knows that the reparations are dynamite in economic as well as in political terms” (p. 74). I would like to refrain, in a lenient manner, from reproducing here in more detail the passionate remarks of the author against the Versailles Treaty and the reparations. I shall content myself with stating that Mr. Prof. Röpke was of the opinion at that time that reparations were one of the main causes of the chaos in the world economy, that Germany had been driven into inflation by this “unbearable” burden, that reparations had far exceeded Germany’s ability to pay, and that their collection was impossible within a market system. Thus, at that time, he was quite in agreement with Keynes. It would be a cheap pleasure if I wanted to prove Prof. Röpke wrong and accuse him of changing his views. But anyone who was himself once a vehement agitator against Versailles and reparations is certainly not entitled to make such serious and, moreover, frivolous accusations in this respect as Röpke made against Keynes.

¹⁵ The path of calamity; Röpke 1931c; no translation available.

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