

CHAPTER ONE

The Mount Washington

It seems a place of dreams, enchanted, legendary.

Boston Globe, 4 June 1944

Look at me, gentlemen ... for I am the poor fool who built all this!

Joseph Stickney¹

It is a quirk of history that the most famous place in economics doesn't exist on a map. Were you to run your finger down an official list of the towns and villages of New Hampshire, you wouldn't find Bretton Woods. Technically speaking, there is no such town. This is no accident: Bretton Woods disappeared from the register more than a century before the conference that made it famous.

Early efforts to settle this lush valley deep in the north of New Hampshire were not successful. Despite giving away twenty-five thousand acres to relatives and cronies in 1772, colonial governor John Wentworth struggled to persuade anyone to visit. In a desperate bid to encourage the wealthier end of his family to pile in, he rather shamelessly named it after Bretton Hall, near Wakefield in Yorkshire, the home of his cousin, Sir Thomas Wentworth. It didn't work; Sir Thomas never made the journey.

He wasn't the only one. Bretton Woods was hardly the most compelling investment for a prospective plantation owner. Penned in on all sides by the White Mountains, it lay a three-week hike from civilisation. The only way to get there faster was to be winched through one of the 'notches', small openings in the mountain ridge which connected the valley to the rest of the world – and even then the journey took seven days.² The soil was decent, but as early explorers discovered, even once you managed to reach it, in the winter you had to contend not merely with a temperature tens of degrees below freezing but the threat of death by avalanche or bear attack.

And all that was before a more pressing issue for the average eighteenth-century investor: the impending war of independence.

So Bretton Woods sat there, empty save for the black bears and the odd moose, for almost a century, when at last settlers built a route up through the foothills to the valley. A road was laid down, then a railway, and the people and politicians of New Hampshire finally discovered this cradle in the heart of the White Mountains.

In 1832, as soon as enough voters were living there, the state legislature dispensed with the old colonial name and rechristened the settlement Carroll, after one of the signatories of the Declaration of Independence, John Carroll. And if it weren't for nineteenth-century coal tycoon Joseph Stickney the name Bretton Woods would probably have been forgotten for ever.

Stickney was the man who built the Mount Washington Hotel, and for some reason he exhumed the old name when he incorporated his enterprise. So was born the Bretton Woods Company and, when the hotel was finished, he gave the same name to the railroad station, post office and express office. When the delegates arrived there in 1944, the name Bretton Woods was at the head of each letter they sent home. As with so much else about the summit, even the name was up for grabs.

It might seem irregular that a hotel owner could single-handedly

overturn the state legislature's decisions, but, then again, Stickney was no ordinary magnate, just as the Mount Washington was no ordinary hotel.

What is perhaps most striking about the Mount Washington Hotel is that, for such an enormous building, it is strangely unobtrusive. Unlike other grand hotels, which announce their presence from afar, you tend to catch sight of the Mount Washington only at the last minute. After ascending the foothills of the White Mountains, travelling for hours along roads or railways (even today, no one flies there) and threading through one of those notches in the Presidential Mountain Range, you will finally reach the green bowl that contains it. Even then, you still need to snake along the valley floor for another mile or so until suddenly a turret pokes over the treetops on your left and there it is: all 234 rooms of it.

The first point of conversation is the size. The second is the fact that this enormous, hulking structure is made of wood – it remains the biggest wooden building in New England. Perhaps that's what enables it to be both simultaneously huge and inconspicuous, as if the neighbouring forests have come to tolerate their occupant and decided to cohabit amicably.

The driveway loops around strategically from the nearby railway station, a circuitous route designed to afford the best possible views of the hotel as you arrive. Whether by this stage you've concluded it is a great red-roofed white elephant or a fitting testament to America's Gilded Age, you can hardly deny that it's impressive.

That said, it would be going rather too far to call the building beautiful. Some have tried: Stickney himself considered it a 'great Palazzo'. He hired up-and-coming architect Charles Alling Gifford and shipped in more than 250 Italian artisans to work on its timber frame and plastering. He would reference the French and Spanish Renaissances as he whisked guests around the building.

In reality it's more like an enormous, grounded ocean liner, which is perhaps fitting, since the hotel shared at least one model

of chandelier with the *Titanic*, and the wraparound veranda, a quarter of a mile in length, feels eerily like the deck of a great sea vessel. And, like a cruise liner, this mammoth structure was purpose-built to be almost entirely self-sufficient. It had its own post office in the basement. A stock ticker was installed with a direct link to Wall Street. The whole place was equipped not merely with electricity throughout but its own coal-fired power station, installed by Thomas Edison himself (just one of the favours Stickney called in during construction).

There were tennis courts, squash courts, heated swimming pools, Turkish baths, boot and gun rooms, a furrier and card rooms for the wives, a bowling alley for the kids, a billiard room for the evening – not to mention bars and restaurants with food and drink of a quality and variety you could rarely find outside the big cities. Even the most demanding New York industrialist or financier could scarcely find an excuse to leave the premises for the duration of his holiday. Unless, that is, he wanted to take the cog railway up Mount Washington itself. But, given the summit was renowned for having the ‘worst weather in the world’, many guests didn’t bother.

The inside was an odd combination of Old World and New. The Great Hall into which guests were first ushered combined 23-foot ceilings and lavish decoration in the style of Versailles with a rustic New Hampshire stone fireplace and moose’s head. The stained-glass windows and panels were designed by Tiffany & Co. of New York – some of them by the son of the founder, Louis Comfort Tiffany.

Guests were outnumbered, sometimes two to one, by regiments of staff, and even behind the scenes little expense was spared. There was a water-powered elevator and a printing plant for the hotel’s menus; a fleet of coaches and cars to ferry guests around; an orchestra and choir (part time); and chauffeurs (full time).

But then this was the Gilded Age. Extravagant demonstrations of opulence and grandeur were precisely the point. Stickney’s

creation wasn't the only grand hotel of the era, but it was intended to be the grandest. Wooden it may have been, but unlike many of its rivals, it had a steel frame which meant it was built to last. Other luxury hotels charged \$5 a room. Stickney charged \$20.

The inflated prices did little to deter the great families of America from visiting. The Vanderbilts and Rockefellers, retinue in tow, would rent an entire wing of the hotel for the summer, to escape the heat of New York or Boston.

At that time, heading north was about the only way to enjoy the summer in some degree of propriety. New York's public baths were full to bursting, and a couple of weeks before the Mount Washington Hotel opened seven people had died in the city because of the heat.* Even as late as the 1940s, air conditioning was not ubiquitous in the big cities, so the Mount Washington was still able to lure tourists with the promise of cool mountain air, fresh sunny days and pleasant nights.

And it was at least partly for its climate that the Mount Washington was chosen as the location of the United Nations Monetary and Financial Conference. After years of work on the articles that would eventually make up the Bretton Woods agreement, by the spring of 1944 it had become clear that the deal would have to be sealed by late July, so there would be something for Franklin D. Roosevelt to unveil at the Democratic Convention later that month.

As far as John Maynard Keynes was concerned, the idea of heading to the sticky eastern seaboard in mid-summer was tantamount to suicide. Although hardly in old age (he had just turned sixty) he was in poor health, having come down some years earlier with a

*As it happened, in that very same month the Mount Washington was completed, a young engineer in Brooklyn, Willis Carrier, came up with the germ of the idea for air conditioning, but it would take some decades before it was widely available. Marsha E. Ackermann, *Cool Comfort: America's Romance with Air-Conditioning*, Smithsonian Books, 2002.

throat infection which by turn became a life-threatening heart disease. Subacute bacterial endocarditis can be treated relatively simply with antibiotics these days, but back then even Harley Street's finest doctors could do little to cure him. Despite a series of ever more bizarre and tortuous treatments with eccentric Hungarian physician Janos Plesch, Keynes suspected another major heart attack might be his last.

Although he and his colleagues were hard at work that summer – not merely on the question of exchange rates, but on the suite of government bills that would eventually create Britain's welfare state – Keynes spent an inordinate amount of time trying to ensure the conference wasn't held in the sweltering heat of New York or Washington. Having endured a 'horrible' July in the capital three years earlier, negotiating Lend-Lease – American wartime financial support for Britain* – he raised the issue with Harry Dexter White, who was heading up the US negotiating team. 'For God's sake,' he wrote, 'do not take us to Washington in July, which should surely be a most unfriendly act. We were hoping, you will remember, that the next round [of talks] would be here. If that is impossible, then at least you must arrange for some pleasant resort in the Rocky Mountains, if you are going to keep your flock in a reasonably good temper.'³

There was never any serious question of holding such seminal discussions in Britain, so Henry Morgenthau, the US Treasury Secretary, told White: 'Have it in Maine or New Hampshire, some place up in the mountains there.'⁴

*On 2 July 1941 Keynes wrote to Sir Horace Wilson: 'I certainly didn't expect to find myself still in Washington in July! The weather is horrible – nearly 100 this afternoon (the thermometer was still over 90 at half past nine yesterday evening) and very humid.' JMK XXIII, p.149.

†Keynes also raised the matter with Sir Wilfred Eady at the Treasury, telling him: 'If the conference is to come off shortly and not to be postponed until September, I would urge that it is very advisable that it should certainly not be later in June than the date suggested. Otherwise we shall be running straight into tropical weather. Even as it is, it will be frightfully hot.' National Archives, Kew, T247/28.

As it happened, New Hampshire was a useful choice from another perspective. President Roosevelt needed to be able to sell whatever deal came out of the conference to a sceptical Congress. That, after all, was what Woodrow Wilson had failed to do with the League of Nations in 1919. This meant currying favour with the Republicans, and as chance would have it there was one influential Republican member of the Banking and Currency Committee who, for reasons of his own, wanted to host the conference in his state. Despite being an isolationist and sceptic about America's role in international economics, Senator Charles Tobey of New Hampshire was facing re-election; he sorely needed to further raise his profile ahead of November.

There were a number of big hotels in New Hampshire, but most were in a sorry state of repair, the Mount Washington included. The hotel's fortunes had faded along with those of so many of its patrons. Stickney had died barely a year after it opened. His widow Carolyn (Princess Carolyn, as she liked to be called – her second husband was a French aristocrat) remained the figurehead for some years afterwards, but after her death the hotel's grandeur diminished under a series of unenthusiastic owners.

For the past two years the place had been left to the mercy of the New Hampshire winter. Heavy snow, falling from the six-storey-high towers, had torn holes in the roofs, exposing the ballroom and the porches to the elements. The furniture was damp, mostly ruined; some of the lavish paintwork and fittings had rotted away while the wallpaper had peeled from the walls in long strips. The wood was irreparably warped and the plumbing and electrics had corroded. The forest threatened to engulf the hotel with its leaves and branches.

The Depression and the war were already serving to kill off many of the great hotels of New England, and the Mount Washington would most probably have gone the same way had it not been abruptly resuscitated by the conference. Quite how it gained the

commission remains something of a mystery. What we do know is that a wealthy Bostonian, David Stoneman, was awarded \$300,000 to hold the conference shortly after buying the run-down palazzo. As one gossip columnist remarked at the time, 'this canny Yank is the only US citizen who wound up ahead of the game after Bretton Woods.'⁵

His competitors would later complain that Stoneman had benefited from a White House tip-off. It's a neat conspiracy theory, but it is far more likely that the hotel was chosen for its size, its direct rail access from Washington and New York and the security of its setting, which allowed the National Guard to construct a cordon around the entire valley. Moreover, both Morgenthau and White had faced the humiliation of being turned away from New England hotels in the past because they were Jewish. That was unlikely to be an issue at the Mount Washington, seeing as Stoneman was also a Jew.

The proprietor, a lawyer and venture capitalist whose main family business was movies and movie theatres (he had helped finance D.W. Griffith's 1915 masterpiece *The Birth of a Nation*^{*6}), stayed in the hotel throughout. Sporting his trademark white linen suit, he was often to be seen striding grandly down the corridors, inspecting the rooms and the staff, and attempting to bring some order to the chaos.

But with barely a fortnight left until the conference was due to begin, the hotel was in no state to welcome even a few guests – let alone the hundreds it would need to accommodate that July. Entire sections were uninhabitable. Even as the head engineer boasted to a visiting reporter from the *Boston Globe* that 'it will all fit together like the pieces of a picture puzzle', a sudden torrent of water burst through the ceiling of the hotel lobby.⁷

And so, much to Stoneman's relief, in stepped the federal

*This also may help explain why the movie's central family is called Stoneman.

government. Washington sent up 150 soldiers, along with some German prisoners of war. The roof was fixed and a new plumbing system installed (somehow nationwide copper rationing regulations were overridden). New telephone lines were laid down, old furniture was thrown out and replaced. According to locals, you can still find items of pre-1944 Mount Washington furniture in homes throughout the valley.*

At the very end, each of the workers was given fifty gallons of white paint and told: 'If it doesn't move, paint it.' And so they went methodically through the hotel, painting everything. The mahogany doors, the brass sidelights, the carefully made fixtures – even the hand-crafted Tiffany windows were doused with a stark coat of white paint. By the time Stoneman's staff realised that the finest decorations of his hotel were being desecrated, most of the ground floor, including the grand ballroom where the plenary sessions would be held, had been painted over in white. Even today you can find the odd speck of white paint on some of the hotel's doors and fittings – a reminder of that desperate bid to smarten up the place before the delegates arrived.

Ahead of the conference, the Americans had invited the Britons and fourteen other hand-picked delegations to the Claridge Hotel in Atlantic City for a week of pre-drafting. They had then taken a special train up to the Mount Washington. As was to be the pattern over the course of the following fortnight, even on board the delegates continued drafting, their work punctuated only by frequent strong drinks and the odd nap. The Cubans brought cigars, much to the gratification of the American delegation.

The train, which was given express treatment, with every signal operator ordered to allow it right of way, arrived one hour early.⁸ The bleary-eyed delegates were ejected onto an empty platform in

*Many of the old pieces of furniture were left lying around, leaving enterprising locals to come in and pick up anything they fancied.

the middle of nowhere. After a while, military buses arrived to start ferrying them to the hotel, which was still in complete chaos. 'Everything is in a state of glorious confusion,' wrote Lionel Robbins, a member of the British delegation. 'When we arrived half the rooms were not yet ready, and it was rumoured, and I believe it is true, that it had only proved possible to open the hotel in time by calling in the aid of the military.'

The new plumbing system wasn't yet fully operational; the new guests discovered to their disgust that some of the taps produced a sludgy dark liquid.⁹ That the administration had shipped in a thousand cases of Coca-Cola (rationed at the time)¹⁰ didn't entirely compensate. Keynes's wife Lydia wrote that 'the whole of the hotel was out of order ... so the taps run all day, the windows do not close or open, the pipes mend and unmend and no-one can get anywhere.'

There was, more importantly, a shortage of the essentials required for an international summit. While just about enough chairs were laid out in the conference rooms, there were too few stenographers to fill them – one of the reasons why, to the eternal frustration of economic historians, there survive only fragmentary transcripts of the proceedings at Bretton Woods.

The hotel administrators sourced fifteen local boy scouts to help run errands.¹¹ Over the course of the following three weeks they would become one of the conference's more touching fixtures: as the delegates took it in turns to hector each other, the scouts would faithfully ferry microphones from one to another and back again.

A delegate from the American team complained that 'the service was very poor and inadequate'. Assistant Secretary of State Dean Acheson, having been tipped off about the likelihood of chaos, stayed instead 'in a comfortable inn at nearby Crawford Notch. The transportation problem was solved by appropriate attention to the military police assigned to guard our privacy and well-being.' The disarray proved too much for the hotel manager. A

story went around that he had locked himself in his office with a case of whiskey and was refusing to open the door.

One of the most problematic unanswered questions was how the hotel would accommodate more than seven hundred delegates – let alone their entourages and the travelling press pack. When you added up all the visitors, this meant well over three thousand people would be in attendance. This was in a hotel with only 234 rooms. Some of the delegations simply decided to stay elsewhere – the Chinese and Russians among them.

The brochure that went out before the summit claimed that for just \$11 a day delegates would be entitled to the ‘American plan’ – a shared room with a bath, or a single room, all meals included.¹² And some were relatively fortunate. Keynes was given one of the best suites in the hotel, a four-windowed set of rooms overlooking the golf links and the Ammonoosuc River. Nonetheless when Lady Keynes, one of the greats of the Ballets Russes, caught sight of the room she started to ‘scream [and] cry’ with disappointment.¹³

Others were less blessed. In the event, so numerous were the delegates that many ended up sleeping in linen closets and corridors – although, given that the negotiations and drafting sessions would go on through the night, that was less of an issue than it might sound.

Inevitably, as night fell that first evening, most of the delegates found their way downstairs to the bar, which rapidly became one of the focal points of the conference. The nightclub in the bowels of the hotel had had many incarnations over the years. Originally it was used as a garage, then for squash courts. When prohibition came it was set up as the secret hotel bar. Guests would drink teacups of liquor smuggled in from the Canadian border barely sixty miles north. If they spotted Feds approaching on the driveway, the liquor would be replaced with real tea and the barmen would start playing squash for their teetotal ‘spectators’.

That first night, the bar was crammed with delegates from all

over the world – Colombians, Poles, Liberians, Chinese, Ethiopians, Russians, Filipinos, Icelanders, Iraqis – quite possibly the most cosmopolitan gathering ever seen in that part of New England. And as they drank, sang and exchanged stories, David Stoneman meandered in a daze among them, as if he had decided to give in to the chaos. To top it all off, now that his hotel manager had disappeared, word had gone around that the US Treasury had taken it upon itself to send down to Washington for a replacement.

As the diarist from *The New Yorker* put it: 'It was only then that he realized what he was in for. A gentleman who was watching Mr Stoneman at the moment has told us that his normally pink face went bright and alarmingly red and that not only did he seem to crumple suddenly but that his immaculate white linen suit did, too. From that day on, he wandered about the hotel a shaken man, possibly praying that his select family trade would hear as little as possible about the strange goings on in Bretton Woods.'¹⁴

Although they came from all corners of the earth, many of the delegates were great friends, having met plenty of times before as their respective countries negotiated wartime loans and struggled to keep their financial systems afloat. They had confronted each other over negotiating tables and made up later in conference bar-rooms. Now, at Bretton Woods, they were in for a longer and more significant set of discussions than they had ever experienced.

If downstairs was a rowdy but rather inspiring picture of twentieth-century international progressiveness, upstairs the atmosphere was more rarefied – perhaps mildly imperial. A couple of flights above, in suite 219, Keynes was hosting a small private dinner to commemorate the five-hundredth anniversary of the concordat between King's College, Cambridge and New College, Oxford. As someone whose entire life had been associated with King's, the fact that he was more than three thousand miles away would not stand in the way of the great economist's commemoration of the event. Nor would the fact that only a handful of delegates

had actually been to either Oxford or Cambridge – let alone to the colleges in question. Happily, his fellow delegate, Robbins, was an alumnus of New College. The other five guests came courtesy of abstruse college connections: Nigel Ronald had been at Winchester, established in the fourteenth century by William of Wykeham, founder also of New College; Dean Acheson and Oscar Cox of the US delegation had attended Yale, which also had a concordat with King's; H.H. Kung of the Chinese delegation had an honorary Yale degree; and Dennis Robertson, with whom Keynes had worked on the early stages of his magnum opus, the *General Theory*, was invited too.

The dinner, it soon transpired, was largely an excuse for Keynes to order some of the hotel's finest wines, 'overcoming the near anarchy in the kitchen and wine cellar',¹⁵ and to do what he did best: hold court to a small room of admirers.

Contrary to appearances, Keynes was not the most eager socialite. Never happier than when he was drafting agreements, he preferred intimate gatherings to hob-nobbing – a tutorial-style atmosphere and a couch or bed near at hand in case he was overcome by exhaustion. This had been a problem in previous visits to the US, where he complained, 'what overwhelms one ... is the enormous amount of work, or semi-work, which one has to do at meal times.'¹⁶

At the Mount Washington, Keynes had been forbidden by Lydia from going down to the bar – and for the most part he was to obey. Nonetheless, he had been looking forward to the small anniversary dinner for weeks, 'as excitedly as a schoolboy'.¹⁷ He gave a brief speech extolling the virtues of universities as institutions which pass down knowledge from generation to generation 'in all our countries, the centre and core of much that is most precious in the world's civilisation ... It was all very *pianissimo*, as befitting the occasion, but his emotion when he spoke of our debt to the past was truly moving.'¹⁸

Up there in the cool mountains of New Hampshire, in a suite replete with fine wines, surrounded by men gathered from the three corners of the world, it was possible, for a moment, to forget the fact that the world was still at war. However, on the other side of the Atlantic, the fighting in Normandy and beyond had intensified. Since D-Day twenty-five days earlier, almost one in ten of the 630,000 American, British and Canadian troops who had landed had been reported killed, injured or missing, while the war in the Pacific raged as fiercely as ever. Every day Bob Brand, one of the British delegates, woke up fearing that he would learn that something terrible had befallen his son Jim, who was fighting in France.

London was facing a second, more sinister Blitz courtesy of Hitler's V1s, up to a hundred of which were now raining down on the city every day – indeed, the previous day forty-eight people had been killed when one of them exploded just outside the Air Ministry on Aldwych. The so-called Doodlebugs had ushered in a new age of terror. They were arbitrary killing machines. Launched towards London from bases in northern France, they fell from the sky with their 1800lb payload whenever they ran out of fuel. All you would hear was the approaching, ominous buzz of the primitive pulse-jet engine; then, when it suddenly cut out, the best you could do was take cover and hope you weren't in its path.

And it wasn't merely London which had been terrorised by the unmanned bombs. They were the main topic of conversation in the US at the time of Bretton Woods, with residents of the eastern seaboard terrified that they too would become a target. On the very week the delegations arrived in the US, Willy Ley, the Weapons Editor of New York newspaper *PM*, had been wheeled out to reassure Americans that the Germans would be incapable of constructing a 'robot bomb' capable of traversing the Atlantic and destroying the Big Apple.

Naturally, then, much of the conversation between the Bretton Woods delegates concerned the horrors of war. Most had sons and

brothers fighting in Europe or the Pacific. Many knew first hand from the First World War the horror and indignity of such conflict. After drinks were drunk, whether in private dinners or down below in the bar, in a morbid way it was talk of these horrors – ‘atrocities stories’, as one attendee called them¹⁹ – that united the delegates.

Even here, there was a machismo hierarchy of sorts. As countries which had fought tooth and nail against the Axis powers, and had seen war intrude on their doorsteps, the British and the Russians considered themselves to be in top spot. During one earlier conference a Russian delegate (or rather his interpreter) had taken Robbins aside and whispered: ‘here in America they do not know what war is.’ Nonetheless, it was the Americans who were now pivotal to the fighting in Europe, not merely bankrolling the war effort but providing the lion’s share of men for the Normandy landings. They might not have had to face war on their home soil, but they were now fighting and dying in their thousands.

At the bottom of the pyramid of wartime pride were the French. At this stage, Henri Giraud and Charles de Gaulle’s Comité had still to be fully recognised as a government as opposed to a wartime administrative body. Its delegates at Bretton Woods would expend about as much effort trying, behind the scenes, to ensure that they were referred to as ‘France’ as they would on the actual economic negotiations. It led one of the delegates to conclude that, inevitably, they are ‘suffering from a very bad case of inferiority complex, because of what they have gone through’.²⁰

However, there was a common enemy and a common cause. In the end, it fell to Tobey, the New Hampshire Senator who had been drafted in to bulk up the Republican head-count, to deliver this message as the summit got under way. With the delegates set to begin their detailed negotiations a couple of days later, on the eve of Independence Day, he stood up to address the conference.

The delegates, most of them more accustomed to technical terminology than to full-blooded American political rhetoric, could

hardly have prepared themselves for such an address. In a voice that boomed so noisily through the microphone that the chandeliers in the hotel's great ballroom shook, the senator berated the critics of Bretton Woods, 'some of these around the perimeter of this Conference'. The event, he continued, his voice growing ever louder, his eyes focused on the press corps at the back of the room, had a noble cause. It was for 'the man in the foxhole', under enemy fire.

Then, his fists pumping, his arms raised and his voice rising to a crescendo, Tobey's oratory elevated to the poetic, the religious:

On us is a grave responsibility. To us is given a high privilege. God, the Father of all, give us understanding and a vision of the needs of men today, of the fundamental truth that, whatever our nationality or creed, we are brothers under the skin.

As we confer together here today, amidst the eternal hills, inspired by the sublime beauty around us, and as the shadows of passing clouds above leave their impress for a moment on the slopes of yonder mountains, may the contemplation of the tragic sufferings and sacrifices of every nation bind us together in brotherly love and in a spirit of consecration to the great opportunity which is ours to displace doubt and cynicism with hope and confidence.

Two thousand years ago Christ was hanged on a cross, a spear thrust in his side, nails driven through his hands, a crown of thorns pressed upon his brow, and a cup of vinegar placed to his lips.

He died that men might be saved, and be, in truth, free. There are nations represented here today who, too, have had their sides pierced and a crown of thorns pressed upon them by the sufferings of war. They fight with and for us and we with and for them.

If cooperation can weld the United Nations together in solid phalanx against our enemies in war, surely we shall join together to achieve the vital objective of this Conference, meeting the world's needs for the rehabilitation of a war-torn world.

...I call upon each of you to place your hand with mine upon the lever of the spirit and aspirations that called this Conference into being, and by our united cooperation to lift the level of our age, that its blessings may be passed on to generations yet unborn. Gentlemen, we must not, we cannot, we dare not fail. The hopes and aspirations of the common people of each of our countries rest in us.

It was a speech that had to be heard to be believed, one delegate would later write.²¹ The hall erupted in applause, and though some of the delegates had to stifle cynical smirks, even the British were caught up in the excitement. 'Eloquence of this particular brand of emotional verbosity cannot have been heard on our side of the Atlantic for the last quarter of a century,' Robbins wrote in his diary. When he descended from the stage Tobey told his fellow delegates that he was ready to 'lay down his life' for the conference.²² Keynes dwelt, approvingly, on the point Tobey had made repeatedly throughout his speech: delegates should transcend their political differences in order to seal this agreement in New Hampshire.*

But what Keynes and most of his fellow delegates were unaware of was that this anti-political speech was made primarily for political purposes. Tobey had sidled up to his American colleague from the State Department, Dean Acheson, a little earlier. Given how tough a job he was facing to secure the Republican nomination ahead of the elections, he told Acheson, who reported: 'If he could make the Independence Day address, he would receive most gratifying publicity throughout the state.'²³ As Keynes remarked later, after meeting Senator Tobey, 'What a strange country!'²⁴

The incident underlined the collision of interests throughout the conference. When economic historians write about Bretton Woods

*Not all of the British reaction was positive. In a handwritten note scrawled on a copy of the speech mailed back home, the Bank of England's man wrote simply: 'Almost everything is wrong with this.' Bank of England Archives, OV38/9.

today they do so as if it were hermetically sealed, a sterile Petri dish in which economists and technicians constructed the world economy of the future. In reality, the three weeks of 'considered negotiations' at the Mount Washington Hotel were tense, chaotic and fractious. They could hardly have been otherwise given the nature of the main protagonists: two men determined to use the conference to safeguard their own economies; a duo whose fight with each other had begun years ago, and whose determination to redraw the economic map could be traced all the way back to 1918.

PART I

COLLAPSE

CHAPTER TWO

The Bitter Peace

1918–1919

You'd really be amused by the amazing complications of psychology and personality and intrigue which make such magnificent sport of the impending catastrophe of Europe.

John Maynard Keynes to Vanessa Bell, March 1919¹

And think ye that building shall endure,
Which shelters the noble and crushes the poor?

From James Russell Lowell, *A Parable*

As winter closed in on the year 1918 and the First World War limped to its conclusion, Harry Dexter White and John Maynard Keynes would both find themselves in France.

They were comparatively young men back then – one in his twenties, the other in his thirties – and neither had yet made a lasting impression on the world. Even so, the contrast between the two men who would go on to remould the global economic system was already plain to see.

At thirty-five, Keynes was one of his generation's finest economists. And while his hair was beginning to recede, there nonetheless remained something youthful about his appearance – though by all accounts you had to be there in person to feel it. Far

taller than most of his peers, he would bound, long-legged, into and out of rooms. He wasn't exactly handsome (indeed, he spent much of his life ashamed of his appearance – his thick lips especially) but there was a certain magnetism to him, particularly, according to one friend, those 'piercing, brilliant and dark eyes, surmounted by long lashes and thickly luxuriant eyebrows'.²

Even at that relatively early age, he had already been made a Companion of the Order of the Bath for services to the country's economy during the war. Like most other members of the Bloomsbury set he was a conscientious objector,* but despite refusing to put on uniform and fight for his country he was now in France on official business. Three years earlier he had been drafted into the Treasury; this tour of France and Belgium was nominally a survey of the extent of war damage. But as far as he was concerned, it was also a sign that his time trapped in the Treasury was drawing to an all-too-welcome close.

His life until then had been more or less everything his parents might have expected: if not a member of the high aristocracy, Keynes was nonetheless of upper-middle-class stock. His father, John Neville Keynes, was a well-respected lecturer in moral sciences at Cambridge; his mother, Florence Ada Keynes, a social reformer and, later on, a local politician. But even these two intellectuals had been outshone by their young son almost from the beginning. A blistering few years at Eton and King's College, Cambridge, had been followed by a spell as a clerk in the India Office, and then a lectureship in economics at King's. Soon after the beginning of the war he was drafted back into government service in the Treasury.

For a naïve young man from a prosperous academic family, who had spent most of his adult life in and out of offices, country estates and sumptuous Georgian townhouses in London, the sight that

*Or a variety thereof. His biographers vary as to the precise nature of his objection. Certainly, he refused to fight.

greeted him on the continent would leave an indelible impression: 'The completeness of the destruction was evident,' he wrote. 'For mile after mile nothing was left. No building was habitable and no field fit for the plough. The sameness was also striking. One devastated area was exactly like another – a heap of rubble, a morass of shellholes, a tangle of wire.'

Together with George Theunis, a Belgian official, he toured the empty battlefields, the 'blasted grandeur' of old Europe laid waste before them. Particularly disturbing was the field at Ypres, where almost exactly a year before hundreds of thousands of British soldiers, along with hundreds of thousands of Germans (the exact numbers are still disputed), were slaughtered in a hail of gunfire and clouds of mustard gas.

'In that desolate and ghostly spot,' he wrote, 'the natural colour and humours of the landscape and the climate seemed designed to express to the traveller the memories of the ground. A visitor to the salient early in November 1918, when a few German bodies still added a touch of realism and human error, and the great struggle was not yet certainly ended, could feel there, as nowhere else, the present outrage of war.'³

The damage wrought by the war was not merely physical and emotional. The events of 1914 brought to an end a period of economic growth and stability that many thought would endure in perpetuity. As Keynes would write in the opening lines of his 1919 masterpiece *The Economic Consequences of the Peace*, the preceding years had offered a quality of life that seemed to have disappeared for ever:

The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep ... He could secure forthwith, if he wished it, cheap and comfortable means of transit to any

country or climate without passport or other formality ... But, most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement, and any deviation from it as aberrant, scandalous, and avoidable.⁴

Though the term had yet to find common currency, it had been the first (and in many senses still the greatest) age of globalisation. As has been the case countless times ahead of a great crisis, the consensus was that politics had become irrelevant – all that mattered were the actions of financiers. As has been the case countless times since, such assumptions were proved gravely wrong.

The golden age ended so abruptly that, even four years later, most economists were still coming to terms with its loss. An assassin's bullet had sparked a political and then financial chain reaction which closed stock markets in country after country; within a few days it was all but impossible to transmit money across borders. With short-term finance suddenly unavailable the simplest functions of everyday commercial life could no longer take place. In London, the financial centre of the world, foreigners suddenly found themselves unable to pay bills, in turn compromising the brokers and banks which transacted with them; the money lent out by banks to the stock exchange and discount market threatened to go bad. For Keynes and his family, a significant amount of whose assets were plugged into the system, it was a financial disaster.

What underlay this catastrophe – though no one, Keynes included, would appreciate the scale of it for some years to come – was a malfunction in the international monetary system. The gold standard – the agreement by which most of the world's trading nations would fix the value of their currencies to the precious metal, and indeed commit to swapping their currencies for a set weight of gold – was disintegrating. As their sources of international funding dried up, that summer London banks started refusing to hand their

customers gold in exchange for currency – so-called specie payments. Queues formed outside the Bank of England as people attempted to swap their paper money for gold. The London Stock Exchange closed for the first time in a century and a half of continuous operation. It was, a Bank of England official wrote almost one hundred years later, ‘truly a credit crunch’.⁵

Like most economists, Keynes’s first reaction was to attempt to turn back the clock. He argued that Britain should do everything it could to restart the specie mechanism and get the gold standard working again – ironic, given that he would later become one of the most renowned proponents of its abolition. He still believed it might be possible to return to that pre-war golden era of globalisation. As far as he or anyone else could conceive, the alternative – a world of floating exchange rates and with London displaced from the centre of the financial network – was a chaos to be avoided at all costs.

In part this is because he believed, again like many others, that the war was likely to be over by the end of 1914. The conventional wisdom – made famous by writer Norman Angell in his 1910 best-seller *The Great Illusion* – was that prolonged military conflict was futile given how significant were the economic, trade and financial ties between nations. Keynes believed this meant a major war was nigh-on impossible; he could hardly have been more wrong. The mistake would leave a scar. He would devote much of the rest of his life to contemplating how apparently stable economic systems could implode, such that even tried-and-tested remedies would no longer work.

The war had raged on for four more years, each bringing with it horrors more outrageous than the last. One by one, a sequence of Keynes’s friends lost their lives in the mud of Flanders and the Somme; gossipy letters he sent off to the front would be returned with the word ‘killed’ scrawled on them. A generation of undergraduates at Cambridge, where he still spent much of his time,

would be obliterated; he watched as men who survived came home crippled, their lungs permanently damaged by poison gas.

But it was not until his visit to the Western Front in October 1918 that he would come face-to-face with the battlefields where so many had fallen. A quarter of a century later, Keynes would think back to this tour as he resolved to help create the new international institutions which would be able to help provide for countries torn apart by war and devastation.

The conflict was all but over, the new German government having called for an armistice based on President Woodrow Wilson's Fourteen Points, his framework for a post-war world based on democracy, self-determination and a League of Nations to bind countries together. From Keynes's perspective this wasn't merely a relief for the sake of the country and for humanity – it meant his arduous duties at the Treasury might soon come to an end. As he and Theunis inspected the ruined towns and fields of northern France, the young officials joked about which of them would find his way out of government service the sooner.

But there was work to be done before that. Keynes had been selected to begin work on the negotiations on post-war settlement with Germany and her allies which would take place the following year. The experience would mark his coming of age as a public figure: by the end of 1919 he would have become a household name.

In a US army camp some way back from the front, First Lieutenant Harry Dexter White had just celebrated his twenty-sixth birthday. Now that he was closer to thirty than twenty, perhaps, he hoped, people might finally stop mistaking him for a kid. Maybe it was his height – a mere five foot six inches (which made him a whole foot shorter than Keynes) – or maybe his genial, round face. Probably it was both; either way, everyone assumed he was barely out of high school. This was no laughing matter: as an army officer, he had men to command. Some months earlier he had grown a thin moustache,

which at least added one or two years to his apparent age. He would wear it until the day he died.

It wasn't the first time White had taken steps to stand out from the crowd. Born plain, simple Harry White in the more down-trodden end of Boston, he had added the 'Dexter' to his name at the start of high school to differentiate himself from the eighteen other Harry Whites in the phone book. It was the name of his best friend.*

But despite his efforts to distinguish himself, at this stage one would hardly have picked White out as potentially one of the most influential reformers of the international economy. First, and most obviously, he wasn't even a professional economist. Unlike many of the others who were applying for admission to the officers' training camp at Plattsburg, New York, he had no degree, having dropped out of college. His academic record before that was hit-and-miss.

There were fleeting moments of brilliance: he had graduated from Everett High School in three years rather than the normal four for his course; at college he managed to pull off a 99 per cent mark in a course on military history; his schoolmates would later describe him as the 'youngest, smartest and one of the smallest – a retiring boy, but witty'.⁶ But there was also plain mediocrity: his high school grades weren't spectacular; he flunked two of the admissions exams for college and had to retake them; and he dropped out after only one semester at Massachusetts Agricultural College.

White was hardly a dunce, but schoolwork took second place behind the demands of the family business. His father Joseph White (who had changed his name from the Weit he was born

*White's sister says White was told by his teacher to add 'a middle name for the sake of identification'. He chose the name of a 'little gentile boy', Dexter, who lived next door and was his best friend. R. Bruce Craig, *Treasonable Doubt: The Harry Dexter White Spy Case*, Lawrence, 2004, p.285.

with) owned a hardware store that had expanded to four branches around Boston and each of his seven children was expected to help out. So by February 1912 Harry was back working in the store. His brother Nathan said that 'family affairs required his return home.'⁷

And, were it not for two significant events in his twenty-fifth year, that might well have been where he stayed. The first of those events was the American declaration of war in April 1917. Even at the start of the year, it was by no means a foregone conclusion that President Wilson would drag his country into the conflict. Though most Americans' sympathies lay with the Allies, that January the President had still been calling for a 'peace without victory', and Britain's plight was looking grim. Some months earlier London had suffered its worst financial crisis of the war after the US Federal Reserve urged American lenders to cut back their credit towards foreign borrowers. The hope was that by starving the Allies of money they could bring the war to a quicker end.

As the cash drained out of Britain, the country's membership of the gold standard looked imperilled. By early 1917 gold was leaving London so quickly that even J.P. Morgan, Britain's chosen (and controversial) New York banker, looked powerless to stem the tide. In retrospect, this was only the first in a series of episodes during the twentieth century where the Bank of England would do everything it could to try to maintain the pound's membership of a fixed currency system. Had Germany not launched unrestricted submarine warfare in February, the likelihood is that the war would indeed have ended by negotiation that year. But a series of U-boat attacks on American ships precipitated the United States' entry into the war by April. Within months, Britain abandoned the peg on sterling – its first major break with the gold standard. As is almost always the case when a country takes such a significant economic step, it was intended as a temporary measure. As is almost always the case, this proved optimistic.

Not that such details mattered all that much to Harry Dexter White. Six days after the US declared war, he volunteered for service. That 99 per cent mark in military history helped him qualify as an officer in the 302nd Infantry Regiment. However, there was a significant complication: he had just fallen in love.

The girl was Anne Terry, a twenty-two-year-old local student. The two of them had plenty in common: both were Jewish, both were from the same part of town, and both were quietly but most certainly ambitious. Terry was born in Russia, emigrating to America with her parents as a child; White's parents had come over from Lithuania, also part of the Tsarist Empire, some decades previously. The couple were married at Boston's Temple Israel on 22 February 1918.

It was a significant watershed for Harry White: from that moment forward his primary loyalty was no longer solely towards his family and his father's stores. He and Anne (who later became a children's writer) would be almost inseparable for the rest of their lives; they would study together, write together and entertain together – including a host of controversial guests from abroad in the years to come.

Shortly after the pair were married White was deployed to France. Few American volunteers were aware of the full horrors of the war the Europeans had been waging for the previous three and a half years. Unfortunately for the young men of the day, this just so happened to be a point when technology had made it considerably easier to defend than attack: one side could hole itself up in a trench and repel its opponents with hideous efficiency using artillery and machine guns. The cost in human lives of each assault on enemy territory was inordinate and inhuman compared with previous conflicts. Average life expectancy for British officers deployed to the front line was a mere six weeks. And, thanks to advances in medicine, more than 80 per cent of those injured on the battlefield were returned to duty.

Few of White's or Keynes's generation were not left in some way scarred by the ordeal. A number of those who would later attend Bretton Woods had served in the trenches; Lionel Robbins of the British delegation was wounded by a German sniper. White himself, however, was fortunate. According to military records, neither of the two regiments he served in saw combat during the war, and, most likely, he spent his time in military and training camps. However, whether it was the proximity to danger, the sight of injured men and contact with those who had seen the horrors of the trenches, or indeed the taste of a career away from his father's hardware stores, the experience would leave him a changed man.

The Great War might also be said to have changed Keynes's outlook, though in his case that had a rather different meaning. His elevation to work in the upper rungs of government, advising a sequence of Chancellors of the Exchequer, had brought with it entry to some of London's most exclusive circles. Whenever the economist wasn't in the Treasury in 1918, he spent his time in a whirlwind of society suppers and soirees. As millions of British, German and American soldiers were fighting for their lives on the other side of the Channel, Keynes still managed to enjoy the high life.

Some nights he spent cavorting in clubs in Soho, others dining with politicians, society hostesses and the occasional royal. There were the Asquiths and the McKennas, a Romanian prince and the Princess of Monaco – not to mention the ever-present Bloomsbury set, the intellectual, literary and artistic group into which he had fallen at Cambridge. Though even Bloomsbury was growing alarmed by Maynard's excitement at this new world, and his penchant for namedropping.

On one occasion he was overheard telling his parlourmaid, Jessie, 'I'm going to dine tonight with the Duke of Connaught. Isn't that grand?' – 'Yes sir, that is grand,' she replied. David Garnett's

subsequent diary entry recorded the general sense of revulsion among the Bloomsburyites:

Nessa [Vanessa Bell] suggests that Maynard is now possibly so far on the downhill path that nothing will save him. Harry [Norton] thinks it is not at all simple – That M. is aware of many of his habits being disgusting to other people – such as helping himself with his own spoon or fork instead of passing his plate, and persists in doing them because it flatters him that people like him so much they don't mind what he does ... General conclusions were that Maynard has a lot of low blood in him – [John Sheppard] says from his nonconformist snobbish ancestry ... Duncan [Grant] has been asked to give him a lecture.⁸

At times, it was difficult to tell whether Keynes's baffling bad habits were really evidence of low birth or were merely intended to provoke. A few years later his friend and fellow Bloomsbury member Lytton Strachey would tell how, on a walk back through fields to King's College with 'Pozzo',* Keynes suddenly said he needed to urinate, 'and did so, walking all the time in the most extraordinary way with legs apart, though there were people all about'. Strachey engaged the same prickly prurience he was to become famous for in his writing, recounting how Keynes declared: "Oh, it's alright, it's alright, one can't be seen, as long as one keeps walking." He looked like a monstrosity of a gardener with an inefficient watering-pot.⁹

Up until this point, Keynes's eccentricities had been indulged by his Bloomsbury friends. On one occasion while staying together in Sussex they allowed Keynes to change all the clocks so that they

*The nickname Bloomsbury gave him was intended, depending on who you ask, either to refer to an untrustworthy Corsican diplomat, Carlo Andrea Pozzo di Borgo (1764–1842), or to conjure up the image of a sewer – probably the latter. Either way, Keynes hated it.

were one hour ahead of London time. As with many of Keynes's other gambits, it was half-joke and half-statement. Bloomsbury had refused to abide by mainstream Edwardian cultural, moral and social mores – why should it abide by everyone else's conception of time either? For those less charmed by Keynes's intellectual japery, however, it was yet another example of his astonishing arrogance. Not to mention the fact that it soon sent half the house (particularly the cook) into mad confusion.¹⁰

By 1918 relations with Bloomsbury were starting to fray. For much of the past decade, Keynes had essentially bankrolled many of its members, putting them up in various houses around that district of London and taking charge of their investments, but now the mood had cooled. Perhaps it was war, perhaps the approach of middle age, but Bloomsbury – old Bloomsbury at least – was unravelling.

Although for many of the set life went on more or less as normal – the London salons, the parties at Garsington, the Tudor country home of Lady Ottoline Morrell – there was no pretending that things had not changed. If there was one overarching theme among the ideas promulgated by the Bloomsbury group it was the notion sown by the Cambridge philosopher G.E. Moore – that art and beauty should be considered an absolute good. But the Great War was as ugly a conflict as one could imagine – an affront both to individual liberty (Strachey would campaign against conscription) and to aesthetic and psychological harmony. The return from the front of shell-shocked soldiers such as Siegfried Sassoon (who stayed for a period at Garsington) further pierced the bubble.

Bloomsbury's reactions to the war were varied. Duncan Grant began by supporting military action, while Keynes was positively enthusiastic about serving the government by working in the Treasury. Most of the rest of the set was aghast. Friendship should come first; after all, as another prominent member of the group, E.M. Forster, put it some years later, 'if I had to choose between

betraying my country and betraying my friend, I hope I should have the guts to betray my country'.¹¹ While most of Bloomsbury attempted to ignore the war as best they could, Keynes not only engaged with it, but seemed positively to thrive on helping his government wage it. For the first, but not the last, time he was drawn into the corridors of power. Jeune the inhabitants of Whitehall may have been by Bloomsbury standards, but there was nonetheless something seductive about being on first-name terms with the Prime Minister, of shaping the government's plans, of grasping the reins rather than sniffing disapprovingly from the sidelines.

However, for his Bloomsbury colleagues it was the ultimate betrayal. At one dinner at Gordon Square in 1916, Strachey placed on Keynes's plate 'the conscientious objector's equivalent of a white feather' – a newspaper report of a militaristic speech by one of Maynard's Treasury colleagues, along with a note: 'Dear Maynard, Why are you still at the Treasury? Yours, Lytton.'¹²

The slights were painful, but not so much as to shame Keynes out of government service. From 1915 until 1919 he worked in Whitehall, determining Britain's economic policy, gaining influence and gradually shaping his thoughts on the future of the international economy. For a young man whose previous experience of government had been a lackadaisical few years in the India Office, it was thoroughly stimulating.

America's entry into the war in 1917 also changed his job overnight. For the first few years of war his main concern had been attempting to anticipate the next financial crisis – and to discern when Britain might run out of money with which to fight. By his own account, things got hairy: in September 1915 he had prepared a memorandum for the Chancellor, Reginald McKenna, warning that Britain would struggle to survive beyond the following March. The advice infuriated David Lloyd George, then Minister of Munitions, who would write in his war memoirs that Keynes was 'much too mercurial and impulsive a counsellor for a great

emergency. He dashed at conclusions with acrobatic ease. It made things no better that he rushed into opposite conclusions with the same agility.' Lloyd George added that when that deadline arrived, 'we still bought greater quantities than ever of food, raw material and munitions from abroad and were paying for them and our credit was still high' – words akin to those used by many modern-day Keynesians when berating those who warn them of the dangers of over-spending and over-borrowing.¹³

Keynes would clash with Lloyd George repeatedly in the ensuing years, his natural enthusiasm for his job jarring with his distaste when his master's aims were transparently political rather than straightforwardly noble. 'I work for a government I despise for ends I think criminal,' he had written to Duncan Grant some months previously.¹⁴ The real souring was to come in the months after the war, however.

When America declared war, suddenly Britain's priorities shifted. Running out of money was no longer an immediate prospect – instead, the objective became to ensure America remained happy enough to keep pumping in its financial support. And so, for the first time, Keynes was sent on a diplomatic mission to the United States – in this case to negotiate American loans and arrange the purchase of some Canadian wheat. He was not a great success, in diplomatic terms, at least. With the Americans he made a 'terrible impression for his rudeness',¹⁵ and even the British ambassador, Sir Cecil Spring-Rice, was taken aback.

'He was really too offensive for words and I shall have to take measures,' Spring-Rice wrote to his wife. 'He is also a Don and the combination is not pleasing. He is also a young man of talent and I presume the rule for such nowadays is to show his immense superiority by crushing the contemptible insignificance of the unworthy outside. He does it hard.'¹⁶

Time would do little to soften Keynes's hard edges, and he would elicit similar complaints from his American partners ahead of Bretton Woods. He was an aggressive debater, frequently destroying

and occasionally humiliating his opponents at the slightest provocation – though his barbs were invariably aimed at the powerful and the pompous; with students and the young, he was remarkably patient. It was a technique honed in the classrooms of Eton and tutorials at Cambridge: an uncompromising, brutal mode of argument that would rarely concede that the other party might be in the slightest bit right. ‘Keynes’s intellect,’ wrote the philosopher Bertrand Russell, ‘was the sharpest and clearest that I have ever known. When I argued with him, I felt that I took my life in my hands, and I seldom emerged without feeling something of a fool.’¹⁷

It made Keynes a fearsome debating opponent, but frequently had disastrous consequences when unleashed in the brittle cauldron of transatlantic diplomacy. It didn’t help his cause that he was often just plain wrong.

Revolted as many would find these characteristics, they were nonetheless a potent weapon. Keynes’s intellect was combined with a capacity for (often brutal) persuasion and an awareness that even a good argument might be a losing one if not transmitted correctly. Half the battle, he came to realise, was not merely coming up with policies, but getting them implemented, which also meant explaining them in terms others could understand. And so, while Keynes is remembered today as an economist, he would never have found fame and gained influence unless he had also doubled as a writer and journalist – one of the twentieth century’s greatest.

However, Keynes’s caustic nature caused occasional rifts – even with his closest friends. Even leaving aside their differences over the rights and wrongs of wartime service, his relationship with Bloomsbury was frequently tested when the filthy subject of money intruded. Rather like Britain as a whole in that era, Bloomsbury had managed thus far to float along on the illusion of prosperity, without necessarily having the cash on hand to back up its lofty aspirations. The lives of leisure led by most of the set, the salons, the parties and the servants, were expensive. And though most of the

set's members had inherited at least some money, it was far from enough to fund their extravagant lifestyles.

In much the same way as he had confronted his country's impending penury, Keynes approached the reality of his Bloomsbury friends' financial infirmity with a certain brusqueness. A few years earlier he had moved into 46 Gordon Square, Clive and Vanessa Bell's London townhouse, but by 1918 the couple were living with painter Duncan Grant in Charleston, their country home in East Sussex. A month before his visit to France in 1918, Keynes engineered what was effectively a reverse takeover of the property, renewing the lease in his name rather than that of Clive Bell – a move which infuriated Bell, who had assumed he could hang on to his rooms there for his occasional visits into town to visit his mistress. To add insult to injury, Keynes also moved Clive's bed into his own bedroom and left Clive with one that felt 'more like the seat of a third-class railway carriage'. Having tried and failed to persuade Keynes to return his bed, Bell waited until he was away on war business before retrieving it himself. Keynes returned home to find the uncomfortable bed back in his room, accompanied by a letter from Bell. 'As you appear to fuck less than I do it may serve well enough,' it said.¹⁸

In fact, Keynes's sex life had so far been quite eventful. Like his Bloomsbury counterparts he had experimented with both homosexual and heterosexual relationships – although many more of the former than the latter. Unlike Bloomsbury, but very like Keynes, he used to keep a statistical record of his conquests: names, numbers and a coded notation of what they got up to. The tables, still stored among his personal papers at King's College, Cambridge, make for surreal reading: they include *The Sculptor of Florence*, *The French Conscript*, *The Clergyman*, *The Irish Nobleman of the Whitechapel Baths* and, ominously, *The Blackmailer*.¹⁹

His early partners – Duncan Grant and Lytton Strachey – had been replaced by a stream of other men, interspersed with the

occasional woman. So it is little surprise that when he first met Lydia Lopokova, star of Diaghilev's Ballets Russes company, he was more interested in her male ballet partner than the prima ballerina.

It happened in October, just before he left for France, at a party given by the Sitwells in Chelsea. Lopokova was already an international sensation. Born into a poor family in St Petersburg, her father the chief usher at the Alexandrinsky Theatre, she and all her siblings became ballet dancers – though none so successful as Lydia. Not long after joining the Ballets Russes – the phenomenally successful company which revitalised ballet with modern, expressive adaptations – she left for the United States, where she became a renowned society figure. By 1918 she had been engaged twice, married once, and had had an on-off affair with Igor Stravinsky.

Keynes had seen her earlier in the month but deemed her 'poor', remarking to a friend: 'She is a rotten dancer – she has such a stiff bottom.'²⁰ Nonetheless, at the Sitwells' party Lydia was charming, 'making us pinch her legs to see how strong she was – which we did very shyly'. It also turned out that her ballet partner, Stanislas Idzikovsky, who had looked so impressive on stage, was in person 'the most ridiculous little creature you ever saw'. Said Lydia: 'I don't like dancing with him ... It is not nice to dance with something only up to your breasts and I am always afraid he will drop me.'²¹

She and Keynes would remain in contact from that day forward – though for the time being their hearts were elsewhere. Anyway, there were more important issues at hand. The war was about to end. Shortly after Keynes's tour of the French battlefields he was officially appointed head of the economic section of Britain's mission to the 1919 Paris peace conference.

When Harry Dexter White returned to America in 1919 he found it much the same as when he left. True, if you looked close enough there was yet more evidence of economic progress: the skylines of

New York and Chicago were rising ever faster, the two cities locked in a vertical race for the crown of world's tallest building. But that progress was, for the moment, imperceptible. What was more obvious to him was that while the country was fast becoming wealthier, the increases in income were not shared out equally.

Large swathes of American cities remained trapped in squalor. In Beacon Hill, where White had grown up, the wealthy establishment lived in grand apartment buildings and houses a mere stone's throw from areas of extreme deprivation, overpopulated tenement blocks and putrid shacks. The Spanish influenza epidemic, which had arrived in the United States via Boston the previous year, was killing hundreds of thousands, including many in the North End of the city where White had volunteered before the war. The neighbourhood was reeling, too, from what became known as the Boston Molasses Disaster, when a large storage tank exploded, unleashing a giant wave of molasses which killed 21 and injured 150.

Even as Wall Street was booming, heading towards the bubble that would define the era, there was scant evidence of prosperity in the centre of Boston. Indeed, much of the rest of the country was mired in permanent poverty. So stark were such contrasts that they had helped inspire the rise of a political movement – the Progressives, who in this pre-Depression, pre-New Deal era campaigned for social reform, as well as the imposition of limits on laissez-faire capitalism.

In the meantime, those without jobs or family networks had to rely on other sources of support, such as the settlement houses, where the most needy – often but not always immigrants – could go for food, shelter, basic healthcare and classes to make them more employable. These were typically found in the deprived parts of big cities like Boston and New York, and had originally been modelled after Toynbee Hall in London.

As a schoolboy, White had volunteered in a number of settlement houses, as well as devoting his Sundays (the only day free

from school or work at the shop) to teaching boys at the Home for Jewish Children at Dorchester.²² Having been demobilised from the army in February 1919 he was drawn back towards the cause of social justice. He worked for a few months in the family store, but it was clear almost immediately that he did not want to be there. According to his brother Nathan, 'life in the army had changed his outlook.'²³ Later that year he cut the cord for good, taking up the directorship of an orphan asylum for the children of American Expeditionary Force servicemen killed in the war. This job was followed by promotion to director of New York's Corner House – one of the city's bigger settlement houses.

It was a similar path to that chosen by many young, idealistic Americans of the era, akin to the voluntary service many youngsters take before or after university today. Some of the leading authors of the New Deal, such as Harry Hopkins and White's future employer Henry Morgenthau Jr, would undergo similar rites of passage in their younger years, spending time in the houses, following in the footsteps of Jacob Riis, writer of *How the Other Half Lives*. It was in these years that the idea of an American welfare state was formed, though it would take the financial chaos of the Wall Street Crash a decade later, and the depression that followed, to forge it properly.

Such imbalances are common hallmarks of an emerging economy – evidence of 'growing pains' as it develops a middle class – and indeed these decades marked America's coming of age as a superpower. In pure economic terms (at least as measured by gross domestic product – GDP – per capita) the United States had already overtaken Britain to become the world's biggest economy a few decades before in the 1890s, but even in 1914 it was still a bit-player on the international stage. At the start of the Great War, the dollar was quoted in fewer financial centres than relative minnows like the Italian lira or Austrian schilling.²⁴ London, on the other hand, was the world's undisputed financial hub, responsible for

almost half the world's exported capital, financing most of the flows of international trade and housing the majority of the insurance industry.

The war changed that: in its desperation to fund the war effort, Britain would have to liquidate 15 per cent of its overseas investments, an enormous instant reduction in its international wealth. The US, meanwhile, was alone in both having the capacity to extend credit to its allies in Europe and retaining a stable currency. In stark contrast to the pound, which was devalued against gold in the latter stages of the war, the dollar kept its value, giving traders and financiers the stability they depended on when transacting international business. Over time, this experience would become ingrained in the respective countries' national psyches: whereas Britons associated the gold standard with economic pain and strife, Americans associated it with their rise to economic potency.

It was during the war that America became, in Barry Eichengreen's words, 'factory and grainery to the world'.²⁵ Exporting billions of dollars of goods, it turned its current account deficit into the surplus that would become the dominant force at Bretton Woods a quarter of a century later.

Not that this would endear the British or other borrowers to the Americans. During the war, Lord Eustace Percy wrote that 'our job is ... to keep sentiment in America so sweet that it will lend us practically unlimited money'.²⁶ By the end of the war the European Allies owed the American government over \$7 billion, and half that again to banks such as J.P. Morgan. In the wake of the war, when the Europeans struggled to repay those American debts, relations would turn sour, tempering US generosity in the Second World War.

If the Great War was the moment the Britons first realised that, when it came to money, America would from now on be calling the shots, the 1920s were when participants in financial markets finally recognised the reality of the newly redrawn economic league table.

As historian David Kynaston put it, 'the baton, which London had once assumed from Amsterdam, now passed to New York.'²⁷ Halfway through the decade the dollar had displaced sterling as the dominant international unit. It had taken barely more than ten years since its arrival on the world stage.

However, the fact that the world's dominant currency was now the dollar rather than the pound sterling did not necessarily mean that all the financial activity had to leave the City of London – at least as far as its traders were concerned. The demise of the gold standard had ushered in an unfamiliar new world of floating exchange rates. For exporters with overseas customers this was a threat; for the brokers and jobbers of the Square Mile it was a golden opportunity.

'With the unpegging of the world's exchanges in March 1919,' wrote H.W. Phillips, 'there started one of the largest businesses the world has seen. A veritable orgy of dealing took place, and every centre seemed to be besieging London on long-distance calls.'²⁸ One of the men at the end of these telephones, George Bolton, a dealer at Société Générale, would later go on to represent Britain at Bretton Woods. So quickly and enthusiastically did the City seize on the new business of foreign exchange that it soon became one of the biggest and most lucrative activities in the City. And although the United States would frequently attempt to challenge London's supremacy in this financial business, it remains the dominant player even today.

For the moment, though, these financial and economic shifts had little impact on White. Come 1922, with his thirtieth birthday approaching, he was still in charge of the Corner House. If anything, the enormous structural shifts America was undergoing only served to make his job harder. The gap in incomes between Wall Street and those who came in and out of the settlement house was getting ever wider, and White was powerless to do much about it. It was around now that he realised that without further qualifications he stood

little chance of making a lasting difference. So he applied to take a degree in government at Columbia University as a mature student. He was successful. After three terms he moved across to Stanford University on the West Coast, switching, too, to economics. He would later remark that he had 'realized that most governmental problems are economic, so I stayed with economics'.²⁹

Finally, at the age of thirty-one, living with his wife in a small property near San Francisco, White started to hit his intellectual stride. His degree in economics 'with great distinction' came in late 1924, followed by a master's degree the next year. The small, smart boy from Boston was now, said those with whom he studied, a confident, assertive, stand-out student, one who would think nothing of arguing with his professors in class (a characteristic he shared with Keynes, who had spent much of his time at Eton and Cambridge berating his tutors). White declared confidently that his next step would be to take his Ph.D. at Harvard.

This was also the moment White made his first notable foray into politics. His choice of champion is intriguing. In early 1924 he wrote, on behalf of himself and other mature students, a letter urging Senator Robert La Follette to stand in that year's presidential election. 'Fighting Bob' was one of the most radical candidates to stand for that office: he opposed big corporations, he proposed nationalising the railroads and electric utilities, he supported the strengthening of labour laws and opposed war. So far on the fringes were his policies that the only party to offer him an official platform was the Communists. However, he stood independently, on behalf of the progressive movement. Although he eventually won five million votes, making him one of the most successful third-party candidates in history, he nonetheless came in third behind Calvin Coolidge and Democrat John W. Davis.

However, he had left a lasting impression on the United States, and on the young Harry Dexter White. Not for the last time, the economist showed himself ready and willing to stand up for what

he believed in, and to support a political cause, however unfashionable. In his letter to the senator, White had declared: 'At no time has our country been more in need of a leader, and ... at no time since Lincoln's has there been a man more fitted to lead than you.'³⁰

No sooner had Keynes returned home from the 'blasted grandeur' of France and Belgium in November 1918 than he was set to work on the terms of the coming peace treaty.

It was clear from the very beginning that the process would be tortuous. On the one hand, this was the grand opportunity to put Europe right, to cure the benighted continent of its bellicose ways – something the Congress of Vienna in 1815 had never achieved. It was a chance to enshrine an international body to prevent worldwide conflicts ever happening again; the moment, too, to make self-determination more than an abstract noun in a textbook. For Woodrow Wilson it was the opportunity to implement a peace in accordance with his beloved Fourteen Points.*

The reality Keynes discovered upon his arrival in Paris early in 1919 was different: a hissing snakepit of politicians, all with competing political objectives. The French and Italians wanted to carve up chunks of Austria and Germany between themselves. France's Prime Minister Clemenceau wanted to recoup the billions of dollars' worth of costs France had sustained during the war. Most of the British electorate wanted the same thing, and Lloyd George was keen to secure re-election. Britain wanted to arrange the peace quickly before America became too influential, while America wanted to ensure the Europeans would pay their debts. Most of the American population wanted nothing more to do with this distant European war, and Congress was lukewarm about the Fourteen Points.

*Liberal Europeans, too, were extremely enthusiastic about Wilson's Fourteen Points and the promise of a League of Nations. Indeed, the Fabians commissioned a detailed study into the matter by Keynes's Bloomsbury acolyte Leonard Woolf.

It was from somewhere in between Wilson's idealism and Lloyd George's brutal pragmatism that the muddle of Versailles emerged. 'What do you want me to do?' quipped Clemenceau at one point of his two fellow leaders. 'I find myself between Jesus Christ on one side and Napoleon Bonaparte on the other.' Wilson considered Lloyd George 'to have no principles whatever of his own ... he reacted according to the advice of the last person who had talked with him: that expediency was his sole guiding star.'³¹ It didn't help that Europe was facing economic turmoil. The sanctions imposed by the Allies against Germany during the war stayed in place. Living standards across the continent continued to fall, trade remained stagnant in the face of blockades. Although the armistice had been signed, it was a very strange kind of peace, with troops still mobilised throughout mainland Europe in the absence of clarity over the settlement. The gold standard was still in ruins – in the latest sign of its decay, Britain had abandoned its currency peg with France, bringing to an end a century of stability – and resentment stalked the corridors of the Parisian hotels where the negotiations were to take place.

While Keynes boasted to his mother, 'I have been put in principal charge of financial matters for the Peace Conference,'³² the reality was more prosaic: he was given responsibility for attempting to ensure the economic revival of the continent. In Paris in 1919 this came a distant third to the main political aims of carving up Europe and attempting to impose reparations on Germany.

Even before his tour of the battlefields the previous November, Keynes had attempted to erect an academic deterrent against such efforts, issuing a memorandum warning the Prime Minister that any money demanded of Germany should be based on her capacity to pay, rather than on the amount aggrieved parties felt they were due. Keynes had calculated this at roughly £3 billion, based on Germany's remaining gold reserves, securities and inventories, and her prospects for exports in the coming years. This was £1 billion

shy of what he and the Treasury estimated the Allies could reasonably claim in compensation for war costs, but far smaller than the sums demanded by others. The Australian Prime Minister, Billy Hughes, was claiming £25 billion, a preposterous figure which was nonetheless supported by Lord Cunliffe, the former governor of the Bank of England (who had never quite seen eye-to-eye with Keynes), and Lord Sumner, the two official UK advisers on reparations. Keynes would nickname them the 'Heavenly Twins'.

Keynes succeeded in influencing the Treasury submission on the matter, which concluded that 'If Germany is to be "milked", she must not first of all be ruined.' But such words were less potent than those uttered by Sir Eric Geddes, the First Lord of the Admiralty, who said: 'The Germans, if this Government is returned, are going to pay every penny; they are going to be squeezed as a lemon is squeezed – until the pips squeak. My only doubt is not whether we can squeeze hard enough, but whether there is enough juice.'³³

And it was the election of December 1918 that sealed it: one of the planks of Lloyd George's campaign was to seek the 'fullest indemnity from Germany'. When the conference began the following month, the question of Germany's capacity to pay was a secondary consideration behind the demand for retribution from the war's victors – something Georges Clemenceau heartily agreed with. Into the quagmire strode Woodrow Wilson, who made an unprecedented personal visit to Paris, hoping that this gesture alone would influence his European counterparts into agreeing a just peace. As it was, he would soon become bogged down in the negotiations and remain stuck in Paris for most of the six months it took to get the treaty signed. His ambitious and earnest programme for remoulding international diplomacy, the Fourteen Points, was frequently treated with the kind of disdain he rarely encountered back home ('God had only ten,' joked Clemenceau).

Within a few months it was clear to Keynes that his ideas had fallen on fallow ground. Lloyd George, with whom his relationship

had been difficult ever since they first encountered each other in 1916, was less than receptive; so was Clemenceau. Keynes held out hope that Wilson would come to his aid, but the President had little time for the economist's suggestion that America write off the war debts it was owed in order to put Europe back on its feet. Nor did Wilson put up much resistance to Lloyd George or Clemenceau when it came to reparations.

It was a double failure as far as Keynes was concerned: so much attention was paid to reparations that the question of economic reconstruction fell by the wayside. The most important issue of all, in retrospect – how to rebuild the international monetary system – wasn't even on the table. The experience would reinforce his determination twenty-five years later to ensure that neither mistake was made at Bretton Woods.

For Keynes, the most sympathetic characters during the 1919 negotiations were the Germans, their plight embodied in the person of Dr Carl Melchior, a banker and spokesman for the nation. He made such an impression that Keynes would later make him the subject of his most sensitive work, the posthumously published 'Dr Melchior: A Defeated Enemy'. The real opposition, Keynes soon discovered during that thankless and increasingly exhausting spring in Paris, was not the Germans but his own colleagues and the various different camps set up by the Allies throughout the city.

The British, four hundred officials in total from the UK and its Dominions, took over the Hotel Majestic, a fraying, once-great hotel on the Avenue Kléber near the Arc de Triomphe. Paranoid about the possibility of French spies, Scotland Yard packed the hotel full of officers. The entire existing staff was turfed out and replaced with British-appointed chefs, porters and valets – which, according to British diplomat Harold Nicolson, meant the food was of the slightly dowdy 'Anglo-Swiss variety'.³⁴

The cast list was extraordinary: T.E. Lawrence (of Arabia) was present alongside Emir Feisal of Saudi Arabia; playwright Jean Cocteau and novelist Marcel Proust floated in and out of the lobby. If you visited the kitchens you might have spotted a very young Ho Chi Minh, the future revolutionary leader of Vietnam, washing dishes. As time wore on, with the conference taking far longer than anyone had envisaged, the strain started to show, not merely on the participants but just as noticeably on the city itself, which had hardly found time to draw breath since the war had officially ended. The rooms in which the meetings took place started off freezing and draughty but by the time summer arrived were overwhelmingly sweaty. There were bedbug infestations and plumbing disasters.³⁵

Even after three months, the Allies could not agree a figure for reparations. It had to be somewhere between the faintly ridiculous French claim of £25 billion and the American ceiling of £5 billion (the British were, at that stage, in the middle at £11 billion). In the event, they agreed to disagree, omitting a specific amount from the treaty itself and leaving the issue hanging uncomfortably over Germany for years to come. The notion that reparations should be commensurate with the country's capacity to pay had been ignored. Even Lloyd George was by this stage harbouring sincere regrets about the punishment about to be meted out, warning his fellow leaders that 'You may strip Germany of her colonies, reduce her armaments to a mere police force and her navy to that of a fifth-rate power; all the same in the end if she feels that she has been unjustly treated in the peace of 1919 she will find means of exacting retribution from her conquerors.'³⁶ But he did nothing to reverse the treaty's course.

Particularly egregious, so far as ordinary Germans were concerned, was Article 231, which attributed all the guilt for the war to Germany; even the British Foreign Secretary Arthur Balfour acknowledged that an 'awkward case' could be made in Germany's favour on this point. The clause was especially galling given that, in

the words of Margaret Macmillan, ‘as a result of the armistice terms, the great majority of Germans never experienced their country’s defeat at first hand.’³⁷

As far as Keynes was concerned, ‘The Peace is outrageous and impossible and can bring nothing but misfortune.’ In a letter to Duncan Grant in May, he wrote: ‘Certainly if I were in the Germans’ place I’d die rather than sign such a Peace.’ By this stage he was ‘utterly worn out, partly by incessant work and partly by depression at the evil round me’. The only consolation was that the weather had improved – though that was scant recompense for the implosion of Europe. ‘Here I could cry all day for rage and vexation,’ he wrote. ‘The world can’t be quite as bad as it looks from the Majestic.’³⁸

Keynes was far from alone in his condemnation of the negotiations. His views were shared by his South African counterpart Jan Smuts and by Herbert Hoover, who would be US President a decade later. ‘We agreed that it was terrible,’ wrote Hoover,³⁹ who had masterminded the relief programme for Belgium and was spearheading the efficiency movement back home.*

By the time the Germans signed the Treaty of Versailles the following month, Keynes had absolved himself of the disaster, handing in his notice and leaving for London. ‘I can do no more good here,’ he wrote to Lloyd George. ‘I’ve gone on hoping even through these last dreadful weeks that you’d find some way to make of the Treaty a just and expedient document. But now it’s apparently too late. The battle is lost. I leave the twins to gloat over the devastation of Europe.’⁴⁰

However, he wasn’t quite finished with the subject. Before the

*Hoover’s name at this stage was literally synonymous with cost-cutting: thanks to his strenuous efforts during the war, the word ‘Hooverize’, meaning to economise, had entered the lexicon. A decade and a half later his name would become synonymous with the Great Depression: Hoovervilles were the names of shanty towns constructed by the homeless in the 1930s.

end of that month, he was sitting down at his desk at Charleston, spilling his resentment and anger over the events in Paris on to paper. In the coming months he would produce sixty thousand words – a fluent, brilliant exposition of the problems with the treaty, accompanied by unforgiving pen portraits of the three men responsible for it. The resulting book, *The Economic Consequences of the Peace*, is still in many senses Keynes's masterpiece – not merely for its analysis of what went wrong in Paris, but for the literary flair and individualism with which it was written. Keynes was self-consciously writing for as wide an audience as possible. There may have been economics in there – and indeed the odd table of figures – but the purpose was to underline how simple was the economics, and by extension how neglectful were the politicians to ignore it.

The treaty, he wrote, was a 'Carthaginian Peace', akin to Rome's brutal treatment of Carthage, which after the Third Punic War was destroyed and its surviving inhabitants sold into slavery: 'My purpose in this book is to show that the Carthaginian Peace is not practically right or possible. Although the school of thought from which it springs is aware of the economic factor, it overlooks, nevertheless, the deeper economic tendencies which are to govern the future.' The result, in Robert Skidelsky's words, is 'a personal statement unique in twentieth-century literature. Keynes was staking the claim of the economist to be Prince. All other forms of rule were bankrupt.'⁴¹ It was the first great popular work to attempt to depict international military affairs through an economic rather than a political prism.

Clemenceau was portrayed as a wily old man duping the naïve American President, who had arrived hopelessly unprepared for the circus of negotiations in Paris: 'the President had thought out nothing; when it came to practice his ideas were nebulous and incomplete. He had no plan, no scheme, no constructive ideas whatever for clothing with the flesh of life the commandments which he had thundered from the White House.' It was a cardinal

error of conference-going: as a result the negotiations started from the basis of a French or British draft, putting Wilson in the perpetual position of ‘obstruction, criticism, and negation’. It was a strategy mistake the Americans would ensure was not to be repeated at Bretton Woods.

Keynes’s original draft also contained a withering description of Lloyd George as ‘this extraordinary figure of our time, this syren, this goat-footed bard, this half-human visitor to our age from the hag-ridden magic and enchanted woods of Celtic antiquity’. On the advice of Asquith and his mother, he left that passage out, though the remaining descriptions of the Prime Minister watching on ‘with six or seven senses not available to ordinary men’ and bamboozling the President caused offence all the same. He also allowed a few of his more eccentric obsessions to intrude on the text, including his love of judging people based on the appearance of their hands (a study whose technical term is *chirognomy*). Wilson’s hands, ‘though capable and fairly strong, were wanting in sensitiveness and finesse’.⁴² Clemenceau’s, tantalisingly, were always covered by his grey suede gloves. The acid, witty, occasionally indiscreet portraits – undoubtedly a key element of the book’s success – were clearly in part influenced by Keynes’s Bloomsbury friend Lytton Strachey’s *Eminent Victorians*, which had appeared the previous year.

The depiction of Wilson as a Don Quixote figure caused outrage in America, but that hardly dampened the sales figures: within a year Keynes had sold a hundred thousand copies and (thanks in part to the fact that he had personally negotiated the terms) was a very wealthy man.

But the book did more: it established Keynes as an internationally renowned figure. In much the same way that economists since have periodically laid claim to seeing financial and economic crashes before the rest of the world, Keynes became known as the Cassandra and economic clairvoyant of his era. While some of the

more pessimistic predictions in the book did not come to pass (it was clearly written in the very depths of despair for the fate of Europe), events were to bear out many of his warnings over the following years. On reparations, he said: 'I do not believe that any of these tributes will continue to be paid, at the best, for more than a very few years. They do not square with human nature or agree with the spirit of the age.' He warned that unless debts were forgiven various European nations would 'seek their friends in other directions, and any future rupture of peaceable relations will always carry with it the enormous advantage of escaping the payment of external debts'.

There were warnings about the risks of inflation. Keynes quoted Lenin, saying: 'There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency.' And underlying it all was the insight – which is often forgotten even today – that when you are trying to impose debts or reparations on a country you must do so with reference to that country's ability to pay.

The whole experience, in Keynes's mind, was 'one of the most serious acts of political unwisdom for which our statesmen have ever been responsible'. He added: 'To what a different future Europe might have looked forward if either Mr Lloyd George or Mr Wilson had apprehended that the most serious of the problems which claimed their attention were not political or territorial but financial and economic.'

Such insights were to play a considerable part when the Allied leaders began to draw up their plans for reconstruction in the wake of the Second World War. Economic considerations would not be relegated to the sidelines – they would be the foundation for the post-war plans.

Keynes's book was only one element of a broader backlash against the treaty. In the years that followed, the Allies would return again

and again to the issue of reparations, gradually revising down the amount demanded from the Germans in the face of the country's economic slide, its spiral into hyperinflation and a lengthy depression.

Wilson finally returned home in summer 1919 to a nation, and more pertinently a Senate, which was lukewarm towards both the treaty and the creation of his League of Nations. The conference had cemented much of the bitterness already brewing in the United States about the country's experience of the war. Some fifty thousand American soldiers had been sacrificed in the mud of northern Europe for what was, at heart, someone else's war – and now almost all the Europeans (on both sides) were planning to repudiate their debts. It went beyond ingratitude – and many Congressmen would spend the following years attempting to write into law whatever safeguards they could to prevent the United States from either lending belligerents like Britain money or, for that matter, sending their boys back into battle.

Despite the general feeling in his country, Wilson ploughed on with his crusade to secure the two-thirds majority necessary to pass the treaty. But even winning the Nobel Peace Prize did little to help (in fact, in some quarters this European award probably undermined his cause). Late in the summer he embarked on a nationwide speaking tour to try to sway the public mood, but he collapsed halfway through with a severe stroke that effectively ended his active period in office. Shortly afterwards there was an opportunity to pass a treaty with reservations, that would at least have allowed America to join the League of Nations, but Wilson rejected the compromise. Some said that the stroke had changed his personality; it certainly seems to have undermined his ability to engage with the debate. Either way, the United States never joined the League, leaving the enterprise doomed from the very start.

Paris had only served to confirm US suspicions about the double-crossing Europeans. Moreover, the experience underlined the fact

that the British, in particular, seemed hell-bent on squeezing as much extra money as possible out of Washington. Before Bretton Woods, Bernard Baruch of the 1919 US delegation would warn Henry Morgenthau to watch out for Keynes – who, he claimed, had double-crossed the Americans on the issue at Versailles.

But few were happy – and Keynes's misgivings, if more dramatically and eloquently put than others', were widely shared. Lloyd George's conclusion was perhaps the most prescient. 'We shall have to do the whole thing over again in twenty five years at three times the cost,' he said.⁴³ He had predicted the date of Bretton Woods almost to the day.