KEYNES'S EUROPEANISM AS SHOWN IN "THE ECONOMIC CONSEQUENCES OF THE PEACE"

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Abstract: *European integration and enlargement, in the context of decreasing support of European country nationals, needs great men and great ideas standing with. J.M.Keynes proves in his book"The Economic Consequences of the Peace" that there is no other way for Europe than acts together. His economic reasons for which European countries "throb together" are presented here and supported with data. This article, with a historical approach, brings another important and strong view on the side of Europeanism.*

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Although the last Euro barometer, spring 2011, shows that public opinion of the benefits of European membership have improved slightly, the second bailout agreed for Greece in 2012 had triggered a negative wave in some of the Western European Country (Germany, Netherlands). Another negative wave arises from Fiscal Treaty signed in 2012 that reinforce fiscal discipline deepening the austerity in countries like Spain and Island.

European nationals have to understand that bailout of Greece or Spain or Portugal is much more than tighten the belts of ones for holidays of others. Is about the fact that European nationals are so deeply and inextricably "*intertwined by hidden psychic and economic bonds"* (Keynes, 1995, p. 3) that is no other way than act together and helps each other. Taft austerity imposed to some European countries is the other side of the same story. Starting from pictorial but powerful Keynes's view of European countries relations we show that is no other way for Europe than the European Union.

Economists have to understand that before different economic scenarios there is a moral, philosophical or religious sense of economy.

INTRODUCTION

Keynes's book "The economic Consequences of the Peace" is an actual book despite of its past subject, Paris Treaty of 1919. It is incredible how Keynes thoughts emerge from time to time and came in decisive time to enlighten us.

This book is currently in these days of questioning about European Union integrity because it shows us the definite picture of Europe, countries with *"the same flesh and body*" that *"throb together and their civilization are essentially one"*. In Section 2, we try to sketch the interdependent evolution of European countries and explain why *"they flourish together … and they may fall together"* (Keynes, 1995, p. 3). The tool chosen to prove interdependence between European countries is the business cycle as Keynes suggested, and based on the existing literature we show that even before the two World Wars, European countries coupled repeatedly their business cycle. We refer to period before and after the two World Wars because between 1914 and 1945 there was no Europe (Duroselle and Kaspi, 2004).

In conclusion we invite you to see the entire picture of a Europe both in artistic terms as those used by Keynes and in scientific terms of econometric as those used by almost all researchers of our days.

1. EUROPEAN COUNTRIES TOGHETER FLOWRISHING AND FALLING

Some authors as Geert Mark (Geert, 2007) contests the existence of a European people and the historical common experience but he relay his story on the European nationals' different perception of history. This is not obviously true because Europe is the place where modern state was born in the time when the rest of the world was organized as empires, Europe is the place of great colonial power and of European Concert from nineteen century and Europe is also the place of the break of the greatest wars of the world.

From early time as Jones argue in his book (Jones, 2003) Europe "became a single system of states in which change in one cell affected the others". Jones conclude this as a historian but there were great men, living the history, as Voltaire, Abee de Saint-Pierre, Jean-Jaques Rousseau and not the last and very important Kant, who supported the same idea. Keynes was both, a historian and a history witness and he felt the same strong solidity of Europe. *"But Europe is solid with herself.*

France, Germany, Italy, Austria, and Holland, Russia and Romania and Poland, throb together, and their structure and civilization are essentially one.“ (Keynes, 1995, p. 3)

2.1. European interdependence before 1870

Trying to elucidate some of the chief unstable elements presented when World War One brooke out, Keynes, in Chapter 2 of his book, talks about population, organization, psychology of society and about the relation of the old world to the new. In fact he talks about the causes that lead the economy before 1914 to an extraordinary episode of progress but he talks about the fact *”that happy age lost sight of a view of the world which filled with deep-seated melancholy the founders of our political economy”* (Keynes, 1995, p. 5) too. He talks about business cycle. He placed in the center of his demonstration the complicated industrial German machine that spread its blow on the Central Europe population and organization (transport, foreign trade, coal distribution).

Beyond different languages, religions, habits, European peoples felt together the stages of the same business cycles even before the rise of nation-state* (Craig and Garcia-Iglesias, 2010) and obviously before European Union, *“they flourish together ... and they may fall together”* because of the causes that determine their common business cycles.

Lee Craig and Concepticion Garcia-Igelsia document in their work that *“by the late-eighteenth century the integration of the European economy was extensive enough that large cyclical shocks in specific markets, in specific regions, had ramifications for economic activity in other region, often without regard to national boundary. Thus there emerged something like a pan-European cycle, even before the national income and product data were well defined”* (Craig and Garcia-Iglesias, 2010, p. 150).

They start their demonstration from the changing causes of business cycle and they prove that causes act regionally not locally. In the center of their study is placed Great Britain as the most advanced economy of that time, showing that in very early years, 1700-1750, downturn in the British economy, was accompanied within a year by a downturn in two or more other country and regions. The spreading of downturns was due to their causes that are at the same time channel through which early cycle could begin and propagate.

* The rise of nation-state started with the peace of Westfalia (1648) when the legal status of the nation-state as sovereign was cemented, but the most european nation-states rose in nineteen century.

Technological change can be a key factor for business cycle determined changes in labor productivity and taking into account labor-leisure trade off, leads to an increase hours of work and so to the increase of economic activity. But at the same time technological change and positive productivity uncorrelated with increased output can lead to reduction of hours and employment. Even technological changes can not transmit by their self these ups and downs of one region economy, these changes are very important as they probably made modern cycle possible.

Demographic shocks, especially plague affect economy through disruption of the labor market and through the disruption of trade. Plague did not stop to a region borders as it travel with trade so European people suffered the same major economic downturns, as it were the two episodes from Sweden, Baltic region 1709-1710 and France 1720-1722. Migration that was during that period on quite a large scale and it was, as Brinley Thomas observed (Thomas, 1973), responded to and caused by real cyclical activity.

The most important cause prior to XIXth century consisted in agricultural shocks as at that time agriculture sector dominate other sectors. The economy was very sensitive to these shocks that are weather-related and could cover much of the Europe.

International trade is at the center of the economic expansion of this period and can be seen as the cause for long run trend growth rates of European countries but it could generate cycles through financial market as it was "South See Bubble" from 1711.

Because there are few macroeconomic time series for European Country before 1750, researchers used to identify cycles of that period especially using narrative account but they help them with available price data, especially of urban food and real wage data. The results are a number of years, of continent-wide recession, Table 1, suggestive to understand that they do "throb together."

2.2. European interdependence from 1870 to 1914

For years from 1870 to 1914 that was a period of sustained increased in GDP per capita in the most part of Europe and an apparent regularity in economic life with its ups and downs can be observed data are again scarcely. Annual and quarterly GDP can be found only from the first half of the twentieth century (Studenski, 1958) and the main inputs for national income and production series (the census on population, industry, and workforce) was increasingly widespread for the second half of the nineteen century. So researchers have to find their solution in order to detect a common trend among available data, contradictory tendencies such as output, imports, unemployment etc resulting in different methods, and different results. Empirical research of business cycle poses many technical changes for national income and for international business cycle synchronization.

International business cycle synchronization could be observed, because individual country chronologies often contain references to international events such as changes in foreign interest rates and financial panics. Different studies offer different results and refer to different countries. Another analysis synchronization of peripheral country and finally other aim core countries relative to peripheral studies. An overview is offered by Matthias Morys and Martin Ivanov (Morys and Ivanov) and his result is presented in Table 2.

The conclusion from this overview is that the average correlations reported is very low and in contradiction with the period 1870-1914 that is often referred to as the First Age of Globalization. This mismatch between studies and expectations is known as the business cycle paradox. And what we can do with a paradox is to live with it as Priest says (Priest, 1979) and take it as truth.

Keynes comes in his book with a narrative support for this obviously correlations of European countries development, talking about the same rhythm of increasing populations, about the spreading of German organization and about the intensity of trade. *"Before 1870 different parts of the small continent of Europe had specialized in their own products; but, taken as a whole, it was substantially self-subsistent. And its population was adjusted to this state of affairs.*" (Keynes, 1995, p. 5) After 1870 the German population grew from 40 million in 1870 to 68 million in 1914, Austria-Hungary from 40 million in 1890 to 50 million in 1914 and European Russia from 100 million in 1890 to 150 million at the outbreak of the war. "*This great increase was only rendered possible by a far-reaching transformation of the economic structure"* of the German country and to its impact on extraordinary center of population of Central Europe.

"Round Germany as a central support the rest of the European economic system grouped itself and on the prosperity of the rest of the continent mainly depended" (Keynes, 1995).

In Europe due to tariffs and border interferences reduction and the stable basis in relation to gold of different currency create a general climate of order, security and uniformity. "*This factor of order, security and uniformity…prepared the way for the organization of the vast mechanism of transport, coal distribution and foreign trade …"*

When international trade of European countries was as interdependent as Keynes noted *"The statistic of the economic interdependence of Germany and her neighbors are overwhelming.*

Germany was the best customer of Russia, Norway, Holland, Belgium, Switzerland, Italy and Austria-Hungary. She was the second-best customer of Great Britain, Sweden and Denmark, and the third best customer of France. She was the largest source of supply to Russia, Norway, Sweden, Denmark, Holland and, Switzerland, Italy, Austria-Hungary, Romania and Bulgaria and the second largest source of supply to Great Britain, Belgium and France." (Keynes, 1995, p. 8) The result of European economies correlation can be low.

In conclusion when narrative history is used European countries interdependence look obvious. When statistic, econometric analyze is used, events become more blurred.

2.3. European interdependence in 21 century

Economic interdependences of European countries before World War I, as Keynes argued, are relived in our days too. Baldwin and Whyplosz (Baldwin and Whyplosz, 2009) exhibit the same interdependences of European economies, with 71 percent of EU27 export with itself and 67 percent of EU27 import with itself, at 2007 level of data. At this level of figure every country feels that the others European countries are very important for it. When German people look at figure implied by Greece 2011 and 2012 bailout they maybe forget the importance of his history partner but they probably will remained it soon.

Synchronization of European countries business cycle become very important as it is an important criterion for participation in a monetary union as optimum currency area (OCA) theory suggests that this criterion is generally applied to find if new EU member states should adopt euro and exchange rate regimes of the, but it also is considered for other countries with extensive trade and economic relations with the EU.

A variety of methodologies have been applied in recent business-cycle studies of the CEECs and Jarko and Korhonen (Fidmuc and Korhonen, 2006) tried to offer a clear view on this subject. They conducted Meta-analyze of 35 identified publication and they confirm relatively high correlations for many new EU countries.

CONCLUSIONS

Keynes told us a story of Europeanism in his "The Economic Consequences of the Peace" book, and the power of this story came from observation and feeling and less from figure.

Economy as science was always a science influenced by philosophic and religious thoughts and it has always ethic content (Sedlacek, 2011). Today and for some time, philosophy religious or ethnic was forgotten and we remain with the difficult languages of statistic. Difficult because often researchers speak the same language they don't understand each other due to different methods, sources and period analyzed.

What if Germany following moral, philosophic or ethic thoughts wouldn't run such a current huge account surplus for propping up its industries and preventing its unemployment rate for rising further? Because, as Dani Rodrik states, Germany is now free-riding on other countries' economies (Rodrik, 2010).

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ANNEX A

Table - 1 Candidates years for continent-wide recession 1750-1870

Continent-wide recession years	Events
1761-62	Seven Years War
1765-66	Stamp Act
1770-72	British Credit Crises
1789-90	French Revolution
1792-93	1792 Panic (Wall Street first collapse)
1811-12	The UK Great Depresion
1816-19	Loose of colonies
1820-21	Panic of 1819 (first major financial crises in U.S)
1825-26	Great Britain crises
1831-32	Cholera
1837-38	Cholera
1840-42	Harvest failure, Cholera
1848-49	European Revolution, Great Irish Famine
1853-54	Crimean War
1857-59	Financial Crises (First Global Crises)
1831-62	Americal Civil War,
1866-68	The Austro-Prussian War

Source: authors adaptation after Graig & Garcia Iglesias

ANNEX B

Table 2 - Business cycle synchronization during the First Age of Globalization (ca. 1870-1913) according to previous research

Source/countries	Correlation *	Time frame	Statistical method: correlation of
Morgenstern / E, F, G	0.83 (3)	1870-1914	concordance index[2]
Backus&Kehoe 1992 E,G	0.03 (1)	1870-1913	de-trended GDP
Artis et al. 2011 E, F, G	0.09 (3)	1880-1913	de-trended GDP
Bordo&Helbling2011 E, F, G, Netherlands, Switz., US	0.04	1880-1913	GDP growth rates
Bordo&Helbling 2011 F, G,Netherlands, CH	0.09	1880-1913	GDP growth rates
Uebele 2011 E, F, G	0.61 (3)	1862-1913	CDFA Business cycle indices
Backus&Kehoe 1992 Denm., Norway,Sweden	0.29 (3)	1865-1914	de-trended GDP
Artis et al. 2011 Denm., Finland,Norway, Swed	0.11 (6)	1880-1913	de-trended GDP
Artis et al. 2011 Austria-H.,Greece	0.15 (1)	1880-1913	de-trended GDP
Bordo&Helbling 2011 Denm., Finland, Norway, Swed	0.14 (6)	1880-1913	GDP growth rates
Backus&Kehoe 1992 / E, G vis-à-vis,Denm., Italy,Norway, wed	0.20 (8)	1861-1913	de-trended GDP
Backus&Kehoe 1992 / E, G vis-à-vis Denm, Norway, Swed.	0.29 (6)	1880-1913	de-trended GDP
Artis et al. 2011 / E, F, G vis-à-vis, 4 Scand. Countries	0.04 (12)	1880-1913	de-trended GDP
Artis et al. 2011 E, F, G vis-à-vis, A-H., Greece	0.16 (6)	1880-1913	de-trended GDP
Bordo&Helbling 2011 6 core vis-à-vis 10 peripheral	0.01 (60)	1880-1913	GDP growth rates

Source: Morys and Ivanov

* Average correlation (# of bilateral correlations)