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## **Economic Interventionism, Armament Industries and the Keynesian Theory**

The economists debates in France and Great Britain, 1936-1940

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The relationship between Keynes and the economy of war is rather paradoxical. On the one hand, Keynes played a significant role in his country's war effort during the two world conflicts, and acknowledged the stimulus effect. induced by European rearmament, on the other hand, his inclination towards different dimensions of pacifism has manifested itself on many occasions in his life, as in the conclusion of the General Theory, which ends with the hope that the reforms of the capitalism it proposes will lead to a world without war.

The expression "military keynesianism", widely used during the US-Soviet arms race, contributed to the suspicion of Keynes's sympathy for rearmament or war as a privileged instrument of recovery, and even for authoritarian regimes. His hostility to commercial liberalism in times of crisis has also fostered the image of a Keynes supporter of economic nationalism, the latter having often gone hand in hand with the praise of militarism, as illustrated by the case of Friedrich List, in his National System of Political Economy (1840).

An analysis of Keynes' contribution to the economic debate related to British rearmament, however, qualifies this analysis. It is interesting to put in the reactions of economists to rearmament policies on both sides of the Channel. Do Keynesian ideas permeate the public debate on the rise in military spending and the eventual nationalization of arms-producing industries?

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Over the period, the economic situation is very different between the two countries. In France, after an episode of deflation under the Laval government, the Franc was devalued in October 1936 by the government of the Popular Front of Leon Blum. It is a question of trying to start an economic recovery, whereas in 1935 the French economy is in crisis (the lowest GDP of the period 1929-1938, the unemployment rate at 14.5%, widening of the deficit budget despite austerity and soaring public debt, at 200% of GDP)<sup>1</sup>. While in most industrialized countries, the recovery is at the beginning of 1936, France is unable to return to growth and export competitiveness. The industrial sectors supplying the army with equipment are not very efficient, notably the aeronautical industry, which suffers from numerous structural problems. To counter this economic slump, the Popular Front government took many initiatives between June and September 1936, including the launch of a program of major works and a rearmament program (14 billion over four years)<sup>2</sup>, as well as the nationalization of war industries.

The effectiveness of these measures on arms production will be limited, at least initially, because the government must indeed face major strikes, especially in the metallurgical industry, which is essential to weapons production<sup>3</sup>. On the other hand, the hostility of the business community to the Popular Front limits productive investment, which has already been considerably reduced since 1931.

It was not until the summer of 1938 that the economic recovery seemed to be confirmed, partly driven by the rearmament policy. The French economic policy remains over the period marked by liberal orthodoxy and the proposal of Leon Blum in 1938 to introduce a control of the capital at the same time as the military expenses would be increased is rejected. In April 1938, the new president of the Council, Edouard Daladier, announces a doubling of the military budget, at the same time that the social expenses are considerably reduced by the Minister of Finance, Paul Reynaud.

*« Reynaud hoped that rearmament could be financed through the revenue of savings bonds. As long as confidence in the French economy could be maintained, the willingness of French savers to support the state would allow rearmament without inflation. But, as in Germany, even if the domestic balance could be preserved, the foreign account posed a constant challenge. How was France with its national economy devoted increasingly to armaments to pay for imports,*

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<sup>1</sup> Dockès P. (2017), op.cit., Dockès P. (2017), La grande crise des années 1930, in Le Capitalisme et ses rythmes, quatre siècles en perspective. Tome 1, Sous le regard des géants, Classiques Garnier, pp.521-642.

<sup>2</sup> Dockès P. (2017), op.cit., p. 639.

<sup>3</sup> Vidal G. (2004), « Le Parti communiste français et la défense nationale (septembre 1937 septembre 1939) », *Revue Historique*, 2.

*above all of American aircraft? By the summer of 1939, with armaments spending surging ahead of revenue, the French state was without a coherent strategy: it had neither the money to pay for, nor the institutional mechanisms to coordinate, the industrial production needed to fight and win the coming European war. »*<sup>4</sup>

In Great Britain, the situation is quite different, with an economic recovery at the end of 1936 that fuels fears that inflation would rise again. A rearmament program was initiated by the British Government in February 1936, as traced in an article of the Guardian in March, 1935:

*« In a major reversal of rearmament policy Britain today announced new expansion plans for its army, navy and air force. The plans, in a defence white paper, are to demonstrate that Britain does not take lightly Germany's continuing rearmament. The white paper calls for an enlarged fleet, improved defences for warships against air attack, more aircraft for the RAF and new coastal and anti-aircraft defences. The emphasis on air defence follows fears that Britain is an easy target for cross-Channel air raids. »*<sup>5</sup>

The rise in military expenditure will subsequently accelerate. The cost of rearmament is estimated at 1500 million pounds for the period 1937/8 - 1941/2, 1100 of which should be financed by taxation. It remains to borrow £ 400m. In February 1939, this sum is revalued to £ 800 million for the 5 years considered but in reality the loans will quickly exceed this amount, voluntarily underestimated so as not to scare the markets.

In Great Britain, the debate on the economic and financial consequences of these loans is very advanced. The fear of increased inflation if borrowing exceeds the country's savings capacity is put forward by Hawtrey; Philips meanwhile considers that there is no risk. But a problem is also that of the decline in the gold stock following the deterioration of the current account and the weakening of the pound sterling. The question of trade restrictions (tariffs and quotas) is thus important, and Keynes advocates a restriction of imports<sup>6</sup>.

As in France, though to a lesser extent, defense companies are struggling to honor the military orders, particularly of the Royal Air Force and of the army. The Air Ministry will intervene to regulate the military aeronautical production, without however nationalizing the companies in question.

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<sup>4</sup> Geyer M., Tooze A. (2015), *The Cambridge History of the Second World War: Volume 3, Total War: Economy, Society and Culture*, Cambridge University Press, pp. 38-39.

<sup>5</sup> *The Guardian*, Monday 4 March 1935.

<sup>6</sup> Peden J.C. (2004), *Keynes and his critics*, OUP, British Academy.

Our article aims to question the reactions and analyzes of French and British economists to the increased state interventionism in the armaments sector from the second half of the 1930s (I); we will then show how the possibility of an economic revival through rearmament is analyzed by economists, and in the first place by J.M. Keynes (II).

## **I - The debate on State intervention in the armaments sector**

The nationalization of armaments industries decided by the Popular Front incurred the wrath of the French liberals, this measure being considered worthy of a totalitarian, communist or fascist regime. But the debate remains weak in France. It is the analysis of Ludwig Von Mises that will remain emblematic of the liberal position on this issue. Gradually however, in the face of deficiencies in the supply of war materials, the idea of a necessary regulation by the state is making its way.

### **A) Economists' reactions towards nationalizations in the French armament sector**

The question of an insufficient rearmament of France during the 1930s, which would have been responsible for the defeat of 1940, was widely debated. Has the nationalization of the manufacture of war materials (Act of August 11, 1936), which was one of the first measures taken by the Popular Front government, served the military production? This subject was only weakly discussed at the time, which can be explained by the very small scale of nationalization. Garraud recalls that of the 70,000 companies working for the defense in 1936, only 7 are nationalized, for a total of about 10,000 workers<sup>7</sup>.

It is mainly companies in the land armament sector that are concerned. These measures will receive the support of the French Communist Party and will provoke the hostility of employers and some liberal economists.

#### *1) The debate in the French Senate in August 1936*

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<sup>7</sup> Garraud Philippe (2005), « La politique française de réarmement de 1936 à 1940 », *Guerres mondiales et conflits contemporains*, n° 219, 3.

The debate in the Senate of August 7, 1936, on the nationalization of war material is illustrative of the fears of some politicians as to the negative consequences of these nationalizations, according to two main arguments<sup>8</sup> :

- The risk of a peacetime burden of maintaining State control of unused production capacity for war materials;
- The decline in the overall level of French arms production, due to the lack of private capital, in a context of fiscal austerity.

In support of this thesis, an anonymous article of the *Revue de Paris* of November 1936 reports the conclusions of a commission set up by the British Government, which favors the maintenance of the private arms industry and not the creation of a state monopoly. The author of the article concludes:

*«The nationalization of aviation is therefore in no way a military or public interest. It bears exclusively the mark of political preoccupations hiding behind national pretexts. It will constitute a considerable advance in the socialization of the country at the same time as an indisputable lowering of its military power and its creative force.»*<sup>9</sup>

In 1937, the economist Edmond Giscard d'Estaing also criticizes this initiative: *« It is hoped that one day the country will know what it costs the economic absurdity of the nationalization of national defense industries and will know the details of this incredible adventure. The proof is that nationalizations require a lot of money and have never paid for it.»*<sup>10</sup>

Three months later, he points to the weakness of French military aeronautics production and blames the social policy of the Popular Front, as well as the nationalization of arms companies. For him, nationalization is only one aspect among others of the disastrous management of public affairs by the government.

*« In July 1937, 40 aircrafts were delivered to the Air Force (instead of the 120 that would be needed). In August 1937, delivery fell to 32 aircraft. The weakness of this production is already evident in absolute value when compared*

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<sup>8</sup> See for example the arguments of Mr. Henri Lemery during a debate in the Senate : Matériels de guerre : nationalisation de leur fabrication, Journal Officiel, Sénat, séance du 7 août 1936, p. 1098.

<sup>9</sup> Anonyme (1936), "Quand l'Etat nationalise", *La Revue de Paris*, novembre, p. 423. « La nationalisation de l'aviation ne se présente donc à aucun degré comme une entreprise d'intérêt militaire ou d'intérêt public. Elle porte exclusivement la marque de préoccupations politiques qui s'abritent derrière des prétextes nationaux. Elle constituera -un progrès considérable dans la socialisation du pays en même temps qu'un abaissement incontestable de sa puissance militaire et de sa force créatrice. »

<sup>10</sup> E. Giscard d'Estaing (1937), « Moyens de Trésorerie », in *La Revue de Paris*, 1<sup>er</sup> juin, p. 537. « Il faut espérer qu'un jour le pays saura ce que lui coûte l'absurdité économique de la nationalisation des industries de défense nationale et connaîtra les détails de cette inénarrable aventure. La preuve est faite que les nationalisations exigent beaucoup d'argent et qu'elles n'en n'ont jamais rapporté. »

*to the French needs. It is even more so in relative value if we know that the production of appliances of the same order is currently in Italy at 150 per month and that actual deliveries in Germany reach, and perhaps exceed, 300 per month. month. This precise example draws in the most complete way what can be said about the current French crisis. The causes are many: slower hourly output, fewer hours of work, general disorganization of production, labor disputes, sovietization of some factories, difficulty of supply, rising cost prices, on which is broached the nationalization of the war industries which has dealt a terrible blow to one of the essential means of our national defense. This complex of errors leads to the brutal fact of the number of devices delivered in one month. »*<sup>11</sup>

For defenders of nationalization, on the other hand, the example of the naval industry shows that a military production under state control can make it possible to reach very satisfactory objectives<sup>12</sup>. In fact, René La Bruyère recalls in July in the *Journal des Débats Politiques et Littéraires* that there can be no nationalization of the naval industry, since it is already effective.<sup>13</sup>

In Great Britain, the Labor Party's position on the nationalization of the armaments industry evolves between 1934 and 1935. The goal of nationalization is included in the 1934 program, *For Socialism and Peace*, but in 1935, « Arthur Henderson, in an official statement of Labour's foreign policy, said the Labour would propose to the League of Nations a plan which would include 'the nationalization and drastic international control of the manufacture of and trade in arms' »<sup>14</sup>

## 2) *The criticism by Ludwig Von Mises of the French nationalization*

The question of whether it is better to leave production under private control or to nationalize it was subsequently discussed by Von Mises in chapter VI of his work written in 1940, *Interventionism, an economic analysis*, entitled « War economy »<sup>15</sup>.

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<sup>11</sup> E. Giscard d'Estaing (1937), « L'anémie économique », in *La Revue de Paris*, 15 octobre, p. 813.

<sup>12</sup> Voir les arguments de M. Daniel Vincent, président de la Commission de l'armée, lors de ce même débat (cf. op. cit. p. 1100, arguments approuvés lors de ce débat par Edouard Daladier, ministre de la Défense nationale et de la guerre et par Joseph Caillaux, président de la Commission des finances.

<sup>13</sup> La Bruyère René (1936), « Il ne saurait y avoir de nationalisation pour la construction navale elle est déjà faite », *Journal des débats politiques et militaires*, 17 juillet, p. 1.

<sup>14</sup> Millward R., Singleton J. (1995), *The Political Economy of Nationalisation in Britain, 1920-1950*, Cambridge University Press, p. 171.

<sup>15</sup> Mises Von L. (1940), *Interventionism, an economic analysis*, edited by Bettina Bein Greaves, Foundation for Economic Education, 1998.

*« It is apparent that in the final analysis war and the market economy are incompatible. The market economy could only develop because industrialism had pushed militarism into the background and because it made the total war "degenerate" into the soldiers' war. » (p. 70)*

For Von Mises, the directed production of totalitarian regimes that concentrate a lot of resources on arms production, such as Nazi Germany, are generally considered more effective at achieving military superiority than the free market economy, civilian production being kept to a minimum. However, according to him, the insufficient armament production of the market economies in the 1930s can be explained firstly by the combined influence of antifascists (Labor in Great Britain and Leon Blum in France: they opposed a large-scale rearmament, considering that it was the game of the fascists) and anticommunists (who did not believe in the will of the Nazis to annihilate the French and British empires and to dominate Europe). Thus for the Austrian economist, it is not capitalism that is to blame for the insufficient defense of the French Eastern Frontier but the political opposition to rearmament, especially on the suspicion of collusion between major arms manufacturers and the military, all finding an economic interest in total war. According to Von Mises, it is this mistaken view that led to the nationalization of the arms industries by Leon Blum, which nationalization has considerably limited the productive potential of France in terms of military equipment. And French pacifism prevented an accelerated rearmament between the outbreak of the war and the spring of 1940, rearmament that would no doubt have been sufficient to meet the needs of the French army in military equipment.

*«On the basis of such reasoning the Blum government nationalized the French armament industry. When the war broke out and it became imperative to place the productive power of all French plants into the service of the rearmament effort, the French authorities considered it more important to block war profits than to win the war. From September 1939 until June 1940, France in actuality did not fight the war against the Nazis, but in fact it fought a war against war profiteering. In this one respect, they were successful.» (page 72)*

On the other hand, during WWI, private entrepreneurship proved to be a very efficient system for the supply of military equipment.

*«At no other time has the efficiency and productive capacity of the entrepreneurs been proved more effectively than during the first World War. It is only envy and unthinking resentment that cause people to fight against the profits of the entrepreneurs, whose efficiency makes possible the winning of the war. When the capitalist nations in time of war give up the industrial superiority which their economic system provides them, their power to resist and their chances to win are considerably reduced.» (page 73).*

For Von Mises, interventionism (including in particular the nationalization of arms production in France) could only lead to insufficient defense production and military failure, because this interventionism destroys the possibilities of profit (which will be taxed), even though the

profitability of armaments production remains uncertain, dependent on political developments (and in particular whether or not a continuation of the conflict). Incentives for investment and entrepreneurship are thus considerably reduced in an interventionist system, and the level of production of war materials remains much lower than it would have been if this production had been maintained free.

*«In war, too, there is only the choice between the market economy and socialism. The third alternative, interventionism, is not even possible in war.» (p. 74)*

*«The defeat of France and the destruction of English cities was the first price paid for the interventionist suppression of war profits.» (p. 75)*

### **B) Towards an acceptance of state regulation of arms production**

In the late 1930s, many French politicians and analysts seem to agree on the inevitability of the State taking control of the production of war materials, for national security imperatives. The idea of a « total war » in which the quantity and quality of armaments are decisive factors, much more than the number of troops, and requiring the mobilization of the national industrial complex, is quite common since the end of the first world war.

However, the economic analyzes of the production of armaments under state control are few and limited. In France, the nationalization of the manufacture of war materials in 1936 does not give rise to significant economic analysis. In the *Revue d'Economie Politique* from 1936 to 1940, there are no specific studies on the nationalization of the arms industry or the impact of rearmament. It is international monetary issues that are widely debated in economic journals. Thus the *Journal des Economistes* reports on an economic meeting in Antwerp organized in July 1936, which brought together economists from several countries, including J.M. Keynes for Great Britain and M. Nogaro for France.

*« It is on the monetary question that the conflict has erupted between the partisans of directed money and cheap credit, on the one hand, and the proponents of general and immediate stabilization, on the other. It is the eternal conflict between the interventionists and the proponents of the classical economy.»<sup>16</sup>*

French economists of course placed themselves on the side of the proponents of a «fixed and independent currency».

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<sup>16</sup> . Daudé-Bancel (1935), Le libre-échange, in *Journal des Economistes*, septembre-octobre article sur le libre-échange vers page 443. « C'est sur la question monétaire que le conflit a éclaté entre les partisans de la monnaie dirigée et du crédit à bon marché, d'une part, et les partisans de la stabilisation générale et immédiate, d'autre part. C'est l'éternel conflit entre les interventionnistes et les tenants de l'économie classique. »



However, we can note an original analysis relating to our subject, that of F. Trevoux on the notion of public service, published in the *Revue d'Economie Politique* in 1938. Industries to supply defense production must be included in the field of public service, as in the case of the metallurgical industry.

*«The metallurgical industry has thus become a public service as a result of the necessities of national defense in various countries.»*<sup>17</sup>

Citing the case of cast iron production in Britain, Trevoux explains that a Commission has recommended a policy of price regulation and ensuring production capacity, following the *Report of the Import Duties Advisory Committee on the present position and future development of the Iron and Steel Industry (July 1937)*. The sector is therefore under public control to meet the needs of weapons production, production is planned and competition, both in the domestic market and abroad, is no more the organizing principle of the sector.

*«The characteristic of utilities is thus to be normal and permanently over-equipped and to support significant fixed costs, independent of the volume of production. There is thus a real servitude of the public service.»*<sup>18</sup>

Using the terminology of the Austrian School (Böhm-Bawerk and Hayek), Trevoux explains that because of the will to be able to satisfy the demand at any time in the future, *«the public service industries thus become more and more capitalist and are obliged to plan and build in advance factories and equipment that will sometimes come into service after several years»*. The result is over-equipment and overcapacity, especially *«in any aggressive autarchy that always has in view the enormous and sudden needs of war»*.

## **II – The debate on rearmament as a remedy for the economic crisis (Military Keynesianism)**

The European rearmament is concomitant with a growing weight of social spending in the British budget, since the outbreak of the crisis of 1929. In Germany, the Nazi regime increases military spending on a scale unachievable by democratic regimes, up to nearly 19% of GDP. The

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<sup>17</sup> F. Trevoux (1938), « La notion économique de service public », *Revue d'Economie Politique*, mars-avril, pp. 353-376, p. 368. « L'industrie métallurgique est devenue ainsi un service public à la suite des nécessités de la défense nationale dans divers pays. »

<sup>18</sup> F. Trevoux (1938), op.cit., p. 369. « La caractéristique des services publics est ainsi d'être de façon normale et permanente suréquipés et de supporter des charges fixes importantes, indépendantes du volume de la production. Il y a ainsi une véritable servitude du service public. »

stimulus effect of these specific public expenditures will reinforce the growing influence of Keynesian ideas in Britain and, to a lesser extent, in France.

### **A) Economists confronted with the German war economy**

The successes of German industry have been observed by the European democratic countries since the mid-1930s. In 1938 Keynes explains this growth by the fact that the country makes full use of its production capacity and he advises Great Britain to refer to this example. He is in fact favourable to a flexible state planning<sup>19</sup>. But even if he rehabilitates interventionism, it does not mean that he favors a militarization of economic life.

A controversy subsequently emerged, with some critics of Keynes accusing him of having fostered sympathies for the Nazi regime, advancing the evocation of totalitarianism as a privileged regime to apply economic interventionism in the *preface to the German edition* of the *General Theory* in 1936. Such an argument seems difficult to accept, as Keynes's pacifism and his attachment to democracy and individual freedoms are reflected in all his writings. In addition, the precise authorship of this preface is subject to caution<sup>20</sup>. Keynes strongly criticized the national autarchy policies of the 1930s, with the development of fascism, Nazism and communism. In his 1933 article on national self-sufficiency<sup>21</sup>, he explained that protectionism should be treated with caution; «*For I must not be supposed to be endorsing all those things which are being done in the political world today in the name of economic nationalism. Far from it.*» (1933: 244).

On the other hand, Markwell recalls that in the mid-1930s Keynes spoke of "brigand powers" about Germany, Italy and Japan.<sup>22</sup>

In the *Journal des Economistes* of 1936, Edouard Payen presents military expenditures as relatively unproductive and as inevitably leading to war, these expenditures not leading to a rise in the standard of living for the German population.

«*All economic activity in Germany since the advent of the Hitler regime is artificial and can only lead to a dead end. The billions of marks spent have not been spent on productive expenditure in the real economic sense. The factories*

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<sup>19</sup> *Series on the State and Industry*, 14 March 1932, Volume 21 p 90.

<sup>20</sup> On this point, see Hagemann Harald (2002), *The German edition of Keynes's General Theory: Controversies on the Preface*, Universität Hohenheim, ESHET conference, May 2013.

<sup>21</sup> Keynes J.M. (1933), "National Self-Sufficiency," *The Yale Review*, Vol. 22, no. 4 (June 1933), pp. 755-769

<sup>22</sup> Markwell (1995), J.M. Keynes, *idealism and the economic bases of peace*, in Long David, Wilson Peter, "Thinkers of the twenty years' crisis", Clarendon Press, Oxford, p. 197.

*working for the army have been active and the number of unemployed has decreased, but everyday life has not been comforted in a healthy way. And the German leaders will one day be forced into a situation that may incite them to the worst solutions. There is danger for the world.* »<sup>23</sup>

### **C) The evolution of Keynes' opinion on the issue of rearmament as a tool for boosting British economy**

In 1937, Keynes considers that the economic bump justifies a relative budgetary austerity (social expenses in particular), while maintaining high military expenses, which will have to be preferably financed by the tax.

*«Just as it was advisable for the Government to incur debt during the slump, so for the same reasons it is now advisable that they should incline to the opposite policy. Aggregate demand is increased by loan expenditure and decreased when loans are discharged out of taxation. In view of the high cost of the armaments, which we cannot postpone, it would put too much strain on our fiscal system actually to discharge debt, but the Chancellor of the Exchequer should, I suggest, meet the main part of the cost of armaments out of taxation, raising taxes and withholding all reliefs for the present as something in hand for 1938 or 1939, or whenever there are signs of recession. The boom, not the slump, is the right time for austerity at the Treasury.* »<sup>24</sup>

Keynes is therefore in favor of fiscal discipline in the bump period, worried about macroeconomic stabilization and especially the fight against inflation. Hayek also hailed in *Hayek on Hayek* (1994) the fact that the Keynes he knew in Cambridge during the war was anxious not to allow a revival of inflation and that they were close on this point, as recalls Nicholas Wapshott<sup>25</sup>.

Similarly, Keynes is taking a stand for a relaxation of customs restrictions allowing an increase in imports, even if this leads to a deterioration in the balance of payments and consequently to the rise in raw material prices and certain production costs, particularly in the arms industry. This measure will lead to the export of gold to commodity exporting countries, which will then be able to buy British goods later on:

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<sup>23</sup> Payen Edouard (1936), *Journal des Economistes*. « Toute l'activité économique de l'Allemagne depuis l'avènement du régime hitlérien est artificielle et ne peut aboutir qu'à une impasse. Les milliards de marks dépensés ne l'ont pas été en dépenses productives au sens vraiment économique. Les usines travaillant pour l'armée ont été actives et le nombre des chômeurs a diminué, mais la vie courante n'en a pas été réconfortée de façon saine. Et les dirigeants allemands se trouveront un jour acculés à une situation qui pourra les inciter aux pires solutions. Là est le danger pour le monde. »

<sup>24</sup> Keynes J.M. (1937), How to avoid a slump 1. The problem of the steady level, *The Times*, 12-14 January.

<sup>25</sup> Wapshott, Nicholas (2011), *Keynes Hayek: The Clash that Defined Modern Economics* W. W. Norton & Company, NY, London, p. 192.

*«The recent decrease in the Bank of England's fiduciary issue indicates that we have today a plethora of gold. It is desirable, therefore, that the raw material countries should be allowed to replenish their gold and sterling resources by sending their goods to us».*

Armament is not mentioned by Keynes in his planning perspectives, even if he ranks armaments in the category of «investment goods», «if they are paid for by borrowing»<sup>26</sup>. As privileged investment goods of a planning, he targets civil sectors:

*«Building and transport and public utilities, which can use large amounts of capital, lie half way between private and public control. They need, therefore, the combined stimulus of public policy and a low rate of interest.»*<sup>27</sup>

The relatively low level of arms expenditure relative to other public expenditure in Great Britain, and particularly that of "social services", is also recalled by Etienne Mantoux in the *Revue d'Economie Politique* in 1939. The rise in state expenditure in the national income (6% in 1870 against 18% in 1937) «is explained, as in France, by the charges of the public debt (...) and more recently by the expenditure of armaments. But the permanent element of increased public spending has been the development of social services.»<sup>28</sup>

In 1937, Keynes rejected the hypothesis of a revival of productive activity (likely to provoke inflationary pressures) by the increase in military expenditure induced by rearmament. These expenses are too low to have a significant effect:

*«The cost of rearmament is neither permanent nor large enough while it lasts to sustain prosperity by itself (in 1936 at least seven or eight times as much was spent on new building as on rearmament).»*<sup>29</sup>

But in 1939, in a radio interview transcribed in *The Listener*, titled *Will rearmament cure unemployment?*, Keynes asserts the possible effectiveness against unemployment of military expenditure<sup>30</sup>. It must be said that the British military budget has increased considerably since 1937, probably leading to greater economic impact. The stimulation of economic activities linked to arms production should lead to an increase in employment and wages, which could lead to an increase

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<sup>26</sup> Keynes (1937), op.cit, p. 386.

<sup>27</sup> Keynes (1937), op.cit., p 394

<sup>28</sup> Etienne Mantoux (1939), *Revue d'Economie Politique*, janvier-février, page 574.

<sup>29</sup> Keynes J.M. (1937), How to avoid a slump 1. The problem of the steady level, *The Times*, 12-14 January, p. 392

<sup>30</sup> x 'Will Rearmament Cure Unemployment?', *The Listener*, 1st June 1939, 528-532.

in demand and hence in production. Assuming a 150 million pounds increase in military spending, Keynes concluded that this could help overcome unemployment, because of their multiplier effect:

*« If so, the direct effect of the armament expenditure may be to take 300,000 men of the dole. I fancy that even the pessimists would reckon that a fairly conservative figure. »*<sup>31</sup>

However, the increase in armaments production is only a second-best solution, which does not meet social needs and which will slow down the productive potential of the economy in the long term. Military expenditures are the most unproductive (but useful for national defence) of public expenditures. Weapons are either stocked or destroyed in the event of war; therefore their production does not represent an intertemporal transfer of purchasing power, but a definitive exclusion of the factors of production from the economic process. It is unproductive consumption. Preparation for war, more than the war itself, is a temporary incentive for economic activity. But Keynes disapproved of what is now known as 'military Keynesianism', because it could only have short-term effects. It is better to direct public investment towards the building sector or civil engineering, which are socially useful.

*« I have a special extra reason for hoping that trade-unionists will do what they can to make this big transition to fuller employment work smoothly. I began by saying that the grand experiment has begun. If it works, if expenditure on armament really cure unemployment, I predict that we shall never go back all the way to the old state of affairs. I we can cure unemployment for the wasted purpose of armaments, we can cure it for the productive purposes of peace.»*<sup>32</sup>

In fact, Keynes regrets that the only public expenditure of his time that helps to absorb unemployment is made in the military sector. Without the military spending, the British government would never have issued public loans. However, military expenditure's effectiveness in overcoming the economic crisis can only be temporary. A policy based on other public spending would be more effective.

Moreover, in 1942, in his analysis on the European economies after the Second World War, Keynes highlighted the lack of productivity of military spending and the burden it represents on the national economy, while public finances should be used to encourage national productive capacities. He denounced Germany's ban on keeping an army and an armaments industry, saying that these measures were a means of ridding the country of a considerable economic burden<sup>33</sup>. The growth of German exports, at the expense of other countries, such as Great Britain, bearing the

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<sup>31</sup> Op.cit., 531.

<sup>32</sup> Op.cit. 532.

<sup>33</sup> *Inter-Departemental Committee on Reparation and Economic Security*, 21 December 1942, Volume 26 p 339.

burden of international security, will be inevitable. Keynes suggests that, in compensation, Germany contributes to the financing of peacekeeping in the world.

#### **D) A slow diffusion of Keynesian ideas in France in the late 1930s**

In France, fiscal austerity limits rearmament, especially as pacifism permeates the thought of Leon Blum. It is therefore logical that the impact of the rearmament or nationalization of war material factories should not be subjects of study for economists after 1936. The question of State intervention is a growing field of study for French economists. In economic journals, the second half of the 1930s saw the main themes of economists' debates moving from monetary issues (the fight against inflation being central) to those of interventionism and planning<sup>34</sup>. Although the French translation of the *General Theory* was not completed until 1942, Keynes's ideas spread as soon as 1936 in France, thanks to certain economists. Thus, in an article of the *Revue d'Economie Politique* of 1936 entitled *The scientific work of some foreign economists. J.M. Keynes*<sup>35</sup>, J.M. Jeanneney presents the main points of Keynesian theory, expressing in passing his skepticism about the monetary analyzes of the British economist, described as 'utopian'. He concludes that while it is likely that Keynes's ideas will fizzle out, he nevertheless has the merit of changing economic thinking, making many people aware of the possibilities open to decision-makers to influence the economic conditions, thanks to an active economic policy.

« *The merit of his teaching has been to inspire a great faith in the sovereignty of thought, in the power it has to better organize the economic world. From now on, in all countries, even in Great Britain, isn't it realized what Keynes had predicted and desired for a long time : the end of laissez-faire?* »<sup>36</sup>

In his 1937 article, Keynes indeed salutes the fact that attitudes have definitely changed in economic affairs: the time of laissez-faire and the belief in an 'invisible hand' has passed, there is now an awareness of the need of a real economic policy, using monetary policy measures to change interest rates, as well as taxes and public spending.

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<sup>34</sup> This is particularly visible in the themes of the articles of the *Revue d'Economie Politique* and the *Journal des Economistes*, from 1936 to 1940.

<sup>35</sup> Jeanneney J.M. (1936), « L'œuvre scientifique de quelques économistes étrangers. J.M. Keynes », in *Revue d'Economie Politique*, Janvier-Février.

<sup>36</sup> Jeanneney J.M. (1936), op.cit. « *Le mérite de son enseignement aura été d'inspirer une grande foi dans la souveraineté de la pensée, dans le pouvoir qu'elle a de mieux organiser le monde économique. Dès maintenant, en tous pays, en Grande-Bretagne même, ce que Keynes avait prédit et souhaité de longue date ne se réalise-t-il pas : la fin du laissez-faire ?* »

« We have entirely freed ourselves-this applies to every party and every quarter-from the philosophy of the laissez-faire state. We have new means at our disposal which we intend to use. Perhaps we know more. But chiefly it is a general conviction that the stability of our institutions absolutely requires a resolute attempt to apply what perhaps we know to preventing the recurrence of another steep descent.»<sup>37</sup>

## Conclusion

The European arms race from the mid-1930s did not take place at the same pace and in the same way in all countries. The examples of France and Great Britain are thus very different. In France, the liberal theory is still largely dominant and budgetary austerity initially limits the increase in military spending. When defense budgets are increased from 1937, the production of weapons keeps low yields, what some economists attribute to the nationalization of October 1936. But in general, the debate remains very weak on this issue among French economists. In Britain, on the other hand, the impact of the rise in public spending on the national economy is a hot topic, mainly thanks to the diffusion of the ideas of the *General Theory* of J.M. Keynes. In some writings of the mid-1930s, the prolific economist tends to mitigate the impact of rearmament on economic growth, at least until 1939. Behind the issue of rearmament appears the gradual shift in economists' concerns, from the fight against inflation to a reflection on planning and the state support to economic growth.

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<sup>37</sup> Keynes (1937), op.cit., p. 384

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