

26th November, 1941.

Dear Sir Richard,

I attach a brief summary of the main points I was trying to stress in our conversation today.

Keynes did not seem to dissent but they would of course entail certain changes in his draft planned for the Bank. I wonder if you would think it useful if I set out precisely what amendments would be required to bring it into line with the ideas which I was expressing? I feel that it is always better to have the matter set out as concretely as possible. I could do this quite easily and let you have it for Monday.

Whether such amendments would help to canalise discussions I do not know.

Yours sincerely,

Sir Richard Hopkins, K.C.B.,  
Treasury Chambers,  
S. W. 1.

NOTE ON POINTS MADE IN DISCUSSION ON  
NOVEMBER 26th.

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1. As we are, anyhow ostensibly, asking the credit countries to make a large concession, it seems that we should be satisfied if we get the main point and that we should not ask for additional commitments.  
  
The main and sufficient concession appears to me to be that the central bank of each country should receive cheques on the central clearing bank as legal discharge of debt and should only utilise its balance at the clearing bank to buy other currencies from the clearing bank at par.  
  
Minor points, such as assistance in policing and <sup>the</sup> control of capital movements could be relegated to a subsidiary place in the discussion.
2. In particular it seems to me that credit countries should not be subject to sanctions if they do not use their credit balance. They have an obvious economic motive to do so. But there is an age long tendency for countries to wish to boost exports and restrict imports, which may be ineradicable. Provided that the credit countries agree to make the concession specified in 1., there is no need to bring pressure to bear upon them to utilise their credit balances, should they prefer to let them accumulate rather than take the necessary measures to stimulate <sup>im</sup> exports or foreign lending.
3. While the general point <sup>the</sup> the credit countries are asked to concede is specified in 1. it is incumbent upon us to show that the clearing bank will be based on a workable system.
4. Some sanctions are required for dealing with excess-debit countries. It follows from 2. above that the criterion of an excess-debit must not be its absolute size. For, if the credit countries chose to pile up balances the debits might rise automatically to any figure specified.
5. It follows that no sanctions should be applied to debit countries as such, but only to those countries whose debits, when adjusted to the size of the country, are considerably in excess of the average. (A country's debit divided by the value of its overseas trade might be called its debit index.) Countries whose debit index had stood at more than double the average debit index for more than 1 year might be specified as requiring supervision.
6. These countries seem to fall into two classes, namely,  
1. those who have got into this condition through lack of proper control and 2. those whose fundamental economic conditions are irretrievably unfavourable.
7. Before proceeding to sanctions the clearing bank should refer the matter for consideration by <sup>an</sup> Anglo-American body empowered to act discretionally (e.g. an Anglo-American Investment Board). This body would decide which countries belonged to the second class, and if ~~any~~ <sup>the</sup> entered the ~~the~~ scheme for developing these <sup>countries</sup> interests by the use of international funds so as to set them on their feet, should recommend them for a respite before sanctions were applied.
8. Sanctions should be applied to the first class of these except excess-debit countries which <sup>might</sup> consist of a restriction of exports to them in the first instance followed, if necessary by removing them from the ambit of the clearing bank scheme.