My dear Prof.

1. It is always difficult to put these Public Works schemes onto an ordinary financial basis. The Americans are quite used to that idea with their Reconstruction Finance Corporation etc. They have talked of the desirability of an "International R.F.C."

But what one could do - and I will put this into the draft - is to say that the Investment Board must be satisfied that the scheme would enable the territory to increase the value of its exports by more than the interest and sinking fund on it. That, it seems to me, is all that the International I.B. need worry about.

According to ~~the~~ this particular draft, it would be the duty of the "Priorities Committee" to see that this condition was fulfilled; this committee is to consist mainly of practical business men and financiers.

2. The question of the ultimate solvency of debit countries must rest with the Bank, not the Board. The Board makes constructive proposals to help things along, but the ultimate sanctions must lie with the Bank.

I do not think there should be a difficulty here if we draw the distinction between average debit countries and excess debit countries. We must not try to bully average debit countries as this would undermine the idea that it is up to the credit countries to restore equilibrium by using their balances. But if a debit country got out of line with others, for instance if its debit index (i.e. debit / annual value of its foreign trade) reached, say, 2 or 3 times average debit index, sanctions could be applied. All the members of such countries, allowing them say 10/- to get on with (by necessary imports) and taking the other 10/- to reduce their debits to a more reasonable level. (Such steps are in fact taken in isolation under existing clearing arrangements; this plan would universalize and regularize system and ensure that it only applied to debit countries ~~wo~~ who were really culpable and not simply to debits arising because credit countries were being dogs-in-manger).

But these questions are certainly province of the Bank. The Board must assume that they are being properly handled at that level.

P.T.O.

3. Under my scheme, money (apart from guarantee fund) is to be derived from 2 sources, viz. Clearing Banks, and private individuals (including banks, trust corps etc.). I was asked at Treasury why I had ~~not~~ included governments. I attach importance to this point. We expect to get a lot of money from America. If American govt. became chief contributor, the Board would be bound, whatever the constitutional safeguards, to be dominated by America. But if it is a mass of private American citizens of shifting identity with no constitutional status, then the joint Anglo-American control would not be endangered.

4. I will adopt your suggestion of being less precise about interest rates. Of course the market fixes the rate at which money can be raised and any figures inserted would in any case only be illustrative. Keynes thought that 3% was too much. He argued that as both the U.S. and U.K. governments can separately raise money at 2½% for, say, a 25 year bond, an Anglo-American Institution ought not to have to pay more.

Yrs
Roy.