

18th August, 1942.

Dear Harrod,

Many thanks for your letter of August 14th. You may care to see a copy of a Minute which I dictated some days ago on the buffer stock plan. I do not think there is much danger of the President being taken in by the Fergusson note, but personally I welcome the idea that you should have a talk with him. This will, no doubt, make him even more likely to take a firm line at the Reconstruction Committee.

James Meade has sent on to me a copy of your comments on his proposals for international commercial union. You may possibly care to see the enclosed copy of my comments on this plan. The redraft, which I have just received, takes account of almost all criticisms, I think, and, except for some weaknesses in style, seems to me an excellent document. As I think Meade explained to you, the whole idea must be kept extremely secret just for the moment. Otherwise, its reception may be much less favourable.

As you are coming up to London so soon, and for a week, would you have lunch with me one day? I suggest Tuesday, the 25th. Perhaps you would give me a ring about this.

Yours ever,

*Hugh Sainswell*

R.F.Harrod, Esq.

The President.

INTERNATIONAL REGULATION OF PRIMARY PRODUCTS.

1. I hope you will support the proposals in this paper which, in my view, make a valuable, though modest, contribution to a sensible post-war economic order.
2. The main points in the plan, of which unfortunately there is no summary, in the paper, are -
  - (a) The establishment of an international control for each commodity.
  - (b) The establishment of a General Council for commodity controls with certain supervisory powers over the individual commodity controls.
  - (c) Each control will each year fix a basic price for its commodity and will be prepared to buy unlimited quantities at 10% below the basic price, and sell unlimited amounts at 10% above the basic price.
  - (d) Thus, so long as the control holds any stocks, the price will be held within the buying and selling points. Fluctuations will be limited to a range of 20% per annum compared with an average annual price range of 67% in the decade before 1928 for four representative commodities - rubber, cotton, wheat, and lead.
  - (e) Long-term adjustments will be stimulated by changes in the basic price from year to year, which, however, should not normally exceed 10% and, in times of depression, should not be allowed to exceed 5% per annum.
  - (f) Where there is an obvious surplus of a particular commodity, and the price which would equilibrate supply and demand is hopelessly uneconomical for producers, then a restriction scheme can be introduced and export quotas allotted to producing countries. This step, however, can only be taken after the importing Governments have put their point of view to the General Council and at the same time all possible steps have been taken to stimulate demands. The restriction scheme must also be so arranged as to encourage the production of low-cost, and discourage the production of high-cost, producers. The schemes are to be temporary only, and so long as they are in existence, the price is to be allowed to fall by 2% each year.
3. The advantages of this plan are -
  - (a) Its beneficial effect on the trade cycle. By buying commodities at more or less fixed prices, the controls maintain the incomes of primary producers and so check the vicious downward spiral of falling incomes, falling demand, and falling incomes. Or, to put it in another way, the purchase of stocks on such a gigantic scale means the pumping into circulation of substantial amounts of money.

/(b)

- (b) It provides adequate control of restriction schemes and allows them only when adjustments are really needed, and prevents them from becoming monopoly rackets.
- (c) It sets up control of primary products by an official international body armed with strong financial power.
- (d) It might easily develop from a trading organisation into an international planning body.
- (e) It in no way interferes with State trading by individual countries.
- (f) It fits in extremely well with the proposals on commercial policy which I hope to discuss with you shortly.

4. I hope you will not be misled by the extremely specious note by Sir Donald Fergusson. This note grossly misrepresents the proposals in the paper, which certainly do not "seek to continue the principle of unregulated production". Sir D. Fergusson's preference for schemes of regulation of production and marketing is no doubt based on the hope that in this way British agriculture can be maintained at a hopelessly uneconomic level at the expense of the British consumer and our good relations with America.

H.C.  
11.8.42.