

13th January, 1941.

1. Call the debit divided by the debit quotas\* the debit index. A country shall be said to be in default if its debit index is equal to one or to three times the size of the sum of the debits of all countries in debit divided by the sum of their debit quotas, whichever is greater.

This is my first approximation. I have put one instead of your one half which seems to me a good deal too stringent.

To meet your point of difficulty, I amend this and substitute for the second alternative "three times the size of the sum of the debits of all countries in debit divided by one half of the sum of the debit quotas of all countries in the world". This removes the adventitious effect of important countries swinging just into the debit position.

2. Your 2 seems to me to carry the kindness to debit countries to a paradoxical extreme and to make the whole scheme quite unpalatable.

It is true that when I first entered into this discussion I got cross with Hubert for saying that the scheme must stand or fall by its success in rounding up the debits. This was because he seemed to be challenging your whole principle of making the credit countries responsible for restoring the balance. This I regard as fundamental.

But it is not inconsistent with this to devise some means of preventing countries exploiting the scheme for their own advantage and getting quite out of hand. In order to isolate such cases we introduce the gadget of defining default not by the absolute size of the debit

M. Keynes, Esq.

\*I take the quota to be the sum of the value of the country's annual exports and the value of its annual imports in recent years. in accordance with your earlier suggestion.

but by its relation to the average debit index. If you think that "three times" is too harsh, I should quite agree to "five times" or whatever number you think.

But when a country does read this unbalanced position, then I think we must tackle that country and not ask the credit countries to pay up.

It seems to me that the first thing to do with any country in default is to ask the Investment Board (or "International Resources Survey") to examine its position and report upon whether it is due to lack of control in its financial arrangement or to its peculiarly exigent circumstances. In the latter case the Board would be asked as a matter of urgency to propose some scheme for developing the country's resources which would put its foreign trade on its feet, and sanctions would be deferred.

In the former case we have the usual remedies of prohibiting capital export, requisitioning surplus gold, depreciating the exchange etc. But none of these recipes give sufficient assurance that the matter will be put right, especially if there is some lack of principle in the government of the country. In the last resort we must ask all members of the Clearing Bank to pay in the proceeds of the defaulter's exports to the Clearing Bank which would block them and pay the country so many shillings in the pound to live on until its debit was reduced.

This is no doubt objectionable. But it is applying in the extreme and a propiate case in a regular and general manner the remedy that was being applied sporadically and in the interests of the temporarily stronger party with such unfortunate frequency before the war.

Unless you introduce this in the last resort the scheme will be criticised as altogether too soft, impractically

idealistic and unacceptable as a matter of ordinary business,

3. I have adopted your further proposals for amending the Board. I agree with your major one. I am not quite sure about the other. The economic and industrial functions of the Board are to be dealt with by the committees with appropriate personnel. The governors are, according to this constitution, only to deal with the more purely financial aspects of the Board's business. I thought that to introduce the bankers at this stage might give the thing a solid and businesslike appearance, and indeed I think the right kind of people to deal with the duties assigned to them. Would not people like to think that the honest if perhaps narrow type of banker who looks after your deposit, knows the ropes of routine banking and scares away the wild cats, played some part? The other type of mind gets its scope on the committees which have important powers. I did not really mean financiers. How would it do if I put instead of "bankers and financiers" "deposit bankers"? Or just "bankers"?

as from:

COMFORTS  
PENN  
BUCKINGHAMSHIRE

3/x1.

Dear Sir Roy:

I still can't get over your wonderful kindness in remembering my selfish request; in persevering in meeting it; and in managing to part with such an obviously "priceless" possession.

I did know beforehand all about Swinburn's exile at Balliol, and unhappiness there, - from your life. But I am especially grateful for your kind explanation about the evocableness of the letter. You and Dryden are perfectly right. "The sweetest essences are always confined in the smallest glasses." And I would rather have that letter than the manuscript of the TREATISE ON PROBABILITY.

A month or two ago I was lucky enough to be able to buy an 1820 journal inscribed "John

Maynard Keynes, Eton, '01. " And more humbly,  
"Lot of David."

But this letter you have sent me is much  
more of an unique possession, and I can't  
begin to thank you adequately.

I have not deserved your kindness, but  
I shall not forget it either.

Yours very sincerely,  
Martin Turner.