

22nd January, 1948.

The following are two or three further points that occur to me.

2. I think the drop allowed of 5% is too large. I should suggest 2%. We have to remember that the producers may be frightened of a scheme not involving quotas. Also we have got to persuade them to start with as low a price as possible and our quid pro quo in the form of stability has got to be a solid one. 5% in 4 years of drawn out depression gives you 20%, and if you add to that a swing from the maximum to the minimum you have 40%; and we must remember that this 40% is not from an artificial high established during a boom but from a level considered fair and normal and we hope, if anything, on the low side. Such a drop would frustrate the purpose of the scheme, and the idea of it would evoke strong resistance from the producers. On the other hand I think 2% would seem to them negligible, being so very small compared with the fluctuations they are used to. But it is not really small from a long period point of view, and it is the long period trend that this price flexibility is supposed to deal with. In the inter-war period a steady 2% would have given you 40%, and circumstances must be very exceptional to entail a drop of more than 40% in the normal price of a standard article in 20 years.

The only difficulty would be if the initial price were quite wrong. For instance it might happen that the welcome prospect of stability would produce a wholly unexpected surge of output. I think this should be specially met. It could be laid down that on one occasion only, which might be 3 (or 5?) years after the inception of the scheme there should be a review at which the control would be allowed to make a price change of unlimited extent, thus

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making so to speak a new start.

3. I notice that you have made this international. I should very much like it to be Anglo-American. It is eminently a case of a service offered to the world. If we are to float this idea of an Anglo American condominium we want to give it as much as possible to do on lines which do not interfere with national sovereignties and can be represented as an ^{affair} of service.

There is also a minor point. With the horrible developments of science I suppose this question of key substances must be taken seriously. It would seem to me to involve less friction for the Control to deal with certain commodities, among its whole range, in a special way at the request of the policing authority rather than to have to take the administration of certain substances right out of the purview of the international body which was dealing with commodities generally.

4. I think if I may say so that there is too much reference to laissez faire in your draft. I think this came in so much in your original paper because you were anxious to show from the point of view of theoretical economics to academic readers how far your needs were or were not reconciliable with their preconceptions on fundamental theory. For your new audience on the other hand laissez faire has a somewhat different flavour. It will strike them as a political issue. We want to secure agreement from those on both sides of the political controversy about laissez faire both here and in the United States. We do not want your scheme to seem to be necessarily tied up with an attack on the system of laissez faire as such. Strictly perhaps your draft does not imply this but the reiterated criticism of laissez faire would convey that impression to the semi-lay mind.

5.

I do not think you press this quite enough as a matter of urgency. Perhaps it^{is} connected with the point mentioned in my last letter. You offer this more as a nice than as a necessary thing to do. I cannot help feeling that it is essential to the success of Anglo-American collaboration.

The crucial test of that will be whether they succeed in preventing a world wide depression coming two or three years after the end of the war. From this point of view the bank is only a mild stimulant while the Board may not find enough to do (Leith-Ross told me that he thought there would not be more than 20 or 30 million a year; I have no doubt this is much too pessimistic; but it is evident that there will be great problems of finding a vent which may not be solved in time). It may well be then that success will depend mainly on this commodity control. If we do not have success at the first great crisis we shall go back into doldrums, separatism and antagonism.

6. Leith Ross's point reminds me of the quantitative aspect. Ought we not to get someone to do some work on the approximate sums involved.