

12th February, 1949.

There is one point to which I should like to draw your attention as a matter of urgency in the Materials scheme. I like to think of all three institutions, the Union, the Board and the Materials Control as Anglo-American. I do not know how far you, or others, agree with this. My idea is that Anglo-America provides the world with certain services; these do not infringe sovereign rights; but they are found to be of great value by national governments and no one else could provide them; this fact would be a lever of major importance in getting all the national governments to behave in a neighbourly manner in their economic dealings generally; in fact it is a sort of power for setting the world to rights.

You have made your scheme international; and I think it clearly must have some international aspects, in view of the interests of producers and consumers. Would you think it possible, however, to bring it into line with the Anglo-American Union and Board by providing for Anglo-American governors and nominal capital? So far as your draft is concerned this would only entail some extra sections at the beginning of paragraph 17.

I suggest that the constitution which I originally devised for the Investment Board, but later scrapped, would be appropriated in this case, namely an Anglo-American court of governors (or whatever you call it) and a strictly international committee or committees with statutory powers for regulating prices etc.

I do not know whether you are under pressure for this. Shall I try to draft something out? It does seem to me important to keep an Anglo-American principle running through all three schemes.

My only other major criticism is still of

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your maximum downward revision of 5%. Maybe you have good reasons for it. But it strikes me as taking the guts out of the scheme as a measure against the trade cycle. This revision combined with the market fluctuation - and I am myself strongly in favour of keeping the private part of the trade alive and therefore of a decently wide margin between buying and selling prices - would produce a slump of catastrophic dimensions. Surely if our basic principle is that we are trying to stabilise against the trade cycle and that price revisions are designed to look after long period trends, we ought to consider not what price revision is required in any given year but what price revision is likely to be required in say 10 years and divide that figure by 10 to get the maximum annual rate of change allowable. Surely 20% is the greatest change in long period costs likely to occur within ten years save in very exceptional cases. These very exceptional cases could always be met by very exceptional procedure.