

14th January, 1942.

Dear Ronald,

I have circulated, at the suggestion of Hopkins, a memorandum on an Anglo-American Investment Board; I do hope that you will have a good look at it.

May I add a few notes on what I have been saying or trying to say in one or two discussions I have had. It has relevance to the interesting paper by Pasvolsky which you circulated; but I think it has a still wider relevance from your point of view.

I personally want us to put forward to the U.S. certain projects for Anglo-American (cum Dominion and ~~plus~~ Russian) institutions, namely at least a Bank, on the lines of Keynes, if you like, or amended so as to meet the most exacting criticisms, an Investment Board, on which I have composed a draft for criticism, and a Buffer Stock Control, on which I believe Keynes is working.

The following are the most important reasons:-

1. It so happens that for some time before the war economists both here and in the U.S. have believed that certain things ought to be done on a world scale to get the economic system to function better. I do not think there is any weighty opposition to this idea now. Consequently if we put these schemes forward, we shall not seem to be or be in fact acting from a point of view of narrow self-interest, though our larger self-interest is involved. Nor shall we be putting something up simply to please or accommodate ourselves to the Americans, though I think it will please them. Thus we can press for our proposals with unshakable zeal.

2. It seems to me that we have for this department

of/

of affairs a solution to the League of Nations conundrum. That conundrum I take to be that if the functions are only advisory and exhortatory, you never get much beyond paper work, while, if you attempt to go further, you are up against the difficulty of national sovereignties. And of course there is also the weakness resulting from divided and diffused responsibility.

The economic functions or services proposed could be carried out without interference with national sovereignties. But they would not be rendered impotent thereby, for they involve the administration of hundred of millions of pounds; thus they would have an actual effect on the course of events. But they by no means represent an apotheosis of world capitalism or financial "interests"; on the contrary I think the charters would be devised on lines consistent with Russian ideology (see below).

It is not a stroke of luck that the economic problem requires such a solution? It may be that our wise masters already have a clear conception of how world peace is to be maintained, that American collaboration is already assured. I suspect that there are still thorny problems! In that case there is much to be said for pushing forward these economic projects, highly valuable in effect, but harmless in that they do not bristle with political difficulties. I should think they could be started without any very controversial points being put to Congress. They might serve as a model for more difficult enterprises; they might lead America along the international path.

Again since the functions constitute not interferences with other nations but offers of services of which they are free to avail themselves or not (there would be every inducement to do so) it would not be invidious to maintain the Anglo-American principle; nor would it infringe the self-determinationist idea. By maintaining that principle you prevent/

prevent the weakening diffusion of responsibility and have assurance that something real will be done.

3. I am tired of hearing of our balance of payments difficulties. I am sure that the Americans are. Masvolsky's paper suggests that they now have them well in mind.

Keynes wisely suggests in his memorandum on the Bank that we should now try to treat this balance of payments question as a world problem, and not simply regard it from our own point of view. So far so good.

But I think we must go further. The Americans might regard the Bank scheme simply as our old plea for an easement for our difficulties nicely wrapped up in gold tincl.

It should therefore be accompanied by other schemes for the world economy not so closely connected with our personal interest.

This ought to remove their suspicions. They would feel that the more far-reaching and constructive views, which they know to exist in this country, although finding no outlet in the tiresome recent negotiations, have at last become focussed. I think this would give the U.S. Administrator great encouragement.

4. I am in hopes that we may find that bi-lateralism will have been rather pushed to one side in our coming discussions. I have always regarded the partiality for this as a distemper, or, better, a reluctance to give up playing with a toy which we have only just learnt to use. I do not see any value in reserving the right to use it; just that reservation creates suspicion. And we gain nothing by it; for if the machinery for collaboration broke down subsequently, we should have an automatic release from the undertaking not to use it.

5 I am keen on the Institutions as such for the reasons already given.

It is possible that a method of reaching a similar result could be devised without them by specifying how nations were to treat each other in the way of mutual credits and a need action on certain lines. The objection to this is that it fails to concentrate responsibility and that good

good intentions declared initially may soon peter out in the working.

Such a compromise might appeal to those who have not got their hearts in collaboration. With different points of view in existence, as there are bound to be, we should have no assurance that the wrong point of view would not occasionally become powerful and undermine the system of collaboration, not necessarily with evil intent but just because that is the way the minds of those who hold it work. I therefore see great danger in proposals short of institutions of some kind.

6. You understand, of course, that these institutions would enable us to go the whole way with America in reviving multi-lateral trade.

7. I do feel that the institutions should greatly facilitate co-operation with Russia. I do not see Russia agreeing to collaborate in a scheme which pre-supposes that central bankers and other powers that be will necessarily play fair with each other over the terms of years in which it has to be executed. On the other hand in the charter of an institution they can see what they are committing themselves to. The institutions would be quite cut off from profit-making bodies, any money (in addition to what they get in the course of their own functioning) being raised under government auspices at gilt edged rates.

Again the question of timing is important. If we could fix up the main lines of these bodies and agree together how far they could be modified to meet Russian views, we could invite Russia to co-operate - as a full partner, if that were agreed or otherwise - at a fairly early stage.

Hoping that these points may interest you.

(1) The U.K. and U.S. governments which set up a ^{would} Commodity Control Board by means of an Agreement defining its functions, powers and methods of operation, to run for a specified term of years.

The two governments would subscribe a small capital in equal amounts.

The Governors would consist of an equal number of British and Americans, one of each nation taking the chair in alternate years and ^{doing the cashing work.} ~~taking the existing fund.~~ They would be appointed by the governments of the U.K. and U.S., and consist of economists, men of general business experience, men of experience in the production of a selection of commodities to be controlled, representatives of consumers' interests including experts in welfare, dieticians, ^{men of experience in the utilization} ~~technicians in the use~~ of certain raw materials, representatives of ^{clear} the Union and the Investment Board and of the international policing authority (if any).

The duties of the Governors would be:-

- (a) The internal affairs and management of the Board.
- (b) Finance, including relations with the Clearing Union and the issue of bonds (if any).
- (c) The duties specified in (xiii) below.
- (d) All cases in which a particular Control wished

to go outside the general regulations under which it operated.

For the management of each Control an international body would be set up called, for example, the Brod Control on which the governments of the leading producing and consuming countries would be represented. But the management would be independent and expert and covered by regulations embodying the proposals in the following paragraphs.

In (xi) both "Controls" in line 4 and "Control" in line 9 should be amended to Commodity Control Board, and the last sentence should be deleted.

No doubt there are other minor consequential amendments.

On proposal
to restriction
check in

17. V. 41

I confidently predict that there will be such a break down. The imports just won't come, in competition with more vital needs. And why should we waste all this shipping and labour, when everyone would be satisfied with a smaller quantity just because of a trifle of our friend.

4 Mar Prof

I hope you read ~~of~~ ^(partly in in this).

You sometimes say afterwards you didn't know I

thought so and so.

~~I must repeat that I think that it will be absolutely iniquitous if this will~~

~~thought out scheme is stopped. If you yourself said you~~

~~thought the quota quite reasonable when I showed it you a month ago. The point is that if you make any restriction of quantity - and everyone would agree that some is desirable - you have a complete breakdown unless you at the same time impose control. If this happens in unimportant goods, it does not matter. But if it happens in essentials, the result will be most damaging to morale. Everyone would be quite satisfied with a smaller quantity, just because of a trifle of our friend.~~

Of course he is a very great man, but he has some damned silly ideas. It is your duty to correct them. Instead of what you seem ^{Sometimes} to have encouraged him in. One by one might pass over; if my be with a disinclination to hum a hair. But there are too many. All this twaddle about laissez faire and about so and so being too gloomy; "unhealthy pessimistic" etc. And these ideas about morale are so naive.

In these hard times order ^{supports} ~~morale~~ for morale. What undermines it is people panicking that they won't get anything and rushing round from shop to shop. ~~Nothing has happened in less important things so far. But it will happen throughout the world if he has his way.~~

SEE BACK.

If there is all this anxiety about
~~all this talk of morals~~, why isn't a finger lifted
to deal with the shelter situation or organize
night disposal? That might do something for morals.

A perfectly good scheme is put forward
carefully planned by the best people available
and then scotched at the last moment in the
most irresponsible way with out any thought being given
to the underlying problems. (The disgraceful performance
of Hudson on Thursday ^{would probably not} ~~could never~~ have succeeded
if the chairman had not had ^{been afraid} ~~a shadow of suspicion~~
^{in official circles} that H might get irresponsible support in higher
quarters.) No wonder ministers won't take initiative when that is
^{how they are treated.}

Frankly I am utterly fed up. I don't think
it is funny any more. It won't be funny when the
war has been lost by the accumulated ^{effect} force of these
idiotic. You know as well as I do that I
am right. If only you would follow your
own convictions ^{and intelligence} ~~and intelligence~~, instead of
compromising with this rubbish how greatly you
would strengthen your own position and his - because
to have it or not, there are some moderates
~~there are some~~ in both parts people ^{and they are} ~~capable of anything.~~
^{beginning to be severely critical, just right about}
I am entirely sick of it and won't have
anything more to do with it. refuse to be connected

~~And, what's more, I know that you know I am right~~
with it in any way.

J
Ry.

It is fearful
deed of the
other fellow
to say that it
would be
administratively
difficult. Why
don't he try
and administer
his own show?
No method
could be more
calculated to
bring an whole
drive to a
standstill and
I am not sure
that it has not
to a large extent
done so.

9th January, 1942.

Dear Hopkins,

I do not think that Professor Olay's principles are in general excellent, the only trouble being that they are so very general. (Except for (E) which is in a different

These principles might well be set out by way of preface to any proposals we have to make.

I do not care for the procedure proposed because this means giving the whole initiative to the Americans, and this would be undesirable for the reasons discussed with Lord Cherwell the other day.

It is surely possible to find something less vague than the abstract generality of, for instance, Olay's (b) without going to the length of fixing up all the details of a cut and dried scheme. We want to have some rough idea of how the abstract principles could be worked out in practice.

Unless we decide to give the initiative to the Americans, the Olay principles should not be thought of as an alternative but as a preamble to, e.g., the Keynes scheme or to any other set of proposals you may present.

I have no doubt you could embody the Olay principles in a set of rules for the actual dealings of central banks without setting up a clearing bank and perhaps this is what you have in mind as a *via media*. But I confess that I am rather wedded to some sort of Bank. This is not, believe me, because of its apparent pomp and circumstance. It is rather because I believe you need an institution, and that early, to ensure that Anglo-American collaboration shall be a reality; you need it to solve issues and compel action. Provision for mutual consultation between a large number of central banks diffuses ultimate responsibility and good intentions.

Sir Richard V.N. Hopkins, G.C.B.,
R.R. Treasury.

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in the beginning may peter out in the working. I was most rejoiced when you said that you agreed with the Professor's preference for Anglo-American collaboration over the League of Nations idea. That agreement, I feel confident, will make you vote in the end in favour of an institution.

I do not agree with Clay that it is a waste of time to discuss the details of the Keynes scheme. Of course the Americans will have their criticisms and we do not want to put it forward as a cut and dried scheme which they can take or leave. But it is most important that it should not be open to any major objection. It is no good our saying to the Americans that there are many ways of working out the principle of making credit countries more responsible for the balance, if the one concrete example we give of how that principle might be turned into practice is subject to a major objection. Furthermore these schemes are not quite so easy to work out as they look, and there is a tremendous bargaining advantage in being first in the field with your own scheme, which safeguards your own special points of interest. The Americans might not find it too easy to propose amendments to it in their interest which did not have major objections!

I was interested in your anxiety about the relation of bancor to gold. I have written out a little note on the subject, which I hope you will look at; but I think it is defective in exposition and I propose to re-write it, before bothering you with it. This is just the sort of point that should in my view be met by a modification of the scheme if necessary rather than allowed to remain as an outstanding criticism of the scheme when it goes to the Cabinet.

I have revised my draft for an Investment Board. I have embodied all the criticisms of Keynes. I have also discussed it at some length with the Professor. He thought that the condominium aspect should be strengthened at the expense of the League of Nations aspect, and this entirely agrees with my own instincts. I have modified the scheme

accordingly

COMMODITY REGULATION SCHEME.

Plea for Anglo-American Control.

In the proposal for a Clearing Union, the Founder States (U.K. and U.S.A.) are given a special position, and the draft scheme for an Investment Board places it under the control of the U.K. (together with the Dominions) and the U.S.A. I suggest that the Commodity Control Scheme should also be under the ultimate control of these two powers.

There is much to be said for having the same supreme control in the case of all three bodies.

1. The over-riding purpose of each of the schemes is the same, namely to introduce greater stability, balance and security into world trading. In particular, they will have the task of preventing catastrophic slumps.
2. The remedies at their disposal are interactive and mutually dependent.

For example the nature, intensity and timing of the currency adjustments which the Union may require of an excess debit country must depend on the plans, if any, of the Investment Board in regard to that country. The plans of the Investment Board will depend on its diagnosis of the current phase of the Trade Cycle. They will also depend on the amount of purchasing power likely to be released (or absorbed) by the Commodity Controls, and conversely.

It is clearly important that the measures devised by each of the three institutions should be part of a common concerted policy.

3. Policy depends upon diagnosis. In making a diagnosis it is desirable that all available information and wisdom should be pooled. Each institution in the discharge of its particular tasks will obtain intelligence which should throw light on the problems of the others.
4. The finances of the three institutions will be interlocked. (cp. para. 17(xi) of the draft scheme for commodity control).

It may be well to recapitulate the advantages of

having an Anglo-American rather than an international basis for all three institutions. After all, if we begin with the narrower basis this can always be enlarged subsequently; but not conversely. Some concession however to the international principle in the case of commodities is suggested in the final paragraph.

1. If these institutions are to succeed in their tasks they will have to undertake large operations with promptitude and resolution.

The most important task is the prevention of major world slumps. If this is to be taken seriously, plans must be made for quick, vigorous and well synchronized action. Delay due to divided counsels or timid half-measures would be fatal. Failure to prevent a slump - or, at worst, to stage a quick recovery - would probably be fatal to the vitality of the institutions; they might continue a moribund existence discharging formal duties, but the balance of power would at once revert to the separate states who would have to make vital decisions in self protection. These would probably be inconsistent with further genuine international collaboration. There is no need to be despondent about this however; the powers of the three institutions ought, if properly used, to be quite adequate to the task.

It is too much to expect an international body with its conflicting interests, divided counsels, and constitutional caution to achieve the necessary momentum. Fighting a depression is to some extent like fighting an enemy and requires a similar unity of command. Gradualism and the reliance on time to rub away differences of view and achieve solidarity are quite out of place in this connection. It may be hard enough for the condominium powers to agree together; that is the experiment we have got to make; it would be reckless to add to our difficulties by an unnecessary diffusion and dilution of responsibility.

2. It is quite unnecessary at this point to make any sacrifice at the shrine of internationalism.

The great beauty of these schemes is that, though world-wide in their beneficial effects, they do not make any substantial calls on the beneficiary nations. They do not require any surrender of sovereignty. If the various nations are not asked to surrender anything, to offer them a share in

control would be gratuitous, and, since this sharing out would certainly be detrimental to efficiency, most unwise.

In the case of the Clearing Union the demands we have to make upon the countries which join are in essence only two, neither onerous

(i) Their central banks are to accept cheques on the Union as full discharge of debt, while the Union on its part is to pay out the deposit so acquired in the cash of any country except their own.

(ii) The creditor countries are to act together and not separately in impounding the assets, if that ever becomes finally necessary, of excessively indebted countries.

In the case of the Investment Board nothing is required save willingness to accept loans on favourable terms!

In the case of the Commodity Controls nothing is required since no one is likely to wish to buy a commodity on a large scale above the price at which it is made freely available by the control, nor to sell below the price offered by the control, there is no need to exact a pledge from the countries to prevent their citizens doing so.

The functions performed by the three institutions together may best be regarded as an Anglo-American Service, the benefits of which other nations will enjoy for the most part automatically, for the rest at their option. It is a service which has never been performed in the world before, and should be of incomparable benefit. But it is not essentially onerous, and in theory anyone could perform it on one condition only, namely that he had the necessary world wide prestige. For a breathing space after the war Anglo-America ought to have this prestige.

3. Another great beauty of these schemes is that they do not entail any drain on the resources even of the condominium states. They are in part self financing and in part can depend on public issues. The condominium governments might be required to put up a guarantee fund but this would be very small by comparison with the scope of their operations. Thus the legislatures of the condominium states need be asked to give little more than their blessing.

Now it would probably be agreed that if peace is to

be secured in future, the U.K. and the U.S.A. have got in some sense to keep the world in order. If this is to be done, it probably will entail some sacrifice of their resources for the cause of peace. Their legislatures may well boggle. And there will be perplexed and thorny problems about national sovereignties.

But within the sphere of the three schemes proposed, these tiresome questions do not arise. Does not this qualify them in a singularly propitious way to be the first instalment of an exercise of condominium functions?

This economic foundation can be laid painlessly and forthwith. Once done it may serve as a model for more vexed enterprises. If the English and American peoples could see that their governments have within this sphere translated talk into action, that economic collaboration is to be a reality involving the discharge of specific and defined functions, it would be an immense encouragement. They would begin to feel their feet, and at last get the idea that their proper mission of managing the world might be a reality and not a mere dream.

Furthermore in so far as the services necessarily entails by its own beneficial operation some measure of indirect economic control throughout the world, it may solve in its stride some of the problems of economic policing.

4. The matter of timing is important. There is much to be said for having the main principles of the schemes agreed before the peace, so that they can be put into operation at once without controversy. Our present common danger generates an attitude of mutual accommodation which we should do well to exploit. It is fortunate that the U.S. despite her expected economic predominance, is in a mood to enter into these projects as an equal partner; this opportunity may not recur. Once the common danger is removed, prejudices and attachment to narrow interests may harden on both sides and the chance of getting agreement on fundamental matters may become more slender.

Again it is possible that our tide of prestige was at the flood during the year of war when we were alone. The glories of

the Battle of Britain are somewhat diminished by Singapore. It is possible that our relative importance in the allied cause will shrink with the further lapse of time and this may insensibly affect the disposition of the Americans to treat us as fully equal partners in the post-war economic arrangements. This is, of course, a mere possibility which we hope will not be realised. But it would be foolish not to take it into reckoning since it cannot do any harm to do so.

An international scheme cannot be even agreed, still less got ready for action, until after the war; the Angli-American condominium can be settled at once.

5. If the two countries reached agreement on the main lines of the condominium or service, the next step would be to consult together about the right line to take to Russia (and China?).

It may be right to invite her to be a full partner in the condominium. In this case certain modifications in the schemes might be required to suit her ideology. The English speaking countries would do well to discuss together beforehand very carefully how far it would be possible to go in this direction without wrecking the schemes.

Alternatively it might be desirable to find for her, and she might wish to have found for her, some special status as an Associated power outside the Condominium which would distinguish her from the small fry. All that requires very careful preliminary thought.

Now it must be evident that if all these delicate questions are left to be solved in the hurly-burly of the peace conference, they cannot be well handled, and this probably means that they will break down to the grave detriment of our hopes for the future.

The following order of procedure is necessary -

- (i) Agreement with America on the main lines.
- (ii) Agreement with America about the nature of our approach to Russia (and China?).

(iii) The approach to Russia (and China?).

(iv) Completion of the constitution having regard to the Russian (and Chinese?) attitude.

To avoid hopeless muddle, all these steps should be taken before the peace. And it is probably desirable to add another

(v) Announcement of the results.

6. Yet another beauty of the schemes is that they are largely technical and do not impinge on age-old political controversies.

Politicians and others heavily engaged in winning the war cannot be expected to devote much time to making major political decisions about post-war matters (Tariffs, Imperial Preference, etc.!) It should be possible largely to steer clear of such questions. Once the principle of economic discussion is agreed, there would probably not be much need for reference back to the Cabinet, until the schemes were fairly full-fledged.

7. An Anglo-American scheme can always be subsequently converted into an international scheme, if it seems expedient; the reverse process is not possible.

There is a case for having some international element in the commodity control scheme. Countries largely interested in the particular commodities affected, whether as producers or consumers, would feel entitled to have some voice. And it is important that there should be confidence that the condominium powers do not intend to wangle matters relating to particular commodities to suit their private interests. The purpose of control by the condominium powers is to secure prompt and resolute action and co-ordination with the activities of the other bodies, not to obtain pickings for themselves.

There seems no reason why the separate controls, working under certain regulations, should not be wholly international

in character. The countries would be differently represented on each control having regard to their interests as producers and consumers of that particular commodity. The membership would be so arranged that the consuming interests were at least as well represented as the producing interests.

On the other hand the Council of Commodity Controls (para. 17. xiii) (re-named Control Board?) would be Anglo-American. It would be responsible for

- (i) The internal affairs of the Institution
- (ii) Finance
- (iii) The broad questions of policy discussed in para. 17 xiii.

But even at the centre it might be possible to have some international dilution. The Control Board might be assisted by standing committees with statutory powers for taking certain decisions.

All suspicion of Anglo-American wangling could be removed, if the decisions of both standing committees and of the separate controls could be overridden only by a unanimous vote of the Board, since in the case of commodities the selfish interests of the component parts of the British Empire and the United States are seldom likely to be in accord.

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