

~~Visit to the~~
Oxford

Dear Maynard

In commenting on my memorandum on the forthcoming conversations you raise the question of the relation of the proposed "Anglo-American Service" to (a) Russia, ~~and~~ (b) The Dominions, and (c) the rest of Europe.

I confess I had always imagined that the Dominions would be full and equal partners in the Service and that they would be brought into the picture at a very early stage, as soon as we have discovered what common ground we have with the Americans.

The case of Russia is clearly more difficult. And it raises those of Holland, Norway, France, Yugoslavia, China and any other powers that do now or may come to rally to the group of United Nations, though no doubt Russia has a special pre-eminence among these.

The forthcoming conversations are to be between economists and ^{mainly} ~~presumably~~ about economics. But they must have important diplomatic implications. Part of the diplomatic problem, if we are considering economic collaboration after the war, ~~is~~ is how broad the basis of collaboration is to be.

I am going to suggest that economists as such might be able to make an important contribution towards deciding how broad the basis should be, by reference to what is most ~~after~~ expedient from an economic point of view.

The prima facie case for a narrow basis is that it can always be broadened subsequently, while the reverse process ~~is~~ is unlikely to be possible. ^{Broadening} the basis means a diffusion of power; much may be possible, ^{and, in desirable} when we know how ~~with~~ the system of world policy, words and have a well-founded assurance about the political future, that would be most imprudent now.

Furthermore ^{we should} ~~we~~ ^{to} ~~most~~ now ^{be} extremely anxious that whatever reforms are planned should be actually carried into effect. We do not want to lapse into the condition between the wars when the international system scarcely got beyond paper work, resolutions and pious aspirations. The most important condition for the successful operation of schemes is like-mindedness on the part of those responsible for them. In the English-speaking group of peoples, we have, we hope, a sufficient basis of like-mindedness. As soon as we go beyond it, and we cannot go far beyond it without coming to Russia, the matter is much more doubtful.

It will be the business of the economists to draw a list of the spheres in which international or concerted action is desirable. I suggest a tentative list as follows:-

1. International bank.
2. Stabilization of primary commodity prices.
3. Other measures to combat the trade cycle, including concerted action upon interest rates, public works expenditure, etc.
4. ^{Regulation} ~~control~~ of international capital movements and of the rate ^{and nature of} ^{such} capital developments ^{as} depend on foreign capital.
5. Welfare.
6. Tariffs et hoc genus omne.

When we consider the actual measures required under these heads, they seem to fall into two classes. On the one hand side are the measures which must be initiated by some kind of international agency, and in regard to which the separate nations, albeit benefiting from them, do not have to do much more than express grateful assent. On the other side are the measures for which ~~the~~ require further ^{action} measures by the separate nations, in some cases onerous, and ~~for which~~ the contribution of the international authority being to secure co-ordination, mutual give and take, and, if necessary, synchronization.

In the former category I put, for example, an international bank, commodity price stabilization operated by buffer stocks, the provision of capital for development (and welfare) projects. In the latter category I put ^{synchronized} internal measures to combat trade restrictions, ^{from the international body} synchronized internal measures to improve labour standards, ^{the} reduction or removal of tariff barriers.

What we require for the former ~~the~~ category of measures are a clear and undivided view of the objective, the power and will to act with promptitude and decision, ^{and} all the other qualities making for administrative and executive efficiency together with a widespread confidence that the operative agency has ^{these} qualities. I do not think it would be possible for these conditions to be fulfilled, anyhow in the first instance, by a wide-based international body, untried and necessarily somewhat ramshackle.

Where on the other hand each separate national government has to take the initiative and bear the responsibility for operating detailed schemes, imposing tax burdens on her citizens, ^{or} introducing measures (e.g. tariff reductions) which may affect certain classes adversely, all in accordance with a concerted international plan, then ~~it is essential that~~ these governments ^{may be expected to} feel that they should have a ~~fair~~ ^{may be} share of responsibility and control on the international body. That ^{may be} ~~is~~ clearly essential ^{in order to secure} the necessary co-operation and goodwill. In this case promptitude and executive efficiency on the international side matter less; we shall ^{have to rely on} ~~depend~~ for these qualities on each separate government. But we ^{may} need a most carefully devised international organization for creating and maintaining the co-operative spirit, as well as, no doubt, for pooling information, providing technical services etc..

I am accordingly led to propose that the first category of functions should be taken on by the Anglo-American Service and the second assigned to a more broadly based international body.

I suggest that the signatories of the Atlantic Charter (but the United Kingdom broadened to include the Dominions) should make a double announcement, namely (i) that they intend in pursuance of the aims set out to ~~institute~~ ^{help join with} Anglo-American Service and ^{in to coming together and to devise and} (ii) that they wish to ~~bring together~~ ^{bring together} other nations ^{for} ~~to~~ ^{to} establish an international organization for dealing with the manifold and limitless problems of economic security and progress.

How would this strike the other nations? I exclude Russia for the moment. Would it offend them? Would they be sore about their rights and privileges? I do not think so for a moment.

Why, the great grievance against this country ^{has been} ~~was~~ not that she interfered too much, but that she made too little use of her strength to shore up the international system. Any sign of conversion would be most welcome, and ten times more so if accompanied by a ~~rather~~ ^{more} defined plan for Anglo-American co-operation, not merely in words but ⁱⁿ specific acts.

People may think of a great parliament of nations governing the world for its good. But any fool can see, and does see, that this is painfully uncertain, a matter of slow growth, of trial and error, of possible failure, a bundle of doubtful solemnity. What we should say is that we propose without delay, without waiting for long and difficult negotiations, to ~~put down~~ ^{lay down} of our own initiative, to put down a basis, to do the bare essential things that are required for order and confidence, to lay a foundation on which the nations can build their own self-determined superstructure according to their hearts' desire.

This minimal Anglo-American Service, so far from prejudicing the free development of an international system, would greatly assist it. It ^{would} provide a framework; it gives a healthy space; it secures the world against rapid deterioration meanwhile.

It is not merely post-war relief that is required for this period. But may prevent revolutions and immediate disorders. But the governments have to think ahead. ^{They know that the} relief will be for a finite period only. Are they to rush into defensive measures and increase the tempo of antagonistic trends? If this is to be avoided ^{they} must be given some solid and tangible grounds of confidence such as would be provided by an Anglo-American Service in being.

Russia seems to me to be in a special case. This is no doubt primarily a diplomatic question. What, I suggest, should emerge from the economic conversations for the information of statesmen is that there are two types of action, covered by "economic collaboration", one requiring promptitude and decision and best undertaken by a like-minded nucleus of nations, the other requiring wide-based ~~consultation~~ ^{deliberation and agreement} in which all nations affected ^{would} feel that they have their proper voice. It is for the statesmen to decide how exactly Russia should be placed.

For my own part I cannot feel that Russia should be in the nucleus. It will not affect her vital interests, and she would confuse our counsels. And if Russia is included, how exclude Holland, Norway and so on, until it broadens out without limit?

It seems to me that there is an excellent way of meeting the Russian case. In regard to the larger organization there are many intricate problems. Is it to begin with the United Nations? What of the conquered nations? Of the neutrals? Of the enemy nations? Could we not at the earliest convenient opportunity ^{for the larger organization} ~~and before~~ ^{in with her} ~~to~~ ^{into} ~~elaborating any plan~~ ^{consultation} ~~about all these points?~~ ^{the} ~~take her view as to how~~ ^{other} ~~in this matter~~ ^{Russia} ~~nations should be treated,~~ ^{about timing and procedure,} in fact admit her ^{to} the ground floor in all matters relating to this larger organization, forming with her a preliminary council of three, so that she would feel that she was being given highly preferential treatment? Would not this be a sufficient tribute to her redoubtable ^{war effort} ~~contribution~~? Then as regards the Anglo-American Service, we should give her notice before publication, explaining that we were proceeding with these specialized tasks, because we regarded ~~as~~ ourselves as especially qualified for them, because promptitude was of the essence, and because they did not prejudice the wider (and we ^{and} ^{feel} ~~are~~ ^{not} ~~debarred~~ ^{from} ~~from~~ ^{calling} ~~them~~ ^{peoples}) problems of economic progress.

It may seem tiresomely elaborate to contemplate this ~~two-fold~~ ^{international} two organizations at such an early stage. Yet it does seem to be the only solution. If we ~~leave~~ ^{left} everything to the larger council, we should not only endanger our own vital interests, but in our ^{the} ~~the~~ ^{role of} ~~that~~ ^{nothing} ~~effective may be achieved~~; if we tried to do everything by an Anglo-American Service, we might set it too hard a task, diffuse its energy, belie our democratic and libertarian faith, seem to dominate and perhaps lay the foundations of an anti-Anglo-American block. We must not resign the hope of ultimately welding the world together into a community of nations with interlocked interests and organs of administration.

if we can
soon after
we have
first reached
agreement with
the Americans, if
we can, about
the essentials
of the Anglo-
American
service, but

the League Union. For this to work ^{may} the nations must of course agree to become members. What are the liabilities they have to assume in doing so? It appears to me that they are very slight. Fundamentally the most important is the undertaking to join in a collective clearing in the event of any member becoming excessively indebted. This seems a reasonable measure of international collaboration ^{ion} and could surely not be represented as onerous. An obligation to consult the Union before depreciating the currency is a limitation of power; on the other hand membership would relieve many countries of the necessity of depreciation in circumstances in which it would otherwise be unavoidable. There is so much to gain and so little to lose.

The Clearing Union. Here we ask other nations to become "members". The benefits of membership are clearly vast by comparison with the obligations entailed by membership. Fundamentally ^{the most} important is the undertaking to join in a collective clearing, in the event of any member become excessively indebted. This seems a reasonable measure of international collaboration which could not be represented as onerous. Collective Regulation of foreign exchange & agreement should be welcome; the charter could be worded so as to avoid the necessity of abrogating national ~~sovereign~~ sovereign rights, without impairing the working of efficiency of the system.

Buffer stocks. In principle these could be worked, I believe, without imposing any obligations at all. There is only the question of where the capital is to come from. I stress two sources, (i) the clearing Bank itself and (ii) public issue. ~~In principle the~~ This applies both to the ~~commodity~~ scheme and the investment and welfare projects (see below). The resources of the clearing Bank are in principle unlimited; how much it is wise to spend upon advances depends not on the level of credits, but on the current state of world activity. Happily there is a coincidence between this rule of wisdom and the demands likely to be made upon its resources. For the offering of stocks commodities to the controls will always be a symptom of depression, which is precisely what calls for an increase of advances.

Investment Board. Here again the separate nations are to be beneficiaries. The loans will be offered on favorable terms and they will not be obliged to take them.

Any suggestion to hand this ^{body} over to the larger body should be strenuously resisted. It is a key function for securing economic balance, a beneficial international division of labour (incidentally our own export markets), a healthy development of backward peoples and for policy purposes. To fend off any suggestion of this kind we should stress the principle that where a thing can be done without the separate nations having to assume burdens or abrogate sovereignty, it should, until the future is clearer, be done by the Service. It is in fact the converse of the principle no taxation without representation.

We need not reject the idea that certain functions ^{of the Service} could be handed over when the world system was a going concern and permanent peace assured beyond peradventure. But we should ~~draw our own~~ ^{have our own} retain a resolve to be ^{very} wary about the criteria and not repeat the mistakes of the late twenties.

welfare and pump. priming. This is a matter to some extent appropriate to the larger body. But I think we should retain a welfare side in the early stages to sweeten the service in world opinion.

You also raise the question of the relation of the Service to post-war relief and reconstruction. I am not informed about what decisions have already been taken in this matter. I do not regard the handing over of these functions as essential, but only ~~as~~ useful as providing an immediate practical job to get on with and ~~a~~ ^{first} exercise in collaborating. These immediate post-war tasks are comparatively simple and unperfected; they are more in line with what we are already used to doing, indeed with war-time economics. For this reason they would be a good first exercise. Perhaps it would be most convenient to ^{give} ~~hand~~ only a selection of ^{these relief} ~~the post-war~~ tasks to the Service.

But I am entirely opposed to the idea of concentrating our present attention mainly on these immediate tasks. I have heard it said that it is wise to devote ourselves ^{later on} to ^{the} ^{urgent and being} ^{practical and} allow larger projects to germinate ^{of} ^{these} in ^{endeavours}. I regard that as a most dangerous proposal, and ^{feel} ^{even} that it savours of fundamental scepticism about long-range collaboration Anglo-American.

The point is that ~~as~~ as soon as peace comes ^{to} ^{all} ^{separable} governments are bound to make plans of long-run implication; the situation may get out of hand. Furthermore this is the moment to get the two great powers to make the necessary decisions and commitments to work together. More relief and reconstruction commits them to nothing in the long run. After the war the atmosphere may well have changed in a way that makes these powers much less willing to ~~commit~~ commit themselves; fraternal feeling may have become acute.

If, as I hope, it is possible to finance the Service in the way I suggest, there ought to be no great difficulty in getting the commitments through our two legislatures. We have to face it that there may be great reluctance by these bodies to impose burdens on their people in the interests of world security. After the war they may be asked to do^{so} on policing grounds and thereby before long become soured about international commitments and look upon ~~any~~^{un} ~~favorable~~^{painless} proposals.

Finally, may I make a comment on what your suggestion in paragraph 12 about our lack of surplus resources after the war may deprive us of a just claim to a say in their disposal. This seems very dangerous. I suggest that the great effort which we have made, are making, and will continue to make in the common cause, entitles us absolutely and without question to have ^a say in all leading decisions affecting the economic general economic balance and the principles by which world economic affairs are administered, and I include in this of course the general principles of international relief and ^{the} finance of reconstruction.

Diffidence on such points is altogether out of place, would be expected by no one, and would indeed seem to be self-denial run mad. I suggest that we should not only allow no shadow of it to appear in our dealings but should strip it right away from the back of our minds.

J. M. Keynes J. C. B.
Treasury Chambers.

4th May, 1942.

Dear Mr. Harrod,

I enclose 7 copies of the
letters to Prof. Keynes.

I have had it done on blue
paper as, paradoxically, although
it is more difficult the result
is generally better.

Yours sincerely

h. S. S.