

OFFICES OF THE WAR CABINET,
Great George Street, S.W.1.

4th May, 1942.

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, (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, Greece, Jugo-Slavia, 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 presumably mainly about economics. But they must have important diplomatic implications. Part of the diplomatic problem, if we are considering economic collaboration after the war, 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 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 unlikely to be possible. Broadening the basis means a diffusion of power; much may be possible and even desirable, when we know how the system of world policy works and have a well-grounded assurance about the political future, that would be most imprudent now.

Furthermore we ought now to 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 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 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 which require positive action by the separate nations, in some cases onerous, 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 recessions, synchronized internal measures to improve labour standards, the reduction or removal of tariff barriers.

What we require from the international body for the former 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 these governments may be expected to feel that they should have a fair share of responsibility and control on the international body. That may be 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 willy-nilly to depend for those 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 an Anglo-American Service and (ii) that they wish to join with other nations in coming together to devise and 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 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 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 bank of doubtful solvency. What we should say is that we propose without delay, without waiting for long and difficult negotiations, 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; give a breathing space; secure the world against rapid deterioration meanwhile.

It is not merely post-war relief that is required for this period. That 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 autarkic 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 deliberation in which all nations affected would feel that they had 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 after we have first reached agreement with the Americans, if we can, about the essentials of the Anglo-American Service, but before elaborating any plan for the larger organization, invite Russia into consultation about all these points, take her view as to how the categories of other nations should be treated, about timing and procedure, in fact admit her in 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 ? 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 ourselves as especially qualified for them, because promptitude was of the essence, and because they did not prejudice the wider (and we need not feel debarred from calling them greater) problems of economic progress.

It may seem tiresomely elaborate to contemplate ~~these~~ two international organizations at such an early stage. Yet it does seem to be the only solution. If we left everything to the larger consilium, we should not only endanger our own vital interests, but incur the risk of nothing effective being achieved; if we tried to do everything by an Anglo-American Service, we might set too hard a task, diffuse its energy, belie our democratic and libertarian faith, seem to domineer and perhaps lay the foundations of an anti-Anglo-American bloc. We must not resign the hope of ultimately welding the world together into a comity of nations with interlocked interests and organs of administration.

For this broad thesis to be accepted it has to be shown that there are tasks of international scope which could be carried out by an Anglo-American Service without requiring very active and potentially onerous measures of collaboration by all the other nations. It may be that for this idea to be fulfilled some change of emphasis would be required at certain points of the plans we have been considering.

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 becoming excessively indebted. This seems a reasonable measure of international collaboration which could not be represented as onerous. Regulation of foreign exchange by agreement should be welcome; the charter could be worded without impairing the working efficiency of the system so as to avoid the necessity of abrogating national sovereign rights.

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. This applies both to the buffer stocks 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 consilience between this rule of wisdom and the demands likely to be made upon its resources. For the offering of commodities to the controls for purchase 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 favourable terms and they will not be obliged to take them.

Any suggestion to hand this function 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 policing 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 retain a resolve to be very wary about the criteria and not repeat the mistake 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 useful as providing an immediate practical job to get on with and a first exercise in collaboration. These immediate post-war tasks are comparatively simple and unperplexed; 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 only a selection of these relief 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 to them as being urgent and practical and allow larger projects to germinate later out of these endeavours. I regard that as a most dangerous proposal, and even feel that it savours of fundamental scepticism about long-range Anglo-American collaboration.

The point is that as soon as peace comes all separate 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. Mere 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 themselves; fraternal bickering 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 peoples in the interests of world security. After the war they may be asked to do so on policy grounds and thereby before long become soured about international commitments and look even on painless proposals more unfavourably.

Finally, may I make a comment on your suggestion in paragraph 3 of your letter that 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 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 others 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 own minds.

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