My dear Maynard

Whatever you write is so well ~~expressed~~ sweetened with persuasive ~~fluency~~ art that it is hard to declare it unpalatable; and I am prepared to allow that something of the kind that you have in your new paragraph 15 may be expedient.

But I must preface my comments by saying that to our representatives ought to be very little willing to agree to restriction schemes and still less to embody them in their proposals, on three major grounds.

1. They are contrary to the main trend of our interests. ~~as importers~~. It is very paradoxical that we should even be toying with such ideas. ~~How are~~ How far are our representatives entitled to traffic away the public ~~interest~~ advantage in this manner?

2. They are contrary to the "expansionist" system contemplated in the Mutual Aid Agreement.

3. They are contrary to economic opinion. I think that is right, isn't it? If it proves possible in the coming post-war settlement to lay more solid foundations than heretofore, it will be precisely because we are able to apply to practice the developments of economic thought, which, yourself prime leader, have occurred in the last twenty years. In return we are entitled to reject an alloy of ~~Buffer~~ schemes of no respectable origin and of chequered career, not grounded in principle, with small showing of success and ~~at~~ throughout ~~all times~~ subjected to severe criticism.

Furthermore since there is bound to be some pull of counter-interest in America, I should have thought that we ought to take our stand especially firmly on the general principle, in this case. We shall have to make enough concessions in all conscience in the end; we ought not to rush in giving away all and more than all that is necessary at the outset. The right directive to our people ought surely to be to ~~be~~ view all restriction schemes as contrary to declared principle, as well as unsound and wrong in themselves, and only to be admitted as exceptional and temporary expedients.

Does this mean that, if I had a free hand, I should ~~reject~~ exclude your paragraphs 15 and 16 altogether? No; I should concede that in view of past history something of this sort may be needed and that by itself the bare stabilization plan might be ~~thought~~ represented as a little unrealistic. I should ~~argue~~ take the line that we had put in this to show how restriction schemes, if and when required, might be fitted in to the ~~general~~ broader scheme. For instance, I think it an excellent point (15(i)) that any particular commodity restriction scheme must be endorsed by the General Council which is responsible for all commodities.

To proceed to my comments:-

Paragraph 15. I do not think that we ought to admit that any scheme of this sort should be permanent or "quasi-permanent." I

P.T.O.

do not think you give any reasons for doing so and cannot imagine any. I therefore suggest as amendments that 15 (ii)(b) should read "whether this proposal is due to causes which they regard as likely to be continuous or ....", and similarly in (c) "if on the other hand the proposal is due to causes regarded as likely to be continuing ..", and consequentially in (iv) "before approving a quota regulation required by causes regarded as likely to continue.."

With these amendments I think 15 would be useful.

But I cannot feel that 16 is acceptable, and 16 (ii) might undermine the basis of the main scheme.

Surely; under the main scheme the control fixes a price which it deems likely to balance supply and demand in the long run. Thereupon there may be an outcry from producers, who claim that it would be ruinous to the majority, and, if they prove their point, a restriction scheme is put out under 15.

What, then, is the purpose of 16? To safeguard the control itself? But if it has fixed too high a price, it can announce a reduction; the producers can then protest and all can go forward under 15.

Or is 16 designed to safeguard the control against a short-term surprise excess? But such a safeguard would ruin the whole scheme. It is absolutely essential that the control should be strong ~~and a fresh start~~ enough to smother up the effects of its own miscalculations. It has been the greatest fault of restriction schemes in the past that they have not been able to do this; why, some think that the crises in a number of commodities – rubber, coffee, sugar – have been at least as much due to the inability of the controls to bear the brunt of their own mistakes, as to the fundamental conditions of supply and demand. Under the new regime the controls must be able to clean the slate as often as need be and make a fresh start; and the trade must feel ~~to make a fresh start~~ absolutely confident that they are able and determined to do this.

If it is future production against which the measures of 16(ii) are directed, they are inappropriate; the right remedy is price reduction and/or a restriction scheme under 15. If it is against production already acquired or under way they would be extremely mischievous. It is no remedy for an already existing, or prospective but un-preventable, surplus that the control should refuse to hold it. That does not conjure away the surplus. What is to happen to it? Is a black market to develop? Or are we to have a regime of universal destruction?

the control ~~must be allowed~~ will have ample resources to swallow up any surprise surplus; it may need a little nerve, but, if it lacks that, the whole ~~thing~~ plan will break down in any case.

It will certainly need nerve in a depression. I was most interested in your arithmetical calculations. I should suppose that you have indicated the right order of magnitude for stocks. But to meet a recession it might be essential to double or treble these in a comparatively short period. £1000 million pounds is a large sum; but even that is only a small fraction of the recession of world incomes which occurred in 1929 to 1932. It may well be that this scheme will be our principal international weapon and have to bear the main brunt in combating recession. And, while ~~if~~ it is to be hoped that, if the scheme is in operation, ~~and~~ ~~[illegible]~~ the later stages of the recession will not occur, it probably right to expect to have to pump in money that would occur in its absence equal, say, to the world recession of incomes in the first 6 or 9 months of a ~~[illegible]~~ slump. During this critical period there must of course be no question of reducing the basic price, imposing quotas or putting any limit to purchases. Big selling operations ~~[illegible]~~ might also be required to check a world-wide tendency towards inflation.

I do hope that there will be a chance of ~~discussing~~ re-considering it further before the Americans arrive.

J.M. Keynes