

Treasury Chambers,
Whitehall, S.W.

R. F. Harrod Esq.,
Christ Church,
Oxford.

June 5, 1942

Dear Roy,

CONTROL OF RAW MATERIALS

1. I am in full agreement with the general principles which you lay down on the first page of your letter of June 4th. I am not clear whether they can be usefully more emphasised in the document itself, but our representatives should most certainly bear them in mind.

2. I should accept your amendments in paragraph 15.

3. I do not think you do full justice to paragraph 16.

Its purpose certainly is not to safeguard the Control against a short-term surprise excess, if you mean by that something due to an exceptional harvest, or temporarily defective demand due to a trade slump. Perhaps this could be made clearer. The object is to provide the Control with the means of facing a possible dilemma, that it may either have to reduce prices ~~rather~~ suddenly on a scale ~~rather~~ disastrous to producers, or allow itself to be overwhelmed with stocks exceeding all reasonable long-term prospects of subsequent use. You will remember that you objected at an earlier

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stage to my allowing the Control to reduce the prices in the year by so much as 5 per cent and suggested 2 per cent. The Ministry of Supply critic~~is~~^{als}, on the other hand, took exactly the opposite line and thought that 5 per cent was far too small to produce in many cases any effect worth mentioning. I think it is useful to arm Controls with a method against their having to take over excess supplies which are not due to short-term fluctuations. The only objection I can see to this clause is that it possibly paves the way to a too easy transition to a restriction scheme proper in paragraph 15. But I wonder if you have noticed the essential difference between quotas in paragraph 16 and quotas in paragraph 15. So long as a Control is operating under paragraph 16, it has to reduce the price by not less than 5 per cent per annum; which is some safeguard against abuse.

4. You have raised, at the bottom of page 3 of your letter, a point which I had overlooked, namely, what is to happen to production in excess of the quotas. I meant to provide that the quotas determined not merely what the Control was liable to buy, but set the maximum to the amount which the producer was allowed to export to any destination.

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This is what 16 (ii) meant to say, but I now perceive
that it does not. That I will correct.

I am passing on this correspondence to Hopkins.

Yours ever,

JM Keynes