

5th August, 1942.

My dear Maynard,

You said something the other day about doing a revised version of the Clearing Union for American eyes.

There is an outstanding point of supreme importance with which I do hope that you will be able to deal - I refer to the definition of the point at which sanctions against a debit country are to be introduced.

I have mentioned this before but I am not ashamed of labouring it again. I see it as the crux of the whole matter. With this point satisfactorily settled we are all right; without it I do not think that the Clearing Union would represent much advance.

When I raised it last you expressed general agreement, but did not want to proceed with it for fear of losing simplicity. But I think you can make it quite simple. The present draft leaves the matter vague and optional. I have't the Bible here, but will dig out the chapter and verse when I go to London on Thursday.

You can say such and such will happen "if the degree of indebtedness of the debit country is r times (say, 3 times) the current average indebtedness of the debit countries". Then in a footnote you can say that "the degree of indebtedness in a debit country is measured simply by dividing its actual indebtedness by its debit quota; and that the average indebtedness of debit countries is measured by dividing the sum of all debits by one half of the sum of the debit quotas of all countries in the Union". I do not think that sounds too complicated.

On this hangs one's whole conception of the functions of the Clearing Union. Some think of it simply as providing a breathing space; and when we think of our own balance I have no doubt that is the right view, since it seems clear that in the world equilibrium we certainly ought not to be a borrowing and probably ought to be a moderately lending country.

But this conception will not do at all for the world as a whole. I do not believe that America is going to solve the problem of making internal investment equal to saving at a fairly good level of employment within a decade or within two decades. Her mighty efforts after 1933 did not carry her very far towards a solution. Well then, during that time the debit countries must not be teased. They must not be under pressure to rectify their balance by trade barriers or deflation; they must not even be encouraged to invest capital at home with the specific purpose of improving their trade balance; any attempt of that sort, until America has solved her internal problem, is merely trying to make the river flow uphill, and it will compel America, whatever her protestations and commitments, to raise her own tariffs. Unless that point is clearly established, the whole effort put into the Clearing Union will prove vain.

Lord Keynes,
Treasury Chambers.

It has been objected that it does not give the debit countries a sure enough danger signal. But this is surely nonsense. The Clearing Union will publish statistics at monthly or quarterly intervals and it will be perfectly easy for the debit countries to see whether their position is deteriorating and how quickly they are approaching the forbidden co-efficient. We merely substitute a co-efficient for an absolute quota. After all the debit countries know how to read and multiply.

I do hope you will manage this! Without it I shall feel that the whole project is not much more than word spinning. Porgiv my bluntness.

P.S. It will of course be clear to you that the mere fact that we do not expect to proceed for a long time as a debit country does not mean that the easement proposed for the genuinely debit countries does not affect our vital national interests. It is of course a vital interest for us, for our exports and employment, that the debit countries should not be under constant pressure to rectify their balance,

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You can say such and such will happen "if the degree of indebtedness of the debit country is x times (say, 3 times) the current average indebtedness of the debit countries". Then in a footnote you can say that "the degree of indebtedness in a debit country is measured simply by dividing its actual indebtedness by its debit quota; and that the average indebtedness of debit countries is measured by dividing the sum of all debits by one half of the sum of the debit quotas of all countries in the Union". I do not think that sounds too complicated.

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I do hope you will manage this! It is a small detail but the whole project is not much more than a detail. I give you my bluntness.

5. It will of course be clear to you that the mere fact that a country does not succeed for a long time as a debit country does not mean that the case only supposed for the genuinely debit countries does not affect our vital national interests. It is of course a vital interest for us, for our exports and employment, that the debit countries should not be under constant pressure to rectify their balance,

CHRIST CHURCH

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