

Treasury Chambers,
Whitehall, S.W.

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August 7, 1942

My dear Roy,

Thank you for your letters about Eutopia. I am extremely glad that you feel the revised version goes some way to meet your point, with which I sympathise entirely, if I saw a way of meeting it without making more trouble than is advisable at this stage.

You describe your own form of words, as given in your letter of the 2nd, as not lacking simplicity. I agree that the meaning of the words is fairly clear. But it is by no means easy to see what the effect of them is and how the thing would work out in practice. My own reflections on your formula persuade me that it certainly would not do what you are aiming at.

For, suppose two or three countries with substantial debit balances and a number of other ones with small debit balances, which might any moment be turned into credit balances: now, if those countries liable to small debit balances held in fact credit balances, then the countries having large debit balances would not be required to take steps to improve their position, since, on the reasonable assumption that their debit balances were all about the same size in relation to their quotas, none of them would have a debit above the average. If, on the other hand, the other countries happened to acquire debit balances of 6d each, then the

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large debtors immediately have debits enormously in excess of the average and must forthwith take the most drastic measures.

What you are really driving at is that, if the credit balances for the system as a whole, and consequently the debit balances, are large, individual countries ^{should} have more latitude than if the aggregate position is small. You could achieve this by making the quota of every country partly a function of the size of its own trade and partly a function of the aggregate surplus (and therefore also of the aggregate deficit) position. The worst of this is that it gives the system an appearance of unstable equilibrium, since the further it departs from equilibrium, the more latitude you give it for departing further. I do not think that would look at all well.

An alternative, and much more satisfactory, technique would be that countries having a surplus in excess of (say) half their quota should be required to lend their excess surplus to those countries in debit in proportion to the quotas of the countries in debit, or something to that effect. But that also is very awkward to explain and justify and gets a little too near the proposals for confiscating excess surplus balances, which at an earlier stage you so much disliked.

So, on the whole, my preference still is for leaving things as they are, but if in practice surplus balances accumulate unduly, then some special measures, not contemplated in the

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draft, might, I should agree, have to be taken.

The question of the position of the Dominions is difficult. I agree it should have further discussion. I think I have persuaded the authorities to summon a meeting of Dominion representatives to discuss the Clearing Union and also other matters in September before we see the Americans. There are, I am sure, many advantages in this. That would give an opportunity for getting their reaction to this particular problem.

Yours,

JMK