

Treasury Chambers,  
Whitehall, S.W.

August 24, 1942

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

Dear Roy,

Foreign Lending, Industrialisation and the Clearing Union

I do not like this paper or feel that it does you justice. In its present state it is only fit for the waste-paper basket in my opinion. So, you see, I have not enough sympathy with it to be helpful. But here are a few reflections which it arouses in me:-

(1) At least half of it lies outside your terms of reference.

(2) Your preference for foreign lending via heavily unbalanced debtor and creditor position in the Clearing Union (a policy which would, I think, jeopardise from the outset the general acceptability of the Union), on which you spend several pages, has no apparent connection with your dislike of foreign lending which promotes industrialisation, which is your proper subject matter in this paper; - or rather it works the wrong way. For in the case of orthodox foreign lending of a funded character, the lender has at least some control over the way his money is used; whereas if the borrower is merely allowed to run up a chronic debit balance with the Clearing Union, there is no control whatever as to how he uses it.

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(3) I am not clear exactly what measures of control over foreign lending you are driving at. In our own case we are proposing to have a continuing control over the export of capital and will, therefore, be masters of our own policy anyhow. Are you proposing to the U.S. that they should set up a control of which the purpose would be to forbid loans which might directly or indirectly foster industrial competition with U.S. or U.K.? They would think the suggestion selfish and impertinent. Or are you limiting your interferences to the operations of the International Investment Board? In this case, are you proposing an instruction that no loans should be approved which might assist output competitive with British and American industries, and that they must only foster competition with other primary producers? This proposal is outrageous - and indeed crazy. You cannot start international institutions covering all the world, to which all the world is asked to agree, on such an announced basis.

(4) Where do you draw the line? You cannot earmark money. A loan to a country facilitates the payment for all its classes of imports. In fact large-scale international loans are likely to be, ninety-nine times out of a hundred, as heretofore, for public works and the like and not expressly for industry. But it does not follow that they do not assist industrialisation. Directly, industrialisation does not absorb or require a large volume of capital. The only effective means I can think of would

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be the prohibition of foreign trade in machine tools and manufacturing machinery. But that would not last and is, anyhow, quite unthinkable.

(5) On a point of detail you misrepresent on your first page both the Clearing Union and the International Investment Board. So far from the Union depending for equilibrium primarily on foreign exchange fluctuations, I should say that the opposite is true and that its lay-out has been primarily governed by a belief in the very limited efficacy of changes in exchange rates. The International Investment Board has been proposed at least as much (I should have thought more) with a view to marrying the chronic export surplus of certain saturated countries with the chronic needs of undeveloped areas, as for offsetting the Trade Cycle.

(6) The paper is such a rignmarole that one has the impression you are not really sufficiently bare-faced to come out with it all. I take comfort from that!

Yours,

JMK