TREASURY OF. ..... DIVISION

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272/60

File begins 25/6/1944 Ends 14/8/1944

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SUBJECT

LORD KEYNES' PERSONAL FILES.

BRETTON WOODS AND CANADA.

MISCELLANEOUS.

JULY – AUG – 1944

INCORPORATED FILES

CLASS No T 247

PIECE No 64

Date of Incoming Letter	Referred to	Date of Outgoing Letter
	Bundle 22/1/48 20	
	Bundle	14/9/52
	O.F.C.S.	27/5/53
	Bundle 3a/s	
	~~Miss Pettet~~	~~21/10/62~~
	Bundle as before WTB	15/2/63
	F.C.S. 21 APR 1964	
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	Bundle	17/3/65

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copies to Sir David Waley
Sir Wilfrid Eady.

Claridge Hotel,
Atlantic City, N.J.
25th June 1944.

Dear Hoppy,

We had a most peaceful and also a most busy time on board. I have often had the ambition of doing work on a ship, but this is the first time it has really come off. The result was that we got down on paper every point we wanted to raise with White, and discussed nearly all of them with our Allied friends. We also produced a complete revise of the Reconstruction Bank according to our own ideas, and that also we put through the Allies, who greeted it with some enthusiasm. They were all very nice and helpful and there was no serious dispute on any matter whatever. I am sure we established most useful personal and technical links with them. I am afraid we kept the staff working like slaves. Brooks managed to have a complete report of our proceedings stencilled out by the time we arrived in New York.

In spite of all the work, speaking for Lydia and myself, we enjoyed ourselves extremely, and I have not been in better health for a very long time. We are sufficiently experienced travellers not to eat too much.

At New York we were met by Brand and Lee and spent the morning with them. As you will have discovered, Brand had not seen Stettinius but will be seeing him with the Ambassador in the

Canadian investments substantially.

5. During the last Victory Loan campaign, Towers was put into t[h]e most embarrassing position when he found the major American insurance institutions buying large blocks of new bonds. The Equitable, for example, wanted to buy U.S.$25 millions worth, and [i]t was only after considerable pressure that he was able to convinc[e] the Company of the desirability of reducing the subscription to U.S.$ 10 millions.

the course of this week. I shall be surprised if they get very far. We agreed that it would be better to postpone any more definite discussion until Brand had joined us at Bretton Woods, where Acheson will be present as well as Morgenthau and Harry White. Brand is not at all happy about the trend of events in relation to Stage Two, and entirely confirmed the view that it is essential for us to make a new approach not later than August. Otherwise a trend on the American side in the wrong direction will have gained momentum and we shall be faced with unilateral decisions based on considerable ignorance and misapprehension both of our position and of our point of view. Both Brand and Lee strongly reinforced the view previously expressed that we must be far fuller and franker in our statements of our own present position and future intentions to the Americans. A policy of lying low merely means in practice that we abandon our influence on the course of events. I mentioned privately to Brand the possibility of a visit from the Chancellor, accompanied by Oliver Lyttelton. He thought this unquestionably a good plan, provided the position had been sufficiently prepared beforehand and there was at the last moment a jet propulsion from the P.M. in the shape of a communication to the President coupled with the promise that the Chancellor would follow this up in person. Unfortunately, as you will know only too well, Lyttelton's position is made difficult in this country at the moment by his recent gaffe.

Brand

Canadian investments substantially.

5. During the last Victory Loan campaign

Brand and Lee thought this would make it inadvisable for him to be one of the party, and it might be better for Sinclair only to accompany the Chancellor. I rather doubt if this is correct. It was a storm in a teacup and it is all over. As Brand himself said, the average American reaction is that it was an indiscreet remark but nevertheless perfectly true. As regards developments in Canada, Brand's impression was that the prospects were fairly good and that Clark was seriously considering the expediency of taking over certain military expenses which we have lately suggested to him.

Turning now to our proceedings here, everything at present is as smooth and friendly as it could be. Nothing worth mentioning had happened before our arrival, except perhaps that Harry had learnt that the procedure he was attempting was far too complicated to be practicable; the present programme is that on Monday an inter-leaved copy of the Statement of Principles is circulated with our suggestions, the American suggestions, and those of any other Delegations incorporated. The whole body of us in a single committee then work through this clause by clause, referring to smaller ad hoc committees of those specially interested any matter which is too intricate to deal with in the larger gathering and which is sufficiently discussed there for the general trend of opinion to be clear. White is anxious that not too many doubts and choices between alternatives should be finally settled here at

Atlantic

Atlantic City, since it is important for him that there should be no appearance of asking the members of the American Delegation who are not here and the other powers not represented here ~~being asked~~ to rubber-stamp something already substantially finished. At the same time he agrees that we and the Americans should reach as high a degree of agreement behind the scenes as to which of the alternatives we are ready to drop and which we agree in pressing. Thus to the largest extent possible White and I will have an agreed text, but on the surface a good many matters may be presented in alternative versions. How this will work out remains to be seen. Nevertheless taking the document clause by clause in a single committee, even though it consists of about 60 persons in a room where those at the back can hear nothing is much better than the previous practice of conducting everything first of all in four unrepresentative sub-committees which then bring their half-baked results to the full body, so that everything was done twice and half-baked conclusions reached the main committee with the real merits already prejudiced.

I greatly hope that the Chancellor has been making good progress with the Bank at the hands of his colleagues. I dare-say we shall have heard the results of this before you get this letter. We prepared on the boat a complete revise of the provisional directive with which we have been furnished and on the lines were

were pretty well pleased with the result. This we discussed fully with the European Allies, who were clearly enthusiastic. Yesterday I expounded the substance of it to the Americans, who are now looking into it with more detail. The first reaction of White himself, Pasvolsky, the Federal Reserve Board people, and the others present was as fully as favourable as we could have any reason to expect. My present impression is that if we have authority on the lines proposed, the Americans will agree. It would therefore be rather a disaster, though I daresay there is no real risk of it occurring, of our having to draw back.

We have discussed the changes we want to make in the Fund with the Dominion representatives. Rasminsky thinks that the Catto exchange clause will be difficult or impossible for the Americans in its present form. I am having a preliminary talk with White about this later today and will probably add a post-script to this letter.* I think this is the only matter likely to lead to real difficulty, though there are indications that the Americans, so far from wanting to make the duration of the transition period less definite, will make a proposal that it should be more definite. I doubt however if this will be pressed on their side. The worst that could happen is that it would be more difficult for us to get the still further loosening which we are aiming at.

On the general politics of the position, White seems pretty

*No time to add this; it will have to follow tomorrow.

Canadian investments substantially.

5. During the last

pretty confident. All the Americans here seem to be quite confident that the President is going to be re-elected. But, of course, they all come from that camp. I have not been here long enough to form any opinion based on reactions from wider circles. It is, however, clear, merely from reading the Press, that the Republican attack is at present a very shapeless and feeble affair. Obviously they cannot decide what is the best issue to take their stand on, with the result that there is more bark than bite, and after barking they seem scared about actually biting any particular portion of the President's body. One would suppose that one could hardly expect to win an election of this kind by such methods.*

As regards the particular reaction of politics on our own business, the New York Times is conducting a regular campaign against the Monetary Plan, the character of which you will easily see if you glance at the cuttings I am sending Waley. These are not really worth looking at. An effort is being made to get a plank of the Republican platform opposing international collaboration on the Monetary Plan. White expresses himself as not too much concerned at this. Indeed he thinks it might lead to the Democratic party taking a much more definite stand in favour. The staging of the vast monkey-house at Bretton Woods is, of course, in order that the President can say that 44 nations have agreed on the Fund

*I am told by those outside the Administration camp that if the campaign in France goes well between now and November, FDR will be re-elected; if not, not.

Canadian investments substantially.

5. During the last Victory Loan campaign, Towers was put

Fund and the Bank and he challenges the Republicans or anyone else to reject such an approach. I should say that this tactic is very likely to be successful. While it is likely, I should think, that the results of our deliberations will not be taken to Congress before the election, White told me he had not entirely given up the idea of earlier action.

Meanwhile, as you will have seen from the cutting which gives the President's letter to Morgenthau appointing the American delegation, he is as clear and decided as the Chancellor that the proceedings at Bretton Woods are without commitment and that the full future rights of Congress are preserved.

Pasvolsky provided us yesterday with a copy of the telegram which the State Department have sent to Winant inviting this party to go to Washington after Bretton Woods to resume in an informal way the Article VII conversations on commercial policy and commodities. Eady and I doubt whether there is any useful information on this which we can send you from this side. You will probably find it difficult to return a direct negative. The degree of affirmativeness will, I suppose, depend on whether the Chancellor has been able to make any progress in breaking the deadlock on commercial policy. If he has, an attempt might, I suppose, be made, not perhaps to make definite progress, but to exchange ideas and second thoughts so as to prepare the ground for the next stage. In this case I daresay

Canadian investments substantially.

5. During the last Victory Loan

I daresay you will want to add Liesching to our party at that stage. I think it is clear that the Americans are not thinking of anything formal or definitive, certainly not of anything public. They accept the position that the next stage should be in London. The idea is, I understand, that the State Department would send Dean Acheson, Pasvolsky and Harry Hawkins to London later in the year to resume serious conversations if the prospects look in the slightest degree promising. The suggested conversations in Washington at the end of July would have no further ambition than to exchange information concerning the lines on which the two parties have been thinking since the last conversations.

This is far too long a letter. Whether our communication arrangements are good enough for it to reach you in time remains to be seen. But as we are not proposing to send much in the way of telegrams at the present stage, I thought there would be no harm in giving you this background. Perhaps the most striking feature of the position so far is one which I have not mentioned. Harry White is wreathed in smiles and amiability, hospitable, benevolent and complacent. I doubt if Sigi would recognise him. He also seems extremely fit and happy, and inclined to agree with almost anything which is said to him. Heaven grant that it continues but it seems too much to hope for. I am sending Waley a spare copy of this letter. I am attaching to it, although copies

Canadian investments substantially.

5. During the last Victory Loan campaign, Towers

copies will also be going through the usual office routine, the four substantial papers which emerged from our work on the voyage, namely, the report on our proposals about the Fund with its annex, and the report on our proposals about the Bank with a second paper incorporating these proposals in the American text.

Yours ever,

(Signed) MAYNARD KEYNES.

Sir Richard V.N.Hopkins, G.C.B.

3/11/42 C Lord Keynes

NOTE OF A CONVERSATION WITH MR.TOWERS

I spent yesterday evening with Towers to discuss a number of mutual problems on both the Fund and the Bank. The points worth noting are:-

1. The Canadians propose to stick to the present middle rate of 4.45 Canadian dollars = £1 provided that there is no substantial change in the value of sterling. I was able to assure him that, as far as I knew, we would not change the present rate of 4.03 U.S.dollars = £1.

2. They will probably narrow the present margin of 4 cents down to 2 cents.

3. They will maintain Exchange Control after the war because they cannot possibly afford to give convertibility to the large American assets in Canada nor can they allow the immense American investment in Canadian securities to be liquidated at a moment of crisis as it would wreck the market in Canadian Government securities.

4. He is personally convinced that when the next Election occurs the C.C.F. Party will either have a complete majority over all other parties or else be in a position to dictate Canadian internal policies. The Conservatives are not only dis-united but no longer have any substantial following in any part of the country. In spite of the fact that the most substantial American institutions prefer to invest in Canada rather than in America, he feels certain that if the C.C.F. get in they will attempt to reduce their Canadian investments substantially.

5. During the last Victory Loan campaign, Towers was put into the most embarrassing position when he found the major American insurance institutions buying large blocks of new bonds. The Equitable, for example, wanted to buy U.S.$25 millions worth, and it was only after considerable pressure that he was able to convince the Company of the desirability of reducing the subscription to U.S.$ 10 millions.

6. He is a firm believer in the Fund because it appears to be the only way out of the obvious Canadian dilemma. He sees little hope of substantially increasing their exports to the U.S. except in the sense of tourism. On the other hand, their sterling income is bound to be maintained, if not substantially increased, by the long-term dairy-product contracts. I challenged him on the desirability of the publics in both countries being deluded into a sense of security by the long-term programmes but he says that it has gone so far in Canada now that it would be absolutely folly to raise the matter publicly. It would be much better from every point of view to carry on as if there is no financial problem and then see if something cannot be done if an amergency arises.

7. He is very dubious both about the set-up of the Bank and the possibility of its issues being acceptable to the public in America. He feels that the American and Canadian markets will evaluate the guarantee or a direct issue of their own securities on the basis of a proportionate U.S. Government guarantee. The rest they will either discount orwrite off altogether. His second worry is how the market in these securities is to be managed after the issue. If the present ideas of a flat or standard rate of interest are to be maintained, it will be essential to prevent issues already in existence falling to a discount. If, for example, an issue were made in Canada, would the Bank of Canada be expected to intervene in the market as they have done from time to time in the Canadian Government Bonds in order to prevent a loss of confidence in these securities?

H. D. Hollis

Bretton Woods.

2nd July 1944.

Tel. No.: ABBEY 5678.
Telegrams: PRODMIN, PARL, LONDON.

...unication on this subject, the follow... ...ber should be quoted :

.....

MINISTRY OF PRODUCTION,
GREAT GEORGE STREET,
LONDON, S.W.1.

Rob. Robbins ✓
Rob. Robertson ✓

2

10th July, 1944

Dear Maynard,

Very many thanks for your letter from Bretton Woods dated 2nd July, which has just arrived. We are all working hard at the moment on the case for Stage II. We here are collaborating with the Treasury, mainly in the persons of Whaley, Harmer and Edgar Jones, the Board of Trade (Leisching), the Ministry of Food and others. We are gradually getting things onto paper and by the end of this week we should have something fairly useful, in the sense that it should have amassed facts. Whether or not it will be in the best possible form I feel much more doubtful.

Your criticism of my estimates of overseas disinvestment for the later years I humbly accept. My own shots at the balance of payment of those years were very rudimentary and further work which Edgar Jones, James Meade and I have done on these years now makes it clear that my own guess did seem greatly to over-estimate military expenditure abroad at that time.

I do not know whether anything has yet been settled officially as to how the talks proceed next. I rather gather there is some idea that Whaley and one or two officials from our side shall come out; but as you know, there are so many conflicting plans in the air that for the moment nothing is clear. I expect you know more than I do.

Turning to more domestic matters I have at last got the Economic Journal to press. I was delayed as usual, this time mainly by Manning-Dacey The editorial staff of the Banker and the Financial News seem to have been principally occupied in dealing with domestic crises and he had himself necessarily been too busy to finish his note on the White Paper. Now I have it, it is slightly pedestrian but will I think serve. Beveridge has turned out about 6 pages longer than we had reckoned and in

/consequence

Lord Keynes,
United Nations Monetary and Financial Conference.

...disposal.

Sincerely yours,

k.