1. Introduction

Keynes revealed three aspects in his activities for the postwar world order planning in the 1940s – internationalist as a planner, pragmatist during the negotiations, and a defender of the British Empire interests. Keynes as an international system designer worked out proposals, which showed excellence of “internationalism” while he revealed himself, in the process of negotiations, as a sort of political pragmatist for the interests of the British Empire. We would verify this point mainly through commodity plans, rescue (and reconstruction) plans, and international monetary system, based on my three papers.*

(Evaluation of his creative plans and their present significance, which is another theme of this project and is dealt with in the three papers, is to be reported on another occasion).

2. Commodity Control Scheme

Keynes’s activities of primary commodities can be seen from two points of view; (1) the significance of a buffer stock plan in Keynes’s economic thought, and (2) how and why the plan was to be transmuted in the changing political situation.
(1) Keynes firmly believed that violent fluctuations in the prices of primary products were attributable to the fatal defect that the competitive system abhors buffer stocks, and that in order to stabilize prices (and guarantee some living standard to producers) an international organization should be set up.

The Fifth Draft (“The International Control of Raw Materials” [April 1942]), the main emphasis of which was put on the price stabilization through buffer stock management, almost putting aside production restriction, ideally epitomizes his stance. It was filled with internationalism and is firmly grounded in his social philosophy — the New Liberalism, manifested since the mid-1920s.

<Central idea of the Fifth Draft>

In order to attain the above-mentioned goal, international buffer stock organizations, called Commod Controls, are proposed here, through which (price) stabilization policy should be implemented to redress the shortcomings of the competitive market system.

Each Commod Control, which deals with an individual commodity, is to be composed of representatives of the major producing and consuming countries while its management is to be entrusted to independent specialists.

The central function of the Commod Control is to stabilize the price of the commodity concerned (therefore to stabilize producers’ incomes) through buffer stock management. This is the crux of the plan, and to this end each Commod Control has the following tasks, among others: (i) fixing the basic price, (ii) management of stocks.

(2) However, the buffer stock plan made a series of transformation due to political concessions and compromises. Keynes went on revising his commodity control plan due to criticism from various governmental departments.

(i) What is clear is that Keynes’s plan has receded further and further as he revised it.

The essential transmutation is that in the drafts following the Fifth Draft restriction on output was increasingly emphasized. The Sixth Draft (“The International Regulation of Primary Products” [May 1942]) came to
incorporate Restrictive Plan in disguise, while the Eighth Draft came to include various kinds of Commod Controls, which works for several regulations, so that the original function, which Commod Control was intended to play not only in the Fifth Draft but also in the Sixth and Seventh ones (the same title [August 1942]), completely disappeared. The Eight Draft (the same title [February 1943]) has no clear-cut objective due to this change.

(ii) The Fifth Draft and the Sixth Draft were criticized by Leith-Ross (British representative for the negotiation), the Bank of England, and Fergusson (Permanent Secretary, Ministry of Agriculture and Fisheries), who argued that it is filled with laissez-faire, and asked for restriction of production, while Harrod (and probably, Robbins and Meade) supported the Fifth Draft in earnest, criticizing the Sixth Draft.

Keynes, who wrote the Sixth Draft, giving Leith-Ross a “fair show”, responded to Harrod’s criticism, saying that it maintains “the general atmosphere of approach of [the Fifth Draft]”.

We cannot find any document or letter to show Keynes’s dissatisfaction with this transformation. Keynes seems to recognize that the following drafts have not been in contradiction, in spirit, with the Fifth Draft. He seems not to have expressed some anger or complaint against those who vehemently supported restriction of production.

We can see Keynes work as a sort of political pragmatist among political interests, to such a degree that he lost the basic stance envisaged in the Fifth Draft.

(It should be noted here that this happened not so much in the international scene as in the domestic one.)

(iii) The destiny of the international regulation plan for primary commodities runs as follows.

In May 1943 the Eighth Draft was accepted by the War Cabinet. In the Anglo-American Conference on Postwar Economic Problems in September, the official document of the Eighth Draft was handed over to the United States.

The American side was negative toward a buffer stock article. Even on the British side, moreover, severe opposition was put up from the Ministry of
Agriculture and Fisheries and the Bank of England, and the need for a commodity-by-commodity approach was advocated.

Thereafter the commodity problem took the form of a proposal to the Conference on Trade and Employment in Washington in autumn 1945. On the whole this proposal represented a position against the idea of buffer stocks, and included articles of commodity agreement among governments.

The final result was a survival of the commodity agreement articles in the GATT and the Economic and Social Committee of the United Nations.

3. Relief and Reconstruction Problem

One might indeed ask: to what extent was Keynes a nationalist, an internationalist, and an imperialist? This is no simple question, and to some extent it has to do with the position of the UK in world politics. For a British citizen, loving the nation meant being a nationalist, an internationalist and an imperialist. It might, however, be inappropriate to take Keynes in these terms. In the case of the relief and reconstruction problem, All we can say is that Keynes worked out a proposal for relief and reconstruction of the post-war world filled with internationalism, while due to the changed economic situation his priority came to be put on keeping the British Empire’s position in world politics — somehow or other — on an equal footing with the US, under the disadvantageous circumstances that the British Empire desperately needed financial and military support from the US. He labored over international plans in a spirit of internationalism as far as possible, but sought in any case to defend the British Empire from the colossal powers of the US.

(1) In October 1941 Keynes put forward the Central Relief and Reconstruction Fund (CRRF) Plan filled with internationalism (“Treasury Memorandum on Financial Framework of Post-war European Relief”). When he first put forward the CRRF Plan, there was manifestly broad agreement between himself, Leith-Ross, and the U.S. Government.
The central idea here was that the CRRF should operate a joint fund comprised of money donations or contributions in kind from many countries. The CRRF should be responsible for collecting and distributing all required relief materials (it should be authorized to buy the commodities required at fair prices from any country). It should determine, on the basis of some appropriate principle, the proportion of the relief materials which a country should receive gratis or should be liable to pay.

All transactions were to be booked in the joint fund. To allow the CRRF to estimate the scale of transactions, the following conditions were proposed: the CRRF should request allied governments to produce lists of their requirements; it should make estimates of the quantities of commodities available to it; it should investigate the financial position of each of the countries concerned, knowledge of which would be prerequisite for equitably determining the proportions in which assistance should be granted free of charge or made payable.

Keynes considered the CRRF, conceived as above, greatly superior to the idea of having various countries giving relief in kind separately, and sincerely wished to see it set up. He argued that establishing the CRRF would obviate the need for making separate financial arrangements for each commodity, whilst the alternative idea would result in the distribution of commodities becoming a messy affair, due to the absence of any necessary correspondence between the commodity quantities available and an appropriate financial burden.

(2) However, Keynes changed his stance several times in response to the changing circumstances in which the British Empire found itself.

Around February 1942, Keynes’s thinking altered considerably. He now perceived the necessity of a change of tack, foreseeing that Britain’s post-war balance of trade situation would be likely to be grim, and Britain would be unable to make the contributions required by the CRRF Plan without borrowing from abroad.

For this reason he abandoned the CRRF Plan in favor of a pragmatic effort to try to get the (existing) Lend-Lease continued. Faced with the grim reality of the situation in which Britain found herself, Keynes responded in a way revealing the weight of the British interests, one consequence of which was confrontation with Leith-Ross.
Keynes’s next move was to put forward a compromise plan “Finance of Post-war Relief” (January 1943) which maintained the pragmatic approach to Lend-Lease whilst also retaining a degree of internationalism in the form of the role assigned to the Combined Boards. This, after some revision, became the official plan of the Treasury.

(3) From around the end of 1943 on, however, the relief issue was to be placed and addressed under the leadership of Harry White of the United States. In the final stage he was able to do little more than criticize the UNRRA (United Nations Relief and Reconstruction Administration) from the sidelines.

(4) Our documentation reveals that Keynes tried to work out international plans, if possible, on a spirit of internationalism, but if not, somehow to defend the British Empire from the US. In that sense Keynes was a designer for the international order as well as a defender of the British Empire.

(5) The following is what occurred after Keynes’s death and an ‘if’ story.

In the end, it was under the Marshall Plan (the “European Recovery Program”), which took effect in 1948, that relief (and reconstruction) was carried out. Loans were systematically allocated by the Economic Cooperation Administration (ECA) of the U.S. through the Organization for European Economic Cooperation (OEEC). In the US-occupied territories, GARIOA-EROA was set up on the basis of American loans.

Roused from complacency by the onset of the Cold War, the U.S., which even in the immediate post-war period had been extremely reluctant to get involved in European affairs, became — well aware of the role it was taking on — the leader of the West in the new international order from 1949 on. The world in which Britain, now suffering from a hugely adverse balance of payments and massive war debts, could have assumed leadership was no more. It was, in fact, Britain that was to receive the largest share of the Marshall Plan.

How would Keynes have acted if he had lived long enough to see the development of the Marshall Plan? In a word, the Marshall Plan, which made a great contribution to the path leading up to the EU, might be regarded as an amalgamation of Keynes’s ideas expressed in his Economic Consequences of the Peace and the CRRF plan. He would probably have endorsed the Marshall Plan, the principal architects of which were Clayton and Acheson; they were on good
terms with Keynes, and led the planning and management of OEEC (remember that it was Bevin, Foreign Secretary of the Attlee Government, UK, who led the initiative on the European side). This seems clear enough.

What remains uncertain, however, is how he would have dealt with the other aspect – the position of the UK in the power politics of the world. To what extent would he have reacted to the elements recognizable in the Marshall Plan — scant or no consideration for the UK as the British Empire? Taking the subsequent story – the deteriorating situation of the UK, the emergence of the two hegemons (USA and USSR), the Suez Crisis – into account, he could not have done anything to save the British Empire from the disintegration to be seen during the Macmillan Government. Confronting this situation together with de Gaulle’s opposition to UK participation in the EEC, how would he have felt and acted? The question is destined to remain unanswered.

4. International Monetary System

How did Keynes reveal the three aspects, which appeared in his activities for the commodity problem and the relief problem, in the sphere of international monetary system? To what degree are these three facets recognizable?

Our research here comes to the same evaluation. Keynes as a system designer devised proposals which showed excellence in terms of “internationalism”. However, in the process of negotiations he revealed himself as a sort of political pragmatist who would defend, or give clear priorities to, the interests of the British Empire.

(1) Initially he put forward a plan which is, in nature, based on internationalism. The International Clearing Union (ICU) Plan has the value filled with internationalism. (The ICU Plan should be of important and urgent value in reconstructing the present international monetary system now known as “non-system”.)

If he had been a purely academic scholar and put forward his own idea from the university or journalism, he would have critically argued the process developed in the sphere of international political economy from an internationalist point of view.
(2) However, Keynes was not that sort of man. He put himself in the forefront of reconstruction of international order. He also represented the interests of the British Empire, and found himself in a position in which he needed to adjust the whole, looking for some sort of compromise with the US in negotiation. Thus his political stance – of course, much influenced by his own political thought – greatly governed his action, entailing considerable sacrifice for Keynes as a scholar and system designer.

<Central idea of the ICU Plan>
The “genuine” ICU proposal (August 1942) basically runs as follows.

(i) The “parity” of a member nation defined as the exchange rate between its currency and the “bancor” is established on agreement among the member nations. Thereafter, when fundamental disequilibrium occurs, the nation concerned is allowed to change the parity subject to consultation. Thus the ICU adopts a kind of fixed exchange rate system.

The bancor is an international currency used only between central banks. It has a fixed exchange rate with gold. Each central bank of a member state has its own account in terms of bancor, through which international settlement is to be made. All international transactions are carried to the bancor account of the central bank concerned. A firm which exports (imports) goods receives (pays) the currency required at a fixed rate in exchange for an export (import) bill, from (to) the central bank concerned. Though a foreign exchange market exists and firms or individuals are free to exchange foreign currencies there, the rate is set, in advance, as a fixed rate by agreement. Even if the rate departs from parity, it will soon return to it.

It should be noted that adjustment is made not through the intervention of a government but by means of transaction between the central bank and firms or individuals, comparing the parity with the exchange rate. In that sense, the ICU system is closer to the Gold Standard than the IMF system which operated up to the 1960s, although all three are fixed exchange rate systems. In the former two the government does not intervene on the foreign exchange market but directly transacts with firms or individuals, while in the latter the government intervenes on the foreign exchange market but does not directly transact with firms or individuals.
(ii) The ICU proposal stipulates that, in order to prevent persistent increase in the balance of payments of a member nation, whether in the direction of surplus or deficit, a penalty should be imposed on it if the sum exceeds a prescribed value.

(iii) The ICU proposal stipulates that, in order to contribute to growth in the world economy, overdraft facilities should be provided.

(iv) The ICU proposal advocates that, in order to provide funds for the primary commodity problem and the relief problem which the postwar world economy found itself faced with, the international institutions concerned should open their own bancor accounts.

(3) The negotiations between the UK and the US over an international monetary system started with a face-off between the ICU plan (Keynes plan) and the SF plan (Stabilized Fund plan [White plan]) (October 1942). Through these negotiations Keynes played an outstanding role as a representative of the British side.

However, we can say that at an early stage, the initiative was seized by the US side, as was seen in June 1943 when Keynes tried to integrate the two plans based on the White plan, meaning that he put the ICU aside. Although the British side made an effort partially to incorporate features of the ICU into the White plan by monetizing unitas as from September 1943, it finally gave up the attempt in April 1944 due to a decline by the US.

(4) Subsequently Keynes even came round to justifying the White plan on the ground that it was much more crucial to secure financial aid from the US – a justification difficult to understand from the point of view of the ICU plan. He emerged as a pragmatist. What he aimed at was to maintain the position of the British Empire in the postwar world through financial aid from the US, by cooperating with it rather than holding out against it.

As to both the commodity plan and the relief and reconstruction plan, what Keynes initially aimed at came to be completely foiled at an early stage (February 1942 – February 1943). Under these situations, Keynes might have hoped somehow to establish an international monetary system by accepting the
US plan, albeit incomplete.

Keynes had been considered that without help from the US the British Empire might collapse. It should be noted, in this respect, that he had not the slightest idea of emancipating the colonies (for example, as a strategy which the UK should adopt after the Far East area was liberated, Keynes argued that the problem should be coped with, without resort to Roosevelt for help, through cooperation within the British Empire. Cf. his letter to Eady of 3 January 1945 on “UNRRA and British Liberated Territories in the Far East”).

How could we interpret the changed stance which Keynes showed through these negotiations? This is as interesting as it is difficult to answer.

(5) Therefore, when considering these problems, we need to bear in mind the fact that we encounter two Keynes – Keynes as an advocate of internationalism and Keynes as a figure engaged in actual political negotiation. When considering the latter aspect, we need to examine in concrete terms how he came to compromise. Any researchers interested in this field must have considerable insight, for Keynes had neither appeared to make, nor spoken of, some sort of compromise throughout these negotiations.

5. Conclusion

There were three aspects in Keynes – an advocate of internationalism as a planner and a defender of the interests of the British Empire – and he had a pragmatist tendency to change his stance accordingly as the situation developed.

In the initial period, Keynes designed and put forward plans filled with the spirit of internationalism for the commodity problem, the relief and reconstruction problem, and the international monetary system, which were considered to be important in constructing the postwar world order. These clearly showed Keynes’s excellence in internationalism as a system planner, although they were also to safeguard the interests of the British Empire.

As the political and economic matters proceeded, however, Keynes came to show his pragmatic side, among other things making it a priority to protect the interests of the British Empire.

We would refer to Keynes’s view on international political mechanics as seen in
his letter to Dalton (March 27, 1946). There he stresses the importance of securing the position of the British Empire in relation to the US, ideas such as “objectivity”, “internationality” being putting aside.

Nothing can suit us better, therefore, than that international institutions, where we are free to play a very important part, should administer what will be largely American funds for the succor of these regions. Nor is there any obvious ground why we should not refer to these bodies in the same way the difficulties of other regions, such as Malaya and Burma, where the initial responsibility is primarily ours. (CWK.26, p.230)

… I firmly believe that the whole of the British Commonwealth and the Sterling Area and of Europe stood closer to us than to the Americans and looked to us, rather than to them, for leadership. (CWK.26, p.231)

This is almost his last statement. In fact, the British Empire was thereafter to go on declining. The lifting of the frozen sterling balance abroad was to bring about the pound crisis. And above all, due to the surge of the USSR, the world politics was to be ruled by the US and the USSR, while the British Empire was to expose its fragility to the world in the Suez Crisis, which was soon to cause the independence of many colonies.

Keynes himself was deeply concerned with the deterioration of the British financial position as the war proceeded. As in the First World War, Keynes was to play a key role in loan negotiations with the USA. This was indeed a continuum of humiliation.

We will conclude this report by saying that, from the point of view of world politics, Keynes was an architect of the international order as well as a defender of the British Empire, although from the perspective of social philosophy he was a champion of the ‘New Liberalism’.

* The three papers are
  
  Paper 1: Commodity Control Scheme
  Paper 2: Relief and Reconstruction Plan
  Paper 3: Keynes’s Battle over the International Monetary System
which are available at

https://drive.google.com/folderview?id=0B6CaZypNCmXFUFNmWjRDRkpLUG8&usp=sharing

[Original Papers]

