

Lord Keynes: Our Overseas Financial Prospects, 13 August 1945

25. Even assuming a fair measure of success in rapidly expanding exports and curtailing Government expenditure overseas, it still remains that aid of the order of \$5 billions is required from the United States. We have reason to believe that those members of the American Administration who are in touch with our financial position are already aware that we shall be in Queer Street without aid of somewhere between \$3
5 and \$5 billions and contemplate aid on this scale as not outside practical politics. But this does not mean that difficult and awkward problems of terms and conditions do not remain to be solved. The chief points likely to arise are the following:

- (i) They will wish the assistance to be described as a *credit*. If this means payment of interest and stipulated terms of repayment, it is something we cannot undertake in addition to our existing obligations with any
10 confidence that we can fulfil the obligations. It would be a repetition of what happened after the last war and a cause of further humiliation and Anglo-American friction, which we should firmly resist. If, however, the term *credit* is no more than a camouflage for what would be in effect a grant-in-aid, that is another matter.
- (ii) The Americans will almost certainly insist upon our acceptance of a monetary and commercial foreign
15 policy along the general lines on which they have set their hearts. But it is possible that they will exercise moderation and will not overlook the impropriety of using financial pressure on us to make us submit to what we believe is to our grave disadvantage. In fact the most persuasive argument we can use for obtaining the desired aid is that only by this means will it lie within our power to enter into international co-operation in the economic field on the general principle of non-discrimination. We
20 should not seek to escape our obligations under Article VII of the Mutual Aid Agreement, but should, rather, ask for the material basis without which it will not lie in our power to fulfil them. In my opinion we need not despair of obtaining an agreement which provides sufficient safeguards and will not seriously hamper the future development of our economy along lines freely determined by our own policies.
- (iii) Bases, islands, air facilities and the like may conceivably come into the picture.

26. Nor must we build too much on the sympathy and knowledge of the members of the American Administration with whom we are in touch. It will be a tough proposition, perhaps an impossible one, to sell a sufficiently satisfactory plan to Congress and the American people who are unacquainted with, and are never likely to understand, the true force of our case, not only in our own interests but in the interests of the
30 United States and the whole world. For the time being Ministers would do well to assume that no arrangement which we can properly accept is yet in sight; and that, until such an arrangement is in sight, we are, with the imminent cessation of Lend-Lease, virtually bankrupt, and the economic basis for the hopes of the public non-existent.

27. It seems, then, that there are three essential conditions without which we have not a hope of escaping what might be described, without exaggeration and without implying that we should not eventually recover from it, a financial Dunkirk. These conditions are (a) an intense concentration on the expansion of exports, (b) drastic and immediate economies in our overseas expenditure, and (c) substantial aid from the United States on terms which we can accept. They can only be fulfilled by a combination of the greatest enterprise, ruthlessness and tact.

28. What does one mean in this context by 'a financial Dunkirk'? What would happen in the event of insufficient success? That is not easily foreseen. Abroad it would require a sudden and humiliating withdrawal from our onerous responsibilities with great loss of prestige and an acceptance for the time being of the position of a second-class Power, rather like the present position of France. From the Dominions and elsewhere we should seek what charity we could obtain. At home a greater degree of austerity would be
45 necessary than we have experienced at any time during the war. And there would have to be an indefinite postponement of the realisation of the best hopes of the new Government. It is probable that after five years the difficulties would have been largely overcome.

29. But in practice one will be surprised if it ever comes to this. In practice, of course, we shall in the end accept the best terms we can get. And that may be the beginning of later trouble and bitter feelings. That is why it is so important to grasp the reality of our position and to mitigate its potentialities by energy, ingenuity and foresight.

30. Shortage of material goods is not going to be the real problem of the post-war world for more than a brief period. Beyond question we are entering into the age of abundance. All the more reason not to mess things up and endanger the prizes of victory and the fruits of peace whilst crossing the threshold.