To the Editor of The Times:

The editorial in The Times of March 16 dealing with the Boothby letters says:

> "Treasury spokesmen, discussing Mr. Boothby's contentions before the House Banking and Currency Committee, do not appear to have dealt with them very satisfactorily. They questioned Mr. Boothby's motives and his purpose in being in this country at this time. Such personal considerations do not meet the real issue, which is, Do the obscurities and ambiguities which Mr. Boothby alleges to be in the Bretton Woods agreement in fact exist?"

This is based on a misunderstanding of what occurred at the hearings of the House Committee. The fact is that we did meet the issues raised by Mr. Boothby, and we did not question his motives.

The facts are simple. Mr. Boothby, a member of Parliament but not an official of the British Government, has come on a personal visit to this country at a time when our Congress is considering the Bretton Woods agreements. Mr. Boothby wrote a letter published in The Times of March 4 alleging four obscurities which he insists should be cleared up before this Government acts on the Bretton Woods agreements.

The officials of this Government quite properly made no reply in The Times to Mr. Boothby's letter. On March 14, The Times published another letter from Mr. Boothby reiterating his view that there are obscurities in the Bretton Woods agreements.

The Times must be aware that such unofficial actions as Mr. Boothby's letters, if they were allowed to become the basis for a private controversy with our Government, could do untold harm in our relations with other Governments. Officials of this Government have avoided any statement which could in any way disturb the relations between the United States and the United Kingdom. Mr. Boothby's questions were answered fully and completely when they were asked at a hearing before the House Committee on Banking and Currency.

An important part of Mr. Boothby's design appears to be to leave the impression that he is a strong advocate of international monetary cooperation but that he is troubled by obscurities in the Fund. In an editorial note to the first letter, Mr. Boothby was said to be a member of the British delegation at the Bretton Woods Conference. In fact, he was not. In an editorial note to the second letter Mr. Boothby was said to be "chairman of the Monetary Policy Committee in London which includes members of Parliament of all parties." The fact is that Mr. Boothby's committee has no official standing whatever and it is not authorised to speak for Parliament or the British Government.

On this point, the transcript of the hearing before the House Banking and Currency Committee on March 14 shows the following testimony by a Treasury representative under questioning by a member of the Committee:

> A. "It is our understanding he (Mr. Boothby) is a member of Parliament, a very able man, who, I understand, is one of the leaders of the opposition to the proposal. I am not in a position to know, but it may be that his opposition springs from the fact that there is a misunderstanding. It may well be that he saw fit to come to the United States just at this point in order to clear up that misunderstanding. But, if so, he did not come to the place where he could have had it cleared up, which was either the State Department or the Treasury, or the Federal Reserve Board. Nor, to my knowledge, did he go to the Treasury in Britain, though he might have done so. What he did was to write a letter to The New York Times."

The questioning continued as follows:

> Q. "What is the Committee that he is Chairman of, over there?"
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> A. "He is a member of an informal committee including members of Parliament who are interested in monetary questions. So far as I know, it has no legal status."
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> Q. "I understand he was chairman of some committee."
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> A. "Yes, sir, of an informal committee which is interested in monetary questions. It is not a committee of Parliament. Mr. Boothby has been against these proposals

before the Bretton Woods document was drafted, and his opposition is founded very largely on a belief that Britain should undertake any kind of bilateral discriminatory arrangements that it finds convenient at any time."

The tone of this might well be compared with this statement over Mr. Boothby's signature in a London newspaper:

"It was American Big Business, not the United Nations, which won the great victory at Bretton Woods. For that agreement was a victory of gold over goods. And practically all the gold in the world is at present buried in the vaults of American banks.

"If the House of Commons accepted Mr. Morgenthau's advice and ratified the Bretton Woods agreement, it would deliver this country, bound hand and foot, to the money power represented by the vested interests of international finance."

Or again it could be compared with this statement by Mr. Boothby in Parliament:

"A fixed link to gold would mean our total submission to the economic power of the United States — it would mean selling out to America. Private individuals in the United States would ultimately own all our industries if we accepted the views of the Bretton Woods experts."

But, contrary to the impression created by The Times editorial, the fact is that officials of the Treasury replied directly at this same hearing to the four questions in Mr. Boothby's letter. The replies as taken from the record of the hearing are as follows:

Q. "Do you have the statement?"

A. "Thank you. Mr. Boothby's first question '<u>Does it or does it not mean that the participating countries must apply the principle of non-discrimination to international</u> trade?'

The answer to that question is that insofar as discrimination is applied through currency devices, it is clearly forbidden. "For example, it would not be possible for Britain to allow purchasers of British goods a specially favored rate for sterling. It would not be possible under this Agreement. There may be some types of trade arrangements, through quotas, by which Britain might be able to allow more imports from, say, Argentina than from some other country. But I should point out that our own reciprocal trade agreement with Britain takes care of some discriminations on trading."

"Question two: '<u>Does it put an end to the sterling area?</u>'

"The sterling area might now means two important things. The first thing the sterling area means is this: Countries having close trade relations with Britain, and with other countries in the British Empire, find it very convenient to carry large balances of sterling. That was true before the war, just as many American Republics carried balances of dollars in the United States. There is nothing in the Agreement that prevents a country from voluntarily carrying balances in London in sterling if it so wishes.

"That is one aspect. There is, in the Agreement, provision which forbids the use of compulsion to keep new sterling balances after the transition. If a country exports more to Britain than it buys from Britain, Britain cannot compel it to keep a sterling balance by blocking the proceeds of its current exports.

"But now, during wartime, the sterling area has taken on one additional aspect. That is purely a wartime concept, which the British have announced that they will terminate after the war.

"That is the so-called dollar pool. In order to allow the British Empire to carry on its war with the greatest effect, all members of the British Empire, except Canada, which is not a part of the sterling area, agreed to pool their dollar resources and to have them allocated where they will be most useful for the war.

"A dollar pool would be discriminatory after the war, because it might compel some countries to restrict their purchases of goods from the United States, even though dollars accured to them, and it would be out under the Fund Agreement."

"Question three: '<u>It is widely assumed that the proposed Fund will insure stability of exchange rates.</u>

apart from certain clearly defined exceptions. But is this assumption justified? Article IV, Section 4 (a) states: Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.

"'Does this mean each member undertakes to maintain its currency at the agreed par value with gold or United States dollars, and thereby with each other currency? If it does mean this, it would have been easy to say so — although it would then have been less easy to persuade the British public that the scheme does not involve a return to the gold standard.'

"May I rephrase the question? Does the Agreement mean that every country that is a member of the Fund agrees to keep its currency, the foreign exchange value of its currency, at a par with the United States dollar or with gold, allowing one percent above and below the parity for the ordinary market fluctuations? The answer to that question is very distinctly yes. A country, when the parity of its currency is fixed, agrees that it will keep the value of that currency within one percent above or below that parity, unless the parity is changed in accordance with the provisions of the Fund.

"Now for the point: 'Does that represent the gold standard?' It depends entirely upon what is meant by the gold standard.

"If they mean by the gold standard the keeping of exchange rates within a narrow range around the parity, the answer is that the Agreement does mean stable exchange rates within one percent above and below the parity, until and unless the parity is changed in accordance with the provisions of the Fund.

"If they mean by the gold standard, one of a number of other tests, that a country cannot, for example, issue additional currency unless they keep certain gold reserves, then in this respect the Agreement does not compel a country to relate the quantity of its currency to its gold reserves.

"Question four: 'Article VIII (4) requires each member country to buy balances of its currency held by another member country (presumably at par) if these balances have arisen through current transactions, but not if they have arisen through capital transactions. Article VI permits, but does not enjoin, control of capital movements and definitely prohibits the use of the Fund's resources to meet a capital outflow from a member country.

"'Suppose a country has, simultaneously, a capital outflow, and a deficit on income account. She is not allowed to use the Fund to check the former. She is apparently obliged to use the Fund up to the limit of her quota to prevent any depreciation of her currency caused by the latter, although, under Article V (8), she may be subjected to penal charges for doing so. What, precisely, are her obligations in this situation? It is one that is not unlikely to arise.'

"May I rephrase the question in simple terms? Here is a country that has a capital outflow. That is to say, its own citizens are sending their balances abroad into foreign countries, or people abroad are withdrawing their balances. Either one of those cases. The other part of the question concerns a deficit on current account, that is to say, in payment for imports, services, income from investments and similar transactions. Suppose the two are going on simultaneously. What are the obligations of a country? The answer, it seems to me, would be approximately as follows:

"So far as the country wants to use the Fund to meet its current deficit, if the Directors of the Fund agree that the meeting of that current deficit in those reasonable amounts is conducive to carrying out the purposes of the Fund — stability of exchange rates and other purposes — the country can do so.

"If it is simultaneously having a capital outflow, if it is very small, the Executive Directors might take the attitude that the small outflow is insignificant and that no steps need be taken to stop it.

"If the capital outflow is large and sustained, the Executive Directors might well take the view, which would be in accordance with the provisions of the Fund, that such a large capital outflow would weaken the position of the country in its efforts to maintain the value of its currency stable, and that it is contrary to the purposes of the Fund for such a country while it is using the Fund to allow too large an outflow of capital.

"It would depend, then, Congressman, on the magnitude of the capital outflow, on the current deficit, and on the fundamental question of whether the capital outflow will undermine the country's position in keeping its currency stable.

"The Fund is not intended to provide resources to support an untenable exchange rate. If this capital outflow has that effect, the Fund could require the country to prevent it; and if the country does not prevent it, the Fund could refuse to sell the country exchange with which to meet its deficit on current account."

These are the facts on the "obscurities and ambiguities" of which Mr. Boothby wrote. On this general point, a Treasury official told the House Committee:

"I may say that there is no difference of opinion in interpretation with respect to the points that Mr. Boothby pointed out. There may be among some people in England, including Mr. Boothby. He may have some doubts. He cannot speak for England on that point, nor can he speak for the delegation, that is, the British Delegation that was there. He was not a member of the delegation; he did not participate in the discussions which took place either before or after Bretton Woods.

"It may well be that Mr. Boothby is confused, but that is quite a different thing from assuming that there is a difference of interpretation on major points between the two governments."

Limitations of space no doubt justified the incomplete report of the answers to Mr. Boothby's questions. In view of your editorial of March 16, you may now wish to give your readers the opportunity to read these answers in full.

Sincerely yours,

RMB:em 3-26-45