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BEGINNINGS OF IMF STAND-BYs

Transcript of an Oral History Recording

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Participants: Margaret De Vries, David Finch, and Phillip Thorson

Thorson: This is June 12, 1990 and we are having the 14th recording session on the beginnings of stand-bys in the IMF. This morning we have Margaret De Vries who has kindly agreed to add her recollections about the role the ETR Department had in that part of the Fund's development. During that period Margaret worked closely with Irving Friedman who joined in a recording session shortly before his untimely death last fall. Later, Margaret came back to the staff for a second career as the Fund's Historian. David Finch and Phillip Thorson are also participating. Would you like to start out, Margaret?

De Vries: Well, I thought I could best fill you in on the relationship between conditionality and multiple currency practices. Listening to Irving's tapes I thought that's where there still seems to be a gap and I gather from some of your questions on Irving's tapes, David, you were very interested in pursuing that relationship, so I perhaps could do some more on that. This is based on my Fund work from 1946 to when I resigned in 1959, not on my work as Historian, although there is some of this in the History. But here I thought I could be more forthcoming and franker and bring in more details about the staff work. When I look back I am absolutely amazed how much responsibility we did have influencing and applying multiple currency policy; as a young staff, the Fund was small and Irving was extremely good at letting his staff have a lot of initiative so it was a unique, exhilarating experience and I think we really did have some impact. In fact, I was to learn in an amusing way how much impact we had in 1959 when I had resigned from the Fund and Bob and I went down to Latin America, to Colombia. I met Laughlin Currie and on meeting me he said, "Gee, it's Miss Multiple Exchange Rates herself."

I think I can start best if we recall what the attitude of the Fund toward multiple currency practices was when the Fund began. Of course, multiple exchange rates began in Nazi Germany in the 1930s, as the brainchild of Hjalmar Schacht. The Nazis had, for example, used depreciated export rates to push their exports to Austria and Hungary, Yugoslavia, and Romania, and to several of the Latin American countries, Brazil, Chile, and Peru. Often these exports were of inferior products, fostered by very much devalued exchange rates. So multiple rates were totally discredited, associated with competitive depreciation, unfair exchange practices, currency discrimination, frequent changes in the rates; thus when the White Plan was drawn up it was very much against multiple rates. In fact, the Plan contained as an explicit purpose of the Fund the elimination of multiple currency practices. There was nothing about this in the Keynes

Plan. Also in the 1930s, multiple rates had been introduced by Raoul Prebisch in Argentina, and Argentina, of course, was a country that was considered pro-German at the time so this wa yet another reason why multiple rates were not looked upon in very much favor as the Fund started. Unlike the political purposes of the Nazis, Prebisch started multiple rates in Argentina for what he regarded as an economic purpose: to raise revenue to pay off Argentina's foreign debt. Then Robert Triffin had been at the Federal Reserve Board in the early 1940s and he had helped some of the Latin American countries overhaul their monetary and exchange systems, and in doing so he had suggested to several of them that they establish dual markets. He had in mind cyclical balance of payments problems as against fundamental disequilibrium and for cyclical problems exchange depreciation might not work satisfactorily. He therefore wanted to separate commodity markets from capital markets and so advocated to several countries, Costa Rica, Ecuador, Peru, and Chile that they might have some kind of a dual exchange market. The rate for capital transactions would depreciate more than that for commodity exports. So by the time the Fund started in 1945 several of these countries had multiple rates. Colombia and Uruguay also had multiple rates, Cuba had a little 2 percent exchange tax, Honduras had a little exchange tax. So there we were with these Latin American countries having many multiple rate practices and the Fund strongly opposed to these practices. In fact, Triffin wrote in one of his articles at the time that he was advocating policies to Latin American countries which would be "very unorthodox for the newly established IMF".

Against this background, the Fund, I'm sure you'll remember, as one of its first acts set up an Executive Board Committee called the Committee on Multiple Currency Practices, chaired by Jan Mladek, to decide what policies and actions the Fund should take. The work of this committee led to that famous, or infamous, December 1947 Letter to members that stated that the Fund had very broad powers over multiple rates: not only would the countries with multiple rates have to consult the Fund on every change they made in these rates, but they would have to get the Fund's approval for these changes even during the transition period, whereas all the other countries would not have to consult the Fund on their restrictive practices or exchange controls or in convertible currencies until the transition period was over, some years hence. This decision meant that members with multiple currency practices were subject to an especially harsh regime. So with that letter the Fund started in very strictly on its Latin American members. You remember the Fund went heavily after Cuba with a 2 percent tax. Javier Marquez and other staff, you probably remember some of this yourself, David, on missions kept going to the Latin American members to try to get them to eliminate multiple rates. Marquez once told me he called himself "a Latin American missionary." The Fund, of course, was eager to do something once it got started. It couldn't do anything about sterling inconvertibility and the inconvertibility of the European currencies. Then by 1948 we had the famous ERP decision, the European Recovery Program, the Marshall Plan decision, which decreed that there couldn't be any use of the Fund's financial resources for any countries that were recipients of the Marshall Plan aid. Hence, none of the Europeans could use the Fund's resources. So Latin America was the only place where the Fund felt it had some authority and possible activity in those first five years.

Well, this was about the situation when the Exchange Restrictions Department (ERD) was founded in 1950 under Irving Friedman. The Department had three divisions, one of which was the Multiple Currency Practices Division, another was the Trade and Payments Division, which was supposed to do something about bilateral agreements, and the third was the Exchange Control Division, which was supposed to do something about the inconvertibility of currencies. I had been very interested in the developing countries and was especially interested in Asia. I had done a lot of reading about Asian countries, particularly about China and India, so I wanted to be in the Multiple Currency Practices Division. Julio Gonzalez Del Solar, whom Irving got from the former Operations Department at the time that ERD was formed, became chief of the MCP division. We, the staff of ERD, were very frustrated at first because all of the decisions taken at the Board about multiple rates were based almost wholly on legal interpretation of the Articles of Agreement. Every time there was a change in multiple rates we had to confront Dick Brenner and Erwin Hexner of the Legal Department who were eager to establish the Fund's legal authority in this field. Dick would say, for example, "This practice is a multiple rate, so even if it seems very small, it's got to be approved by the Board, and we've got to write a paper for the Board, have a Board meeting, and decision. It's crucial that these countries understand the Fund's jurisdiction." There was no way we in the ERD Department could even think about letting these Latin American members use Fund resources because our lawyers were very concerned about par values. Members had to have a par value as a condition for use of Fund resources. The Latin Americans had par values but they were what we called "ineffective par values": only a few transactions took place at the par value. This was in contrast to the countries with inconvertible currencies and quantitative restriction countries where all transactions took place at the established par values. In fact, it took some years before the Board took a decision which said that a country that didn't have an initial par value could use the Fund's resources.

Thorson: Did the same thing apply to countries with multiple currency practices that they couldn't draw?

De Vries: That's right, there wasn't even a question whether they could draw because they were considered such a pariah in the Fund; they didn't have effective par values, and we kept telling them that that was the legal interpretation of the Articles of Agreement. A member was supposed to have a par value and if it wanted to depreciate, then it was supposed to depreciate by establishing a new lower par value. Depreciation was not supposed to occur via changes in multiple rates.

Finch: We could add a little at this point. The philosophy was that the Fund's resources were there principally to defend par values. Therefore, if a member wasn't operating a par value, it was not proper to use the resources.

De Vries: Exactly, that's a very good addition.

Thorson: But, if the country did have a par value and still had multiple currency practices, could it draw?

<u>De Vries:</u> No, because the use of multiple currency practices meant that the par value was considered ineffective. We in the ERD Department used to even go through complex calculations to see how much of the transactions were taking place at the par value and how much at other rates. Of course, most of the countries with multiple currency practices usually had practically nothing taking place at their par values. So, when we had this new MCP Division and we got very frustrated with these legal interpretations, especially as our Latin American members were becoming increasingly alienated from the Fund, I suggested and worked out with Irving Friedman three new objectives with regard to the Fund's policy on multiple currency practices. The first one, and I think Irving emphasized this heavily in his tape, was to improve relations with the members. I always interpreted this objective as that of trying to reconcile the Fund's concerns and interests, with the member's concerns and interests. The second objective was that, if Prebisch and Triffin as economists found some logic to multiple rates, we ought to understand better what the economics, rather than the legal side of multiple rates were. Multiple rates had a variety of economic purposes, such as to raise revenue, to subsidize specific exports, to effect selective depreciation of imports, especially in countries that had problems in instituting quantitative controls. We worked very intensely on trying to understand the economics of multiple rates and did several studies, especially studying alternatives to multiple rates. I remember Bob de Vries worked on tariffs versus surcharges: What was the difference between a country using an import surcharge instead of a custom tariff? I worked for a long time on the export side, studying what was the

difference between a country using multiple export rates and having direct subsidies through the budget? Jack Woodley worked on special rates for transactions with foreign companies. Venezuela had such a special rate for oil companies. What was the need for it to have a special exchange rate for transactions by foreign oil companies? It's rather interesting today to find that in the 1990s some economists are suggesting that some of the oil exporting countries might again impose a special exchange rate for transactions by foreign oil companies. Of course we very quickly found out that the whole fiscal systems of the countries concerned needed revamping, that you couldn't just substitute one kind of a practice for another. We kept working on alternative measures and at that time Richard Goode who was already in the Research Department, maybe you were in the Research Department at that time too?

Finch: I was.

De Vries: Goode started to do some technical assistance work in some of the countries, trying to figure out whether their fiscal systems could be changed in such a way that they could get revenue without using multiple rates. But that avenue became fairly wide ranging, in a broad new area of technical assistance, and, of course, later led to the establishment of the whole Fiscal Affairs Department and their technical assistance in fiscal matters. The tariff work of course led into a lot of the GATT work. The Multiple Currency Division was small, so we couldn't handle all these alternatives to multiple rates, but we did try to show that there was a great deal of relationship between the economic development objectives of countries and what they were trying to do with their multiple rates. The third objective was to broaden the focus beyond Latin America. Countries in other geographic areas were also using multiple rates--Iran, Yugoslavia, for example.

Also, about that time, early in 1952, we were starting the consultations and I was going to a conference in Burma, an ECAFE conference, and Irving suggested, and I did, follow up attendance at the conference with trips to several of the other Asian countries to see what were they doing about some of these economic development objectives, how were they handling them without multiple rates and also as a way to test out the questionnaire that we were designing generally for the consultations. We were developing a questionnaire to send to countries prior to the onset of consultations. This was in early 1952. Accordingly, I went to Thailand and to India, to Ceylon and to Burma. In Burma I got to know U San Lin who came to Central Banking Services later. None of the countries mentioned the possible use of the Fund resources. The Thailand authorities were very upset because they had broken cross rates. Broken cross rates were considered just "horrible things" for countries to have, among the worst of multiple currency practices because they were discriminating. Peru had one too, they were selling dollars at Pesos$10 to the U.S. dollar and sterling for Pesos$35 per pound sterling which gave a cross rate of $3.50 for sterling rather than the official $4.03 at the time. In effect, sterling was being sold at discounted rates. The Bank of England was very upset about this. I forget what the rates were in Thailand but they were very similar, discounting sterling. Thailand didn't have a par value; in fact it was Thailand that eventually got the Fund to change its policy that a country could ask for a use of Fund resources even if it didn't have a par value. India and Ceylon, of course, were sterling area countries. The big issue there was whether their restrictions, and they were using a lot of quantitative restrictions (they were not raising revenue or subsidizing exports but on the import side the quantitative restrictions were very similar to the rationing of foreign exchange that the Latin American countries were doing with multiple rates) should be judged separately, that is independently, or whether they had to be judged in the context of the whole sterling area. Ceylon, for example, actually had a balance of payments surplus, but that surplus, especially the surplus in dollars was being transferred to the Bank of England as part of the sterling area arrangement, rather than permitting Ceylon to get rid of its own restrictions. But what came out of this early exploration of countries' policies with regard to use of multiple rates and restrictions was a clear indication that a lot of the developing countries were trying to use their exchange systems, either quantitative restrictions or multiple rates, to pursue some of their own development objectives and that we ought to take a look at their practices from that angle.

We had a great opportunity to restructure the MCP division in 1953--'52 or '53. Merle Cochran, the DMD, moved Julio Gonzalez del Solar to the Western Hemisphere Department to work with Jorge Del Canto. Bob and I got married and, with Irving, we all thought it wasn't a good idea for Bob and me to work in the same division, so Bob moved to the Trade and Payments Division. And Jack Woodley resigned from the Fund and went to NATO. Hence, I became the continuity on multiple rates and I suggested to Irving at the time, and he went along with that idea, that we ought to make the division broader and not just think of it as the Multiple Currency Division but we ought to deal with all the developing countries. At that time developing countries were called "backward areas". Later they became referred to as LDCs. In any case, our new objective was to deal with all of them and have the MCD division focus more broadly than on multiple rates in Latin America. Irving gave me a lot of initiative in suggesting a new Division Chief and we hired James Raj, who was an agricultural economist from India. He new nothing about multiple rates but he knew a lot about the Asian countries and my rationale was that we shouldn't just concentrate on Latin America. In fact, we discovered that many other countries had multiple rates in one form or another--Thailand, Indonesia, Iceland, Israel, Yugoslavia, and the Philippines. So did several European members. The Benelux even had a free market. The Fund also had a row with France back in '48 about a free market, Syria, Lebanon, Taiwan, Turkey, all had practices that were regarded as multiple rates, so didn't have to just concentrate on Latin America. If our role was to have a broad policy across-the-board for all countries then we should focus on some of these other countries. Iran, was another one, Bob, for example, later went on a mission to Iran to deal with their exchange rate problems.

<u>Finch:</u> Perhaps to make it sound a little less theological, in a sense, what you were developing was an acute awareness that the concepts of the Articles about par values applied more to advanced countries with a system which you thought of as defending the par value but also in which the exchange system was a background against which trade negotiations and other things were taking place. Therefore, from the main members of the Board,

the instructions going out were very much to try and create a system in which we could get the world functioning amongst advanced countries in this way. The problem in the developing countries which didn't have as good tax systems and control systems is that they were operating through the exchange systems in ways which were not necessarily consistent with the Fund's par value ideas. Use of the exchange system for taxation and control purposes was much more important to the developing countries, and therefore the Fund was faced with this new phenomenon which wasn't strictly in keeping with the ideas initially underlying the Articles. It wasn't simply religion. It was in the sense that the institution was such and the practices were such, that in these other countries there was a need to address the issues and to try, I guess, eventually to persuade them to use more traditional exchange practices which would be less complicated for relations between countries. But you could see this sort of a concept as collaboration to provide resources to keep the system free and open, and then, in running up against practices in countries which had difficult times, as trying to cope with them by improvising techniques which were thought of as messy and inappropriate and were very difficult in the Fund. That's why you were struggling to bring in these other people to try to figure out how to cope with it.

De Vries: We found that particularly with some of the people who went from the European Department, such as Ernest Sturc and with some countries, such as Yugoslavia. At that time, Yugoslavia was considered a terrible example of multiple rates: it had something like 200 exchange rates, and why did Yugoslavia have such an exchange system? No one knew. Lieftinck had just come to the Board in 1955 and, of course, Yugoslavia was one of his countries, and he was totally at a loss as to why Yugoslavia had all these exchange rates and what they meant. In the 1955 consultations, I wrote a detailed analytical section on Yugoslavia's restrictive system. I was very pleased at the Board meeting when Lieftinck said, "This section on the exchange system, is a masterpiece". What I had done was to show how the system made sense given Yugoslavia's economic objectives and its policy options. The system made little sense from the Fund's point of view, but it made a lot of sense from the Yugoslavs' point of view. Their authorities were trying to have an overall economic system in which they didn't have the Russian system (this was under Tito) of detailed central planning, but at the same time they didn't want a total price and market system like the western countries. Hence, they had a unique system of their own in which they had in effect substituted a whole bunch of base exchange rates and then added something that we, in the West, would have recognized as customs tariffs, or duties, on top of their exchange system. Also, they didn't want a tariff structure like the West had, so what they had was a series of additional exchange rates, what they called settlement rates, and they had 200 of these things. Well, of course, if you're going to put the customs tariffs into the exchange rate system you're going to have numerous exchange rates. So Lieftinck was very relieved to have pointed out to him that this was really what the Yugoslavs were trying to do: using their exchange system partly as a price and market mechanism.

<u>Finch:</u> But the staff was trying in a sense to interpret why these people were trying to do this, why they applied techniques which were certainly against the spirit of the original Bretton Woods because the

Bretton Woods people thought of the world as basically trade between the advanced countries and they wanted to keep it simple.

<u>De Vries:</u> And we were trying to get away from the idea that you had to have a legal interpretation of whether or not you had a par value; that was the critical thing.

<u>Thorson:</u> And did you get lots of complaints from the developing countries themselves when the Fund came in with this strict doctrine?

<u>De Vries:</u> Originally, but once we got into this new approach, I wrote a paper on the relationship between quantitative restrictions and multiple rates and economic developments, which Martinez Ostos from Mexico liked and wanted to have discussed at the Board. Once we got into this approach, the Yugoslavs liked very much what we did on explaining, because even they didn't really understand what they were doing because they didn't know the western system. They didn't know too much about customs tariffs. The problem we have today is they still don't know how the market system works. So they were improvising with such a system themselves. But no, the complaints were really reduced by the mid-1950s. The problem of ERD within the Fund was primarily we were eager to be more lax in requiring Board approval for every change. (LAUGHTER)

<u>Finch:</u> Well, the Legal Department was faced with the problem that Articles were written for a particular purpose, and you were finding the world was very messy and didn't fit this.

<u>De Vries:</u> And you couldn't have good member relations at that time with strict enforcement of the Fund's laws.

Finch: Of course, it was arbitrary. The Australians pushed very hard for the principle that if they had some restrictions they were import restrictions and not exchange restrictions and so not under Fund jurisdiction. Australians could argue this way but the Yugoslavs could not as they didn't have a similar system, so it looked very arbitrary and I think probably you got some sympathy for Yugoslavia. The Australians had pushed a very technical issue and got outside of Fund jurisdiction..

De Vries: And the Yugoslavs, in contrast, were very much using the exchange system which fell under the Fund's jurisdiction.

Finch: So you had all these issues coming up in the Board and the Board trying to evolve a policy which was fair..

De Vries: Well, I think at that time the Board was still very much under the influence of the Legal Department; of course, Dick Brenner was the General Counsel at that time and he was very knowledgeable and effective. Unfortunately for him (though it may have been easier for us with the Board) Dick Brenner died in the fall of 1955, just when I was in Yugoslavia.

Thorson: Did the Executive Directors have fierce discussions on these differences?

De Vries: I think they were heavily guided by what the Legal Department said. If it was illegal to have these practices, the Board felt it had to act. You see, the use of quantitative restrictions, as David said, was regarded as perfectly legal. Under the transition period countries could have quantitative restrictions until the transition period was declared over. I wonder whether the Fund has ever yet confirmed that the transition period ended. Has it? Hence, countries could adapt and change their quantitative controls in a perfectly legal way; the only thing they couldn't do was to change their par value without consulting with the Fund. I think the Board was heavily influenced by the lawyers on who had to obtain the Fund's approval.

<u>Finch:</u> I think the Board had to in a sense follow the legal interpretation but I think their reaction to your papers was one way of showing that they were coming around to new thinking about multiple rates.

<u>De Vries:</u> Lieftinck and Southard especially. After Southard came to the Board, he also became very sympathetic to the problems of the Latin American members, mainly on the grounds that he didn't want to have all these confrontations between the Fund and those countries. He thought that it was in the Fund's interest to have better member relations with these countries.

<u>Finch:</u> One of the things that perhaps is a background to what you're saying on your visits to these countries, the problem at that stage was that the Fund didn't have missions, didn't have contacts. Irving was trying to describe how the consultation procedure developed into a technique whereby the Fund learned and became much more understanding eventually, but your visits were ones which were quite special and, of course, much more difficult in a sense that they were focused on jurisdiction and used the legal issues where your capacity was relatively limited; you had to sort of try to get the Board to understand this situation. I think with the consultations, we started to get more contacts. It wasn't just depending on visits like yours.

<u>De Vries:</u> But our visits were in the context of the country consultations. Yes, you're right, consultations started in March '52 and that opened up contacts.

<u>Finch:</u> This was, of course, a relatively gray area in the early days. What happened in the first consultations was that they were very focused on these issues, and Irving--witness his description in the U.K.--was anxious to develop contacts to decide how you could help if the country cooperated with the outside world. He broadened the range of issues discussed and hastened consultation visits.

<u>De Vries:</u> But we did do most of this work in the context of consultations.

<u>Finch:</u> But when you visited India and Burma, that was purely outside the consultation format.

<u>De Vries:</u> Yes, that was outside, but it was in the context in the sense that we were preparing for the onset of consultations.

<u>Finch:</u> The other thing in that period, when you were first developing this process, was how little the Fund had routine contacts with the members.

<u>De Vries:</u> Oh yes, the first contacts we had were with some of the Asian countries in early 1952; that's why we thought we might break ground and see what was going on. And the excuse, I mean the excuse for going there, was that we were to prepare this questionnaire for the consultations and we wanted to ascertain how would these countries react to seeing us and, if they got this questionnaire by mail, could they answer these questions and how would they would answer them, and so on.

<u>Finch:</u> But the striking thing in the consultation process was the broadening of topics; that was the big achievement, in a sense, which permitted smoother relations and went beyond simply pressing the legal issues.

<u>De Vries:</u> And to show the countries that we were trying to be on their side and we were trying to understand what their problems were and why they were doing these things, that we didn't come out as policemen.

<u>Thorson:</u> These missions were made up partly from ETR and partly from the area departments?

<u>De Vries:</u> The consultations were definitely joint and usually headed by an Area Department person. This particular visit that David mentioned was a forerunner to the consultations. I did it alone. Of course, all of these things helped to improve member relations, but by 1955 we found that 36 out of 58 countries still had some form of what the Legal Department regarded as a multiple currency practice which was rather shocking. So we felt that we really had to develop some kind of new Fund policy on multiple rates, now that we had gotten a much improved understanding of why countries used multiple rates and what their economic logic was--that we ought to try to find out what kind of a new policy the Fund might have. We would have to break away from that December 1947 letter and still, as you said David, have a policy that fit in with the system of what the Fund's objectives were, such as having exchange systems freer of restrictions and of multiplicity of exchange rates. What we worked out, and it was helped by the fact that some of the countries themselves, some of the Latin American countries, Bolivia, I remember explicitly, decided to greatly simplify their exchange systems.

I think we did work out the new approach with the Yugoslavs too. The new policy we were evolving started from the premise that a country need not entirely abolish its multiple rates and would not be regarded as bad, or in bad standing with the Fund, for having them. Rather we focused on particular forms of multiple rates that we regarded as worse than other forms. For example, auction systems we felt were particularly bad systems where the authorities just auctioned off foreign exchange for any price it would fetch; there was no standard rate as the auction price; every exchange transaction could be at a different exchange rate. "Mixing systems" where the member used partly a fixed rate and partly a free rate were also regarded as undesirable, especially mixing systems that gave different rates for different commodities. Great complications existed in the exchange rate systems of some members, Brazil and Yugoslavia particularly. We felt that it was the complexities that may have been giving distorting effects for the allocation of resources in the countries. So therefore, it was not only in the Fund's interest, but it was in the countries' interests to have simpler exchange systems.

The other part of the new policy we were evolving was that countries could use fluctuating rates, so that if they did get rid of some of their multiple currency practices they could have a freely floating rate. I remember earlier that freely floating rates were considered by the Fund to be very bad. The Fund had, for example, gone after the Canadians for their floating exchange rate. But now the Bolivians, in particular, abolished all their multiple rates and went freely to a fluctuating rate with one single rate. They abolished all their rates and went to a single fluctuating rate, and we argued that was good, simplification was a good policy and if they now used a single fluctuating rate, instead of multiple rates, that was fine. They didn't have to have a par value with a fixed rate, at least for the time being. The single fluctuating rate was a lot better than having a complex multiplicity of rates.

<u>Thorson:</u> Your argument is basically that a single fluctuating rate had less impact in distorting the economy?

<u>De Vries:</u> That's right, but in addition, it was a more realistic exchange rate, much less likely to be overvalued, and whatever distortions occurred with multiple rates could be eliminated if the country had a once-and-for-all substantial depreciation. Because what would happen with these countries, David knows this perhaps even better than I, is that they would set up a system of multiple rates and then they would have inflation and then they would have to change their multiple rates again because the rates became overvalued and the result was a vicious circle of this sort, inflation, depreciation, inflation, etc. Alternatively, if a country had a freely floating rate, presumably it would have a better chance to having a realistic rate, adjusted more automatically in accordance with the degree of inflation.

<u>Finch:</u> Bolivia..... I think your description of fluctuating rates would fit very well even with the Fund's attitude today. It prefers a unified fluctuating rate to a complex fixed rate system. But the particular one which we had in mind in Bolivia in '56 was not to adjust to continued inflation. There was still a philosophy of fixed rates around and we even had hoped that, given the way the Europeans had evolved, it would be

possible to do the same in Latin America, that you'd be able to get a system where we would eventually establish a relationship between them and stabilize it. And therefore there was still a desire to consider it was strictly a transitional measure to allow them to fluctuate. The staff in the area departments were very keen on the fluctuating rates simply because they were very insecure about the wage levels in these countries; they were afraid when they were committing Fund resources to supporting a unified system involving a par value they'd be committed to supporting that par value when they knew it wouldn't hold. The fluctuating rate was, to a degree, a device to keep freedom--to discipline them on the wage policy and things, if you raised the wages the rate was going to be lowered, and you couldn't do that and establish par value, so the staff fought to avoid having a par value but nevertheless continued to stress the importance of a stable exchange rates. And in fact, in Bolivia the rate really was stabilized within six months and stayed fixed until the wages were raised about two years later and when adjusted then stayed for about 10 years at a fixed rate, but the philosophy was not quite the modern one but it was protecting the Fund resources.

<u>De Vries:</u> And then also, this is when the term "exchange reform" came into vogue. What the country would do was to have a "reform" of its exchange system. It wouldn't completely eliminate multiple rates, and this tied in very nicely with the new stand-by arrangements which the Legal Department had come up with. Nowadays, correct me if I'm wrong, if a country wants a stand-by arrangement, you have to figure out what the conditions are. In those days it was the other way around, we in effect

thought they would have an exchange reform and in this sense meet the Fund's conditionality, and that would let them qualify for a stand-by arrangement. Qualifying for a stand-by wouldn't mean that the country would have to have it right there. The stand-by arrangement was just an idea that a country was then viewed as eligible for the use of Fund resources <u>if</u> and <u>when</u> it wanted to have one. What took place formally was a Fund declaration that the country, having undergone exchange reform, could, when it so desired, have a stand-by arrangement. The country might not even draw on an arrangement, once agreed. It might even decide it wanted to have a stand-by arrangement. If they had met the conditions, it wasn't called conditionality at that time but that was basically what it was. They had had their exchange reform, they'd eliminated the complexity of their multiple rates simplifying the system, they'd gotten a reasonably realistic rate even if it was a fluctuating rate and not a new par value, and that constituted what the Fund regarded as a good exchange reform. And if this country then wanted to use the Fund's resources, it could do so.

<u>Thorson:</u> How was this justified under the Articles of Agreement?

<u>De Vries:</u> Well, the Legal Department had come up with the concept of the stand-by arrangement and I don't know how the lawyers reconciled it when a country didn't have a par value, I don't know what happened on the legal side (LAUGHTER), I know, for our side, in the Exchange Restrictions Department, we went to the Board in June 1957 with a brand new letter, a June 1957 Letter on Multiple Currency Practices, to replace the December 1947 letter.

Finch: Strictly I think the Board, faced with the sort of consultation reports you had submitted and various descriptions of exchange rate practices, had been persuaded that it would be sensible to use the Fund's resources, which had been sitting around unused, if they could be associated with exchange rate reform. They therefore authorized the Fund to use its resources for this broad purpose of the Fund, specifically to improve exchange arrangements in these countries. I think the legal question was, of course simply, how do you change from using the resources strictly to defend par values and to be able to use them for transitional reform. Then you simply had problems of how you valued local currency held by the Fund which was dealt by having a provisional rate, and so on.

De Vries: I'm sure the Legal Department must have gone along with the new policy on multiple currency practices. Also at that time the Legal Department, perhaps Joe Gold, was working out the new idea of a stand-by arrangement.

Finch: Well, Joe Gold helped to initiate it--with Cochran's backing. Just as ERD was trying to come up with explanations of why countries did it, I think the Legal Department was asking how can we facilitate what we think is the right thing, and how can these countries be brought into these....

De Vries: And also, under a stand-by, the countries were not necessarily drawing right away. It wasn't as in the instance of a drawing, that the country wanted to have the money immediately. Rather the Fund's view was that we want the country to undertake this exchange reform, it's in out interest to have this exchange reform, we would like to have this kind of exchange policy and then the Fund could in effect say, as a reward, you, the country, now qualify for a stand-by arrangement.

Finch: In a sense, the stand-by was the key element. In the Latin American cases it was very much the money that enticed them. It was something the Government could say we got from our reform. But the Fund Board, having understood the problem, was very reluctant to release them simply on the description that there was a reform and here's the money. They were afraid that Bolivia, Paraguay had had a long history of recurring problems, and the stand-by was an essential element in releasing money over time. So associating it with the continuation of the reform, or a further elaboration of the reform, established from the country's point of view a commitment by the Fund to give support, but from the Board's point of view it was a rationed support which they felt was much more likely to be safe and responsible in achieving their aims. I think without that innovation of the stand-by, as we were saying, the Board would not have been ready to go along with many cases.

De Vries: Well, the other idea we had at the time, was that even if the country didn't use the money right away, they were very delighted with the idea of being able to use the Fund. It depends on what time period you're talking about here.

Thorson: You're talking about similar cases?

Finch: Yes, Argentina in '58.

De Vries: I made a list here of stand-by arrangements with Latin American countries in the mid and late 1950s: Chile was in April '56; Brazil, June '58; Peru had some of the earlier ones, '55, '56.

Finch: In each of the reforms that I had to do with, there was money up front, both Fund and other monies; in Bolivia, it was largely U.S. money. The idea of the stand-by which had particular attraction for the governments too provided a yearly arrangement which permitted you to exercise surveillance and see that the reforms were carried forward and consolidated in that period.

De Vries: As a supplement to that also, one of the arguments of ERD staff was that countries were reluctant to--same thing with QRs--they were reluctant to liberalize, using GATT terms, because they were afraid that if they lifted restrictions they were going to get a big flood of imports. Therefore the idea that they would have Fund money available was that if they got that big flood of imports, they could feel freer to go ahead and liberalize. And our experience was that in most cases, they did not get that big flow of imports, but if they were worried about that there was Fund money available to help them cope with it so they wouldn't have to backtrack and undo the liberalization.

Finch: Restrictions? In most of these reform cases, the desire was to remove import restrictions as well as multiple rates. It wasn't just a change in exchange rates.

De Vries: No, we didn't want them to substitute QRs for multiple rates. The June 1957 letter was essentially based on a simplification of multiple rates. Exchange reform was what we were after. Phil and David, you asked how did we carry the Board along on the new policy. Well, we tried to be very specific on what we meant by exchange reform, by simplification of a complex system. It wasn't just a reduction from 100 rates to 80 rates. It was supposed to be a substantial exchange reform. We considered as simplification reduction of several rates down to two or three rates that were realistic rates or to placing a substantial portion of exchange transactions into a free market, or introducing a unitary fluctuating rate. The big change in policy was that countries didn't necessarily have to move to a new par value. They didn't necessarily have to have even a stable fixed rate.

Finch: From an area department point of view that was the policy that they implemented. The ERD-backed decision was one which was used very heavily in Latin America. You'd go to a country and say the Board has endorsed the availability of resources for you if you reform, and if you undertake to unify we can give you that support. We went out to countries and actually tried to use that as a device to promote change in situations which seemed to the staff to need fairly rapid change. There was a little bit of politicking associated with it, and when the staff tried to push Brazil into acting, Brazil was powerful and well represented with Paranagua at the time, and objected to the staff using this as pressure on them. They were able to successfully resist that in that early transaction for major reform. I remember at that particular stage going to Frank Southard as U.S. Executive Director and trying to get his support for this action, supported by the new financing, for effective elimination of multiple exchange practices. And he said to me quite frankly, "Lieftinck got away with it for Yugoslavia, I'm not going to let the staff push Brazil around." He was quite sharp on that issue.

<u>De Vries:</u> I think the other thing that we began to offer countries, maybe less important than the money, was technical assistance. This is when a lot of technical assistance was going to the countries after '57, '58..

<u>Thorson:</u> Under the June '57 letter, each case had to be judged on its merits. Were the implications actually substantial ones or was it mainly window dressing?

<u>De Vries:</u> Yes, yes, the simplifications were very substantial and meaningful. When you asked earlier how did the Legal Department go along--from my notes here, I remember now--the new 1957 letter also sounded a warning note to members that the Board would no longer approve complex systems. In the past the Fund had been going along saying to a country, you're illegal but we'll approve this practice temporarily and let you get away with it but we don't like it, and this kind of thing. Now under the new policy the countries were warned that if they didn't simplify, they might have more trouble with the Fund, because the Fund now had a more lenient policy in which they could reform their systems without going all the way to establishing a new effective par value. If they had a simple multiple rate system, they didn't necessarily have to have an effective par value, and still they could get Fund resources. Also the Fund would provide technical assistance, for the exchange reform. Therefore, there was no reason for a country to be unduly cautious about undergoing exchange reform. The Fund would not approve all sorts of multiple rates and it might well have been that the lawyers were happy with the new policy because they were getting concerned about the fact that the Fund was approving all kinds of

things that the lawyers really didn't want to have to approve just to keep the country strictly correct.

Finch: The dynamic of it was that you would ask these countries during your first mission to have a consultation offering to approve on a temporary basis whatever needed fixing. But the duration was not set early and thus different area departments were following somewhat different policies. It was necessary that a Board policy be followed. We used the new policy to thrust toward action. It wasn't simply conditionality on financing but they developed a policy approving restrictions in annual consultations; non-approval is a difficult weapon to use. If you disapprove and nothing happens, it devalues your jurisdiction fairly rapidly. So that it was very important that you had the money to make things work out. Nevertheless there was a clear need for the Fund to take seriously approval under these consultations and to help on this problem.

Thorson: Was the 1957 letter developed particularly by ETR?

De Vries: Yes, I think so.

Thorson: Or was it in consultation with area departments?

De Vries: Well, it was mainly the Latin American Department and the European Department that were consulted--and of course, the Legal Department too--but it was basically an ERD legal paper. But the staff of the Latin American Department liked the new policy very much because Bolivia had already begun to do this. Paraguay started to do this. Chile was starting to do this. They were all undertaking exchange reforms along these lines. And the new policy was much more in the country's interest. You could see that the countries and the Fund could work together better on this basis that they could in the past. So the area departments had no trouble with the new policy. Of course Lieftinck and the Yugoslavian authorities liked it very much because it gave the Yugoslavs the ability and rationale to simplify the system four years later in 1961. It gave them a basis to start getting rid of that entire Yugoslav exchange rate mess that they didn't have before. The Legal Department liked the fact that they weren't approving all these "funny money practices". (LAUGHTER) The Fund lawyers and the Board didn't have to go along approving them just to make sure that the member was not illegal under the Articles. And then in addition we were pointing out to the lawyers, and they were very aware of that, the countries were not coming in for approval of all the changes in multiple rates that the Fund was supposed to be approving under the December '47 letter. You recall that every time a country made a change it was supposed to get the Fund's approval. But often we didn't even know about the changes being made. The country was not even informing the Fund. When we prepared the Exchange Restrictions report, on the basis of new annual information from the country, we would find out about all kinds of changes in countries' rate systems, very substantial changes, that we didn't even know about. A lot of these countries were just not consulting with the Fund or getting Fund approval. We had Al Mattera in the MCP Division and one of his jobs, before we had the Morning Press, was to go through the New York Times and the Wall Street Journal and find what changes had been made in multiple rates that were published in these papers. Yes, we'd find changes in rate systems often by reading them in the papers and then we'd have to send cables to the countries saying, why didn't you tell us about this change you made? Of course the Legal Department was very upset about this situation because it meant the countries were pursuing illegal practices. So the lawyers knew, as we did, that the 1947 letter was not working.

Thorson: When did the annual Exchange Restrictions Report get started?

De Vries: I think it was in 1950. Yes, Irving said on his tape that he thought that the first one was drafted in the old Operations Department and it was in March 1950 that the Exchange Restrictions Department was formed and the Operations Department abolished. I thought that we had prepared the first one in ERD but that's what his memory was. Perhaps ERD went over a draft prepared in the Operations Department. If I saw the report again, I could probably tell you. In any case, the next year's report was written in ERD.

Finch: The problem of knowing what multiple rates existed, some of it was just that these countries were not following the Articles and some of it was very much Fund interpretations of practices in the countries. They didn't think what they were doing involved multiple rates until the Fund staff made the determination. So there were quite a lot of reasons they weren't consulting. They weren't just trying to avoid it. Another point on the reactions of the Board to it. I think that a fair number of people in the Board from these countries were quite anxious to push for reform. They thought they'd seen the benefits of changes that had occurred in Europe as this maze of bilaterals and restrictions was gradually cleared out, and they felt their own countries would similarly benefit. You had, particularly from countries like Mexico, a lot of support to improve the policies and Executive Directors were quite happy, even if it did put some pressure on some of their countries, to bring changes they thought would be very helpful. The financial people in general were the ones that welcomed the thought that there would be money associated with getting the actions that were urgently needed in many of the countries. So we had a lot of support throughout Latin America particularly when you were trying to do things. The Board members typically were the ones that were more on your side than some of the political forces back home.

De Vries: Also, in trying to understand the economic purposes of multiple rates, we studied what some of the adverse effects, especially of the complex multiple rates, were. We were saying to countries, here's what you are trying to achieve, and on the economic side this shows that you're getting worse effects in terms of misallocation of resources that you think you're getting. I, myself, spent a lot of time working on what were some of these adverse effects from the country's point of view. I was not worrying about the legality of the exchange system but concentrating on whether the country was actually achieving its objectives. For example, I would say, here is your objective; this is what you're trying to do. But then I'd ask, are you really getting the amount of revenue that you think you're getting and at what cost are you getting it? Are you getting more of a distortion on your export side; are you getting imports that you don't want? Are you getting black markets as a result of your system and that kind of thing?

Finch: There was a very heavy tendency to give subsidies through the exchange systems. The central banks or I think the governments were creating inflation by the imbalances between the two sides of the exchange system. You'd find that in order to ease the problems on petroleum, the

Central Bank would be giving a special rate for petroleum and a rate at which you wouldn't be able to buy the exchange. Thus the effect was a big subsidy not going through the budget and not well understood by the public. Financial people, particularly on these issues, were on the side of the Fund trying to put some order into it. Sometimes the rates were constructive. Thus Brazil had a particular problem on coffee and the Fund had to more or less go along with it. They had in their Constitution, as I remember, a provision actually adopted from the U.S. that they couldn't put more than a 5 percent export tax on any product. So at that time, they were getting heavy tax revenues from having a discriminatory exchange rate against coffee. They understood very well that this was a way of taxing, bypassing their Constitution. But from the financial point of view it was sort of turning upside down for the Fund to press for it to end. The Fund wanted to see more tax revenues to balance the fiscal deficit but it was very difficult for us to say, well, just change the Constitution. So you were forced into accepting it, but if the law permitted the tax another way, we'd have tried to press for it.

<u>De Vries:</u> The Philippines had a similar situation. They had a 17 percent exchange tax because their Constitution didn't permit them to change their par value without the approval of the U.S. Congress.

<u>Finch:</u> There were situations where we had to acknowledge specific legal impediments.

<u>De Vries:</u> Yes, I think it was the U.S. Congress, I'm pretty sure, it was the American approval of change from the Peso$2 rate that had been set up when the Philippines became independent. But the other thing is, as we

often pointed out to countries, there were good uses that they could make of multiple rates, as you, David, commented on in the Brazilian case. In fact when I was down in Colombia in 1959, I wrote an article that later appeared in Staff Papers emphasizing how, in certain situations, multiple rates could have good uses. In fact, amusingly enough, just before I retired from the Fund in 1987, a staff member of the Research Department called me and said, "I'm working on a new study of multiple rates and I've read your article in Staff Papers. I'm surprised to learn that you're more in favor of multiple rates than the Fund is today. I never read anything so favorable." (LAUGHTER) To repeat, the new policy of 1957 was a definite attempt to show countries that it was the complexity in their exchange systems and certain types of multiple rates, such as auction systems, and the bad uses of the multiple rates that the Fund was against; countries could find good uses for them, and that there were justifiable uses.

<u>Finch:</u> One point I'd like to make. My first mission I headed was to Bolivia and we had Nicoletopoulos and Woodley on that mission. Jack Woodley who was the reasonable one who accepted a very limited use of exchange taxes. There was a virtual disintegrating central regime that couldn't raise funds so we used the exchange tax. George insisted on the legal view and opposed it. But Jack Woodley, just like you are now saying, showed understanding.

<u>De Vries:</u> Yes, yes, well Jack came back to the Fund around '55. He had been in NATO for two or three years.

<u>Finch:</u> He was on many missions for ERD from '56. In '58 when this happened he was well acquainted with the problems and very sensible about them.

<u>De Vries:</u> The combination of general policy under the new policies and the area department work was very effective. As you said, by 1958 Argentina had abolished their multiple rates, Yugoslavia did it in '61, many countries went to a fluctuating unitary rate and eventually some of them were able to stabilize their rates. As you mentioned, Bolivia actually had a rate that they could have fixed as a par value, I think Costa Rica, Korea, Philippines, Iran, Thailand, were all able eventually to stabilize those unitary fluctuating rates and make them par values, so that we really achieved our objectives and did so not too long after the European countries had adopted convertible currencies. The Europeans also attained convertibility in 1958 and by the early 1960s most of the multiple rates--certainly most of the complexities of multiple rates--had also been eliminated. Of course, it was about that time that I resigned from the Fund (LAUGHTER), so mission accomplished.

The only thing that you may be interested is this. In the last issue of <u>Finance and Development</u> there are three books that Jacques Polak reviewed. One of them is a book by Lance Taylor, the MIT professor who's been a critic of Fund policy. Anyway, he had written a book called "The Varieties of Stabilization Experience". All of these three books are about countries' experiences with stabilization, of course, more recent stabilization than that of the '50s and early '60s. What Jacques Polak notes--I myself haven't read Lance Taylor's book--is that Taylor suggests that what countries need to do rather than submit to the current Fund conditionality is to go back to multiple exchange rates, auction markets, free markets, and all the things that we were working on in the '50s and '60s. It of course convinces me again that academics are very much behind what Fund people learned a long time ago. Similarly, Professors Jagdesh Bhagwati and Anne Kreuger came to a seminar here some years ago, I guess in the '60s, maybe it was even in the '70s. They had written a book about what had been countries' experience with exchange controls. They were saying all the things that we on the Fund staff had known in the '50s. But anyway, Jacques Polak in his review said, "I think Lance Taylor is in another era, a past area of economic development." Well, that's about all I have, I'll be glad to answer any questions.

Thorson: Margaret, that was a very thorough and scholar review of an exciting period. A tribute also to your talents as an Historian.

De Vries: It was a very exhilarating period. As a matter of fact, when I wrote the section on multiple rates for the History, the first chapter I did was the Multiple Rates chapter because I could do a lot of it from memory, checking a few files, but I could easily do it. It was a fascinating period, really. I don't know where the Fund stands now in regard to conditionality and the use of multiple rates. David, you are up to date on that.

Finch: Well, I'm not that up to date. I think that looking back on that period there was a lot more intellectual support for multiple rates in the sense that academic economists gave justifications for use to achieve specific ends. There's still some of that around, but I think a wave of antagonism to government intervention has pretty much eliminated the thought that somehow the government will fix prices with full attention to economic performance. I don't think anywhere, really...

De Vries: You would have thought today's countries would be against exchange controls since they are trying to get to market systems. I wonder whether some of the Eastern European countries are going to follow the way that Yugoslavia went as they try to get rid of central planning. Will they turn to multiple rates? (LAUGHTER)

Finch: I think that they understand the need to eliminate exchange rates which are unrealistic and to try to create a market-related exchange rate with a convertible currency to speed the right market prices. I think the attitude toward multiple rates has changed. You wrote a History of the Fund from the records of the Fund, which automatically drew on documents, particularly Board records. The question that Phil has basically been raising in these reviews is the staff role in developing particular concepts used in these documents, and whether there shouldn't be more done to record that. Your sources tend to create a risk of giving the History relatively an official flavor, I think that probably.... What I'm wondering is how much you would feel if you were writing outside official support, what should you want to stress about in this period.

De Vries: You are asking how much the staff role is reflected in the written Histories of the Fund. First, today I have tried to bring in Irving's role and what we did in ERD in the '50s. As I just mentioned, much of this is in the written History, presented, of course, in a more formal manner.

Finch: Yes, but how would you stress the difference in what you would have written as compared to your statement today? What would you be wanting to stress on that period?

De Vries: I have heard you raise this point, David, many many times to me, the point that the Histories relied only on Board documents. I should like to clarify how and why the Histories were written as they are. First, as you know well, there are eight volumes of the History; these were not all written alike. The first set of three was done more by Keith Horsefield than by myself, and Horsefield was very anxious to have documentary evidence where it became legal, and he did that for a very deliberate reason for everything he wrote. For one thing, we had never had a History of the Fund before; he was breaking new ground, and he was very concerned that the Board might not approve of the manuscript. We thought that it was possible that we were going to have to have Board approval of the draft and that Executive Directors were going to go over the manuscript line by line the way they go over the Annual Report, and Horsefield was very concerned that if we got into too much of what the staff was doing, that the Board might not be too happy with it. In fact, some Executive Directors were surprised at the draft we did since we named individual Executive Directors. In that sense Horsefield was very innovative. Kafka and Lieftinck expressed surprise that Executive Directors' positions at Board meetings were being revealed. But Horsefield believed that the Fund's actions and progress were really reflected in the Board's discussions and so his First Volume was based principally on the minutes of the Board's meetings. I remember Kafka coming up to me and saying, "you're really going to publish that manuscript with all those names in it?", and I said, "yes, that's our intent". Horsefield felt that such revelations made his chronicle much more candid and useful. But, if he was going to pursue this course, basing his writing on documentary evidence was imperative. The History could not be based on hearsay.

In Volume II, most of which I did, it was not my intent to concentrate only on the Board. In fact, I had lots of discussions with Horsefield and with Southard emphasizing that I wanted to have much more in about the role of the staff because I felt, like you do, that the staff is mainly responsible for the work and the thinking. For example, I included descriptions of the differences in approach between the Exchange Restrictions Department and the Legal Department and things of this sort, such as we discussed here today.

Southard finally agreed that in Volume II I could put in much more about the staff's role, and I think if you read it there's lots more about the staff than in Volume I. But it is very tricky to include the staff's role; you underestimate the difficulties in doing so. For instance, the very first thing that happened to Horsefield when I argued with him that he should put in more about the staff was that he did a chapter that mentioned Jorge Del Canto and some of the other people by name. Golly, the arguments that he had about this chapter were terrible. Other staff queried, was it really Jorge Del Canto, or was it Javier Marquez, or was it somebody else? No documents existed to verify who on the staff had contributed what. In fact, I don't know if you remember Eduardo Lazo. Well, Eduardo came to me almost in tears saying, "Look, this was our initiative in my division; it wasn't done at the higher level". At this point Horsefield said, "Look, I'm not going to spend my life arguing with the staff about who did what". It is partly a matter of egos and it is subjective. It is very hard to attribute some things. Even went I went back to the topics we discussed this morning, I can't remember although I worked very close with Irving, how much initiative had come from me, when I said, let's do the economics of multiple rates or do we do this or that with Yugoslavia, I don't remember whether it was his idea originally or my idea. So much is a mutual interchange. Consequently, what I did in Volume II and even more volumes of the History was to give the staff a lot of credit generally as "the staff". The staff did this or the staff position was this, etc. This contrasted with Horsefield's Volume I. When Horsefield mentioned the staff, he took it from what the Board minutes said, such as the staff presented such a paper, etc. which was mentioned right in the minutes.

<u>Thorson:</u> Not even identifying Departments?

<u>De Vries:</u> No, he didn't identify Departments. Gradually, when I wrote the subsequent volumes I became freer as time went on and in the last three volumes of the History there is a great deal about staff views, mentioning individuals and Departments. For instance, there are passages saying that David Finch in ETR disagreed with a position taken by Allen Whittome in the European Department. I didn't just stick to Board minutes at all. I talked to dozens of people. As you know, I talked to you, David, I talked to Allen Whittome, to all the Managing Directors, to numerous staff in all the Departments, as well as to many "outsiders", such as those on the Committee

of Twenty. Moreover, I circulated the draft manuscripts for comment by virtually the entire staff.

Finch: The reaction is interesting for I think it is right that anybody trying to write not just a personal view should be careful of attributing things to particular people. The issue that I think is still Phil's question is the degree to which conditionality, or in this case, the initiative, came from the staff or from the Board or....

De Vries: Well, I wouldn't say that the initiative on Fund policy came from the Board but the question is from whom on the staff did initiatives come. That's the question.

Finch: That is the interesting thing. I doubt whether on conditionality and stand-bys strictly that the Board was the moving cause. I think Cochran, if you're looking at his time, I think Cochran's desire to use the Fund constructively in the developing world and his tending to set up a network of people he could rely on, to use the implicit power of the Fund, was a much stronger thing in that early period than perhaps comes through in the History. We all went along with it, with a little friction. But it's a question, if you were looking over this period, of giving a description of how it has evolved. What reflections do you have on whether it was Cochran, Friedman, not to go lower than the staff? Or whether it was a staff technical economists' judgement, or political factors?

De Vries: I did not have the feeling that Cochran was a big force; he was a big force with regard to member relations, a big force in wanting to have area departments going to countries and doing things with them. But I did not have the feeling that he was a power in saying whether the multiple rate policy was wrong, or whether the Legal Department's view was right instead of ERD's position. I did not have that notion at all.

Thorson: He wouldn't have known. He was not a master at economics.

De Vries: No, and Ivar Rooth certainly wasn't into the appropriateness of multiple rate policy. When Jacobsson came, that was different.

Finch: He had religious beliefs on that.

De Vries: That's right. In fact, James Raj left the Fund because he felt that Jacobsson was being much too strong and orthodox with regard to India, and Raj felt without a doubt that Jacobsson's orthodoxy was a very serious problem. But David, coming back to the way I did the History, because I know you have told me this many times, and I know you feel that I didn't have enough in the History on the staff's contribution, I want to tell you something about the World Bank History. Two things, actually perhaps three. The first one is, the World Bank History did do what you like, to try to identify who went on what missions, and what missions were the more crucial ones. When the staff saw the manuscript they didn't like it. I don't know anybody on the Bank's staff, and I know lots of people in the Bank, that felt comfortable about what the World Bank History said about the staff's role and contribution. The staff who were left out say, "Gee, I got left out. How come Waterston, for example, was mentioned and I'm not mentioned, because after all, I did more missions than he did, or I did more important missions." So, the staff who got left out objected. But the staff who were included also had reservations. It so happened for example that Bob, my husband, was included, but he didn't like what he was included for. He was included for a mission to Ecuador or something and he said, but the things that I really did want to be remembered for were my missions to Brazil or my work on Colombia, but I shouldn't have gone down in history for that relatively less important mission into Ecuador. So that's one story, the staff who got in didn't like what they got in for, the staff who got left out felt excluded. These are real dangers when one is writing history. One of my great satisfactions is that everyone inside the Fund, in member governments, and academic reviewers have hailed my Histories as authoritative, objective, and yet frank and revealing.

Referring to what is in about the staff, when I did the end of the last Volumes of Fund History, I used some guidelines of which staff would be mentioned individually at the end of the volumes. Admittedly, they were selective. I used the criteria of staff who had been in the Fund for 20 years and who had attained a certain rank (I used Division Chief and above). I had to use a rank as well as a longevity criterion. My secretary wanted me to list her and others of the support staff who had been in the Fund for 20 years and longer. I would have had to list too many, for example, chauffeurs and some of the other support people in your shop, Phil, in Administration, who had been here a long time. Admittedly, these people had not become Division Chiefs but they had been doing very important work. Nobody is disparaging that, but it was not of the type to get their contributions written up in the History. One of the reasons that I did describe numerous staff individually--and it was no easy job, believe me--was because Horsefield got a lot of flack from, you know who? Walter Windsor! Walter objected strongly that he was not mentioned in Horsefield's history. So when I got to the next Volume of History, I included staff who got to a certain rank and who had been in the Fund for a specified length of time, regardless of what Department they were in or the nature of their work. These staff were going to get listed somehow, I decided, so at least when they looked in the index they would find their names there. In Horsefield's volume, this had not been done and, as a result, some Department Heads complained and said, "Gee, if you're even a Temporary Alternate on the Board you get cited in the Fund's History, but you can be a staff economist or even a Department Head for a long time and not get quoted. Actually, I don't think you appreciate how difficult it was to include staff names in some objective way that everyone will accept. Even gathering the information, once I had decided the criteria to be used, was difficult. The personnel office could not supply it, I pieced it together myself.

Finch: No, I think the Fund History stands out as being effective in giving a flavor of the staff views. And I don't think it's wise to get into detail because....

De Vries: If I went into more details about the staff, I'd never have been able to get the History out. In fact, I'm proud of the fact that I did my fellow colleagues a big favor by including as many of them as I did.

Finch: No, if there's anything important in these things it is not to give a more personal flavor about the way in which the policies evolved but without names attached it's a question of what was the input of these specifically the economist nature of the Fund staff. I think to a degree the conflicts with the Legal Department were resolved because of the attitudes of the particular economists and lawyers involved. But how much of what's happened in the Fund has come out of good economics and how much from innovative law... I was injecting at times that the Board was a favorable instrument in a sense that you had people there you believed to be particularly supportive of the ideas advanced but I don't know if there is anything particular at all in this period that you'd like to summarize.... If you had been writing the first version of that period, because this is back in Horsefield's period, if you were freer of the restraints that Horsefield had, what would you be saying?

De Vries: Yes, yes. I understand what you're driving at. Confidently I can say that I don't feel I was under restraint in writing the Histories. I marvel at the freedom I had; so have many outside reviewers. The Fund deserves credit for giving me such a free hand.

Finch: But what about conflict between ERD and the area departments?

De Vries: The fact is that most of our debate was with the Legal Department...

Finch: But you haven't described any problems with the area departments... In effect, they didn't resist?

De Vries: I don't regard us in ERD as having had serious problems with the area departments. As I said time and time again, our biggest problems were with the Legal Department. There's no question about that. I remember one time I had to come in early in the morning and we were having this great debate with the Legal Department about the point you were raising about the Australians and their use of quantitative restrictions. The question was what's an import restriction and what's an exchange restriction. What is the difference? The answer was critical because the Fund could take action on exchange restrictions but not on import restrictions. It was Ervin Hexner who was constantly contending that the Australian point of view was right, that Australia had only import restrictions and not exchange controls. I came in early in the morning one morning and I had coffee with Hexner and we discussed this question. As a result of this discussion, I got an agreement with him that we were going to have another meeting on this point and that he would propose a broader definition of the kind of restrictions over which the Fund had authority. I was very pleased. By the time Irving Friedman came in at 9:00 o'clock I went to tell him, "Hey, I've got an agreement with Hexner on import and exchange restrictions". Some other staff member happen to be standing there and he said, "Gee, when you see a lion in the den, just go in the den and tackle it" (LAUGHTER). So you see, there was that kind of tension, that kind of debate between ERD and Legal. Irving was very pleased and said, "Gee, Margaret charmed Hexner." But in any event, we finally got an agreement, a broader definition of exchange rate restrictions. But all this is written up in the History. I didn't mention Hexner or myself by name, but the nature of the debate and the issues involved, that's all written there. Now, as to the role of the Deputy Managing Director in shaping these policies, it's extremely hard to sort that out. Southard was very good about keeping notes, but he was self-evasive in many ways so that you didn't really know what his contribution was as clearly as you might if he had said, "I did this", or "I did that". Even his notes don't indicate that, so any knowledge of his personal contribution has to be from someone who was at the meeting and is willing to go beyond those notes. The other things in the History really, I think, should be a history of policy, and not a history of individual staff achievements. The Fund is known for its team work, its coordinated staff work, Also Southard was very anxious, when I said I was going to do more on the staff side than in the first volume of History that I didn't let the History look like a confrontation somehow between the staff and the Board, or look like the staff did this and the Board merely went along. He was very anxious not to have that kind of view in a public history of the Fund. I didn't feel it was necessary either to present that kind of picture in the History. Now, in the later volumes of the History, quite frankly, David, you will see places where I've written up views where you and Whittome differed on some topics. There were several of these I'm sure (LAUGHTER). You recall them very much on European countries. Now, I didn't write that David Finch was in conflict with Alan Whittome or even that ETR was. I think in one of those cases I did actually say that ETR was opposed to the policy suggested by the European Department. No, I think I put it this way that the staff was developing this and this view but the European Department objected. I forget now what the specifics were. It was on exchange rates...

<u>Finch:</u> Fortunately, at the time that we are dealing with, the differences were quickly overcome. It was the first U.K. stand-by that we had real trouble with. Alan was very resistant in '67 to specific ceilings and he was virtually excluded by management from the negotiations with the U.K.

<u>De Vries:</u> No, what I'm referring to was something that happened later in 1967, in an episode in the Witteveen years, when Whittome didn't like

some proposal you were making and as I said, I got this information from internal documents written by the staff, not even from interviews. It was written up, because you had written some paper to the Managing Director and Whittome had written a counter paper to the Managing Director. But now this is not something you want to publish for the Lance Taylors of the world?

(LAUGHTER)

Finch: I think to a degree the Fund needs to humanize itself. I wouldn't object.

De Vries: Oh, I do have this "humanization" in the History. It doesn't say David Finch vs. Whittome but it does say that this debate was occurring.

Finch: What I think Phil was grasping for before--the Fund has led, I think, a very unusual international collaboration; I suppose it was shown in the creation of the SDR. You had a community which was quite clearly led by Polak and Gold with Bob Solomon and others actively supporting.

De Vries: That all comes out in the History. The special roles of Polak and Gold and even of several other staff members, such as Marcus Fleming, Ernest Sturc, Earl Hicks, and others.....

Finch: But on conditionality what Phil is looking for is whether it was to a degree a natural evolution of collaboration or if it was in fact something which.....

(SIDE 2)

De Vries: I don't think there is anything comparable in conditionality that's comparable with the role that Polak had in the initiation of the SDRs and that Joe Gold had incorporating SDRs into the Articles of Agreement, under the First Amendment, or comparable to the big personal role which Joe

Gold had in the Second Amendment of which he is much more proud. I don't think there's anything comparable to singling out specific individuals in the evolution of conditionality.

Going back to the relations between ERD and the area departments, I recall one episode with the European Department. There was a man named Max Stamp who was the head of that Department. I remember Irving mentioned him in his tape. I remember Stamp sending a paper to Irving for his approval, saying, "Well, we have to have your signature on this immediately. I'm just going to write that this paper is approved by Stamp and Rubber Stamp (LAUGHTER). But I don't recall that we really had any serious friction, any strong friction with the area departments. Irving always had a feeling that the staff of the Western Hemisphere Department were very anxious to do their own thing but they were very happy to have ETR's policy work since we were liberalizing Fund's policy. We weren't their bug-a-boo! (LAUGHTER)

<u>Thorson:</u> You didn't get some of the feedback that I, and I think David got, that ERD would have the reputation of holding up their papers. They were champing at the bit. We are late for the Board and Irving would be sitting on the paper. (ILLEGIBLE)

<u>De Vries:</u> At this stage? In the 1950s? It may be that Irving wasn't getting out the papers rapidly enough, I don't know.

<u>Finch:</u> Irving gave the impression of being autocratic at times; I think. Of course, clashing egos didn't want to always wait for Irving's views. So often it was reflecting. When it came to operations obviously there were decisions being made which had to be executed quite quickly and someone like Walter Robichek or Al Costanzo probably felt they just wanted

to get Cochran's approval. Anything ERD was going to do made a bottleneck and.....

<u>De Vries:</u> That could well be, but remember that you, working with Costanzo and Walter Robichek in the Western Hemisphere Department would have more the flavor than I would. (LAUGHTER) I was working with Irving to try to develop the general policy and I wouldn't know the rest.

<u>Finch:</u> I understand that. The issue had some importance in the sense that when conditionality--when there was an attempt to put some order into it--I went first to Research for a year, I was doing the job in Research rather than ERD because it was felt that the area departments would resent the additional power being given to Irving and I suppose, at that stage he was in the last stages of unhappiness over where to go.

<u>De Vries:</u> He left in '64.

<u>Finch:</u> Well, this was the year before he left. I spent that year in Research.

<u>De Vries:</u> I wasn't in the Fund then. I didn't even know about that.

<u>Finch:</u> In a sense, the dominance of Irving on exchange restrictions was felt by the area departments as if it were a move to cut into other aspects of conditionality--that if Irving had got that within his approval jurisdiction it would have been difficult for them. And it was only when Sturc as an area department man was made head of ETR, that conditionality was moved into its responsibility. You weren't in the Fund at that time, but it's true that some of these personal aspects did intrude in the procedures and probably delayed policy decisions. It wasn't until '68 we got a uniform decision on conditionality.

De Vries: I thought that came as a result of and after, the 1967 U.K. stand-by arrangement.

Finch: It was between the first and the second U.K. stand-bys. The second one was made in accordance with that paper. But prior to that there was a lot of division between area department practices and, in a sense, disorder.

De Vries: Animosity is too strong a word.

Finch: Well, we in Latin America had quantitative ceilings and detailed forward financial programming and European didn't have any. Therefore, practices diverged. In a sense, programming, if you were being objective about it, was probably delayed by the doubts of the area departments, about giving ERD control. Possibly also Southard had an impact as he came with an understanding of the Board's lack of control. It may have been that Cochran rather liked having a loose format so that he could work directly with individuals like Sturc on this.

De Vries: Well, the Fund was simpler, smaller and simpler.

Finch: Yes, smaller, but nevertheless in the history of conditionality it was much more democratic. Idiosyncracies went into it because what was happening in Yugoslavia reflected Sturc, what was happening in Latin America reflected _

De Vries: No, actually it was Wyczalkowski. He and I went to Yugoslavia in 1955.

Finch: All I am saying is that there were differences....

De Vries: What you're saying is that the area departments had more of a role in this.

Finch: The Fund created a different system later, it was obviously affected by personalities, in a sense, there were sufficient tensions which one can imagine...

De Vries: I don't believe that in a public history you would want to describe that kind of thing. I think everybody knows that in any institution there are staff member rivalries, egos, people playing favorites, all this kind of thing, people working better with some people than with other people. I don't think you would want to, at least I wouldn't, want to write that kind of a History. I always wanted to have what I wrote in the History to reflect good credit on the Fund, otherwise why should the Fund publish it? But if one gets into the kind of stuff you're mentioning....

Thorson: I think that sort of rivalry was at a minimum considering this was an international staff, people coming from all over, it was remarkably free of personal rivalries.

De Vries: Yes, and I don't think Southard was worried that I was going to get into too much of those personal rivalries on the staff. He was more concerned that the History should not look like there were fusses between the staff and the Board. Even that, as I look back at it, maybe I look through rose-colored glasses when I look back at it, but even those fusses weren't all that bad. I don't know about today, but certainly not in the early days. There were some acrimonious debates that Irving had with some Board members over the content and procedure of the consultations, back in 1951. The ones that I remember the most were the one over the quantitative restrictions with the Australians and the British in the sterling area. The ones that I mentioned before, Ceylon having a surplus, Malaysia having surpluses in their balance of payments and especially in their balance of payments with the United States at a time of the world dollar shortage and that these dollar earnings were going into the sterling area pool. Therefore there was a great fear by the British especially that if we consulted with Ceylon separately, or consulted with Malaysia separately, that we would advise them to relax their restrictions and they wouldn't have these dollar surpluses any more to contribute to the sterling area pool. But relaxation of restrictions was in the interest of Ceylon and Malaysia. They would get more imports. This was a very acrimonious debate. These were substantive debates, over issues of policy, not tensions due to egos or personalities, and they rightfully belong in a history of an organization. In the end the staff, especially Irving, won those debates, giving the Fund and the consultations a big forward push. Horsefield revealed those debates from the Board minutes even in his History. Where the debates of that sort were critical to the history of the Fund, I think you'd find that they are pretty well written up. And I did, too write up details as to how the consultations got started. This business about the European Department and other area departments trying to work around ERD is, as I said, something I'm not aware of, but being in the ERD Department I obviously could not tell how much others were trying to get around us. (LAUGHTER)

Finch: Some of it, of course, is quite bureaucratic. Some of the differences I had with Whittome I can understand Whittome's unhappiness. ETR was always trying to tidy up exchange restrictions, and had a rule that stand-bys would automatically include conditions on travel allowances.

Whittome had just concluded negotiations with the French and had left out this clause. I went to him and said, this is a requirement, you have to go to the French and talk to them and get them to include some statement. Of course he resented it bitterly that he was being asked to bother them with such trivia after a major negotiation. But that happens with any sort of bureaucratic rule.

De Vries: This business about which staff's views you take came up very graphically in a chapter I had in the second set of volumes of History about a meeting in Bonn of the Group of 10. Both, Jacques Polak and Joe Gold had been at that meeting and I wrote up their interpretation of that meeting. I talked to both of them and read the documents, including the minutes of the G-10. We had quite a bit of discussion, and I wrote up my interpretation of what I had learned. I gave it to both of them to read in draft before I finished the History. Polak came back and said, "No, this isn't right, you've got to change this, this is what happened" and so on and so forth. So I thought, well, Polak knows, he was at the meeting, I wasn't, so I'll change it to read his way. I sent the revision to Joe Gold, and Joe said, "Oh no, this is all wrong, Jacques got it all wrong, this is not what happened, this is what happened!" So, how was I going to solve this? The only way I knew how to solve it was to send them each the other's comments, so I sent Joe Gold my draft of what Polak was saying and I sent Jacques Polak my draft of what Gold was saying and I said, "Now, you fellows agree on what you think happened at that meeting or let me be the arbiter after talking to both of you." You know, they couldn't agree and they came back and said, "Now you know everything we've said and how we disagree. You write it." So, that was an indication that they needed an outsider, an arbiter, and a neutral person to draft a suitable version. Like I said, I would not have liked to have gotten into some of the other conflicts between staff members. (LAUGHTER) The History is not meant to be a glorification of any individuals. In fact, Kafka objected at times, he said to me once, "You know, I think what you do when you go over the Board minutes is to count the person who spoke the most and include him the most." I said, "This is very unfair, not true at all, I try to pick out what seems to be representative views". Obviously, you cannot use all the Board minutes in the History, but I try to pick out what seems to be representative of each person's views. So anyway, so much for explaining how and why I wrote the Histories as I did.

Thorson: I'd like to raise one minor point. You mentioned that when you began to try to reform multiple currency policy, you had three objectives that you worked out with Irving. I didn't get the third one. One was to improve relations with members, the second one was to understand the economics of multiple rates.

De Vries: The third one was to broaden our interest and concerns beyond the Latin American countries to include the Asian countries and the Middle East, many of which also had multiple rates. I may not have said that. And I think we succeeded on all three objectives.

Thorson: This was the first time I understood that ERD was instrumental, or one of those instrumental, in easing the policies on exchange restrictions. You agree with that, David? I had always gotten the impression that you were sort of reluctantly pushed into accepting ERD's policy.

Finch: Oh, no. The problem always in a functional department is that you try to get rules as much as you can. Once a rule has been described then you always have to have an input to try to fit it into the conditions of particular countries. The problem, as I was just mentioning about Whittome, that once a rule is there ETR became an enforcer. But the idea that ETR had to be understanding of conditions and realistic about application, I think has been throughout.

De Vries: I know you mentioned in Irving's tape too, the role of a functional department applying policies uniformly. Actually, that was a role, but I regard it more like a secondary role. We thought of our role definitely as being to work out general exchange policy. Such a policy was not only to liberalize restrictions but also to simplify procedures. As Irving mentioned in his tape, it included what he called the short-form procedure for multiple rates. It was a lapse of time procedure. But we were definitely trying to introduce general policies.

Finch: Yes, but to be fair, ERD was generally wanting to stress responsibility. If you're doing something it had to be intellectually feasible and you were very much trying to lay down what you thought was responsible, and not to depend simply on politics, like Liberia was a friend and therefore Liberia got everything accepted. That's what I mean by uniformity. In a sense, you're trying to lay down things which you could justify to someone else outside and not simply follow instructions by the State Department.

<u>De Vries:</u> But if look back on my own individual role, I very heavily emphasized good economics and tried to base policy on something that made good economic sense. So my problems were more often with the Legal Department. Going back to Triffin and Prebisch. I met many times with Prebisch on what does or does not make sense, does this QR make sense, and on the policies for development countries. It was a time when most of my colleagues were working on Europe, worrying about the European situation because they probably thought that's where the action was going to be. I was very concerned particularly about the Asian countries. But coming back to the Legal Department, even in the History, in Horsefield's History, he had Joe Gold write a section. That was mainly because we had different approaches--Horsefield and I had different approaches--he had the approach of basing what he wrote on the Board documents and he was doing the Chronicle. He was going to describe year-by-year what the Fund did. I wanted to have a more overall view of how policy evolved and how we had a role in evolving policy and have much more discussion of staff work in general, what the staff did as against the Board, not individual staff but the staff's role in general as against the Board's role. But I was only working part-time at that time. I didn't have a full book for Volume II and Horsefield wanted Volume II to be as thick as the Chronicle (Volume I). So, he went to Joe Gold and said, "Will you write something?" And Joe Gold wrote a constitutional evolution of the Fund, a very good constitutional evolution of the Fund. Then Joe Gold also suggested that the Legal Department look at the whole draft of both Volume I and Volume II. He assigned my very good friend, Philine Lachman to look at it and Philine gave

Horsefield an enormous amount of comments and difficulty stressing the need for legal precision. He was reluctant to incorporate her comments. But when I started to do the last volumes of History and I had to write up the history of the Second Amendment of course I needed help from the Legal Department so I asked Joe if I might work with Philine. So Philine and I had many discussions and she commented at length on the manuscript. Gradually, she and I became very good friends, and when the History was finished I was very pleased to hear Philine say to me, "You know, for a non-lawyer, you've done beautifully with the legal sections." (LAUGHTER)

<u>Finch:</u> That is one of the things, I think compared to the Bank, there has been much more of that sort of collaboration among the staff.

<u>De Vries:</u> Oh, yes, people do not like the Bank History. I mean, many Bank staff members do not like it. Lots of people criticized the Bank History, regarding it as a glorification of McNamara. If you read it, I think that's what it is, and so did others. Oliver Frank, at Berkeley, University of California, is writing another short History about the George Woods era. He believed that there really wasn't a fair portrayal in the World Bank History as to how much of the policies of McNamara had been initiated in the Woods era. In fact, people have come to me when they were writing the Bank History and said, how did you manage to get Fund History so well accepted, both by those inside the Fund and by outside academic reviewers. I said, well, I can defend the way I did it, as I have been explaining here today. If I had not done it this way, we, the Fund, would have been into a lot of trouble otherwise; perhaps have had an unpublishable History.

<u>Thorson:</u> One thing that has always intrigued me about all of these tapes is how little has been said about Managing Directors and their impact on the development of stand-bys, except for Cochran.

<u>De Vries:</u> Yes, the Deputy Managing Directors. Well, in this period of time we're discussing this morning, of course, it's Cochran. Andrew Overby did not have much to do with shaping policy on exchange matters. Southard didn't come into the picture until 1962 which was after this period of time. His contribution in this period was in his role as the U.S. Executive Director. You know, it's so hard to separate out the role of the Deputy Managing Director. I don't know about the Managing Director. But identifying the contribution of the Deputy Managing Director to particular policies is very hard. Jacques Polak called me a few weeks ago because he was writing something--a speech for Michel Camdessus or something--about international monetary reform and it looked like reform was going to be carried out in Europe, in the EC, rather than through the Fund. Polak wanted to emphasize that reforming the international monetary system is the business of the Fund. He remembered that in the first volume of the History we had a statement that "international liquidity is the business of the Fund", and that it was a quote from Pierre-Paul Schweitzer. Jacques called me to ask the source of that quote. And he said, do you remember, or can you tell me where I can find that speech of Schweitzer's and I told him I had also looked for it a lot. He explained that he wanted to include in Camdessus' speech a phrase that "international monetary reform is the business of the Fund" in the same way that Schweitzer had used "international liquidity is the business in the Fund." Schweitzer had made

that statement when it seemed that the Group of 10 was going to take over the studies and the work on international liquidity back in the mid-1960s. The Group of Ten had set up Ottmar Emminger as Chairman of the Deputies of the G-10. I explained to Polak that I had searched and searched for that statement but I had never been able to find it. Then Polak did some more research in Schweitzer's speeches. Polak even phoned Southard, who was retired in Florida at the time, but even Southard had no recollection of the origin of the phrase. So here's a nice famous quote that is still important for the Fund and we do not know who was really responsible for it. We've given credit to Schweitzer in the History but we have never been able to find it again. I don't know where Horsefield got it except everybody agreed that Schweitzer said it. This example shows how difficult it is to sort out the contribution of the Managing Director.

Finch: So Schweitzer's speech may very well have been Southard's words or somebody's! Once I wrote a speech for Schweitzer, I think it included the first mention of the SDR, but certainly it wasn't my creation at all...

De Vries: Now you see again why I couldn't put too much in the History about the staff. Even that famous quote, I now felt that if I had to do it again, I would add that maybe Frank Southard wrote it because it's such a lovely quote, it's been used so much all around the world and I think Southard deserved credit for having invented it.

Finch: No, within this period I think Jacobsson did play a role in getting the Fund much more involved with broader issues in the countries. In France, of course, he went in and talked to De Gaulle on the concept of financial responsibility; I don't know how much impact that had. But he did take a lead--I think without Jacobsson conditionality would have been much slower in getting into the monetary policy.

De Vries: On the multiple rates in Latin America, Jacobsson did involve himself somewhat. He was not very well liked by developing countries, especially by the Latin American countries, because he was such a strong advocate of anti-inflationary measures. And the Latin Americans felt he wasn't sympathetic with their problems. He thought Latin American Governments were all corrupt and he basically regarded multiple rates as funny money practices that to some extent reflected governmental corruption.

Finch: He use to make jokes about cruzeiros, a madam was given cruzeiros and made a scene. (LAUGHTER)

De Vries: What did he have to do with cruzeiros?

Finch: It's just that they are a terrible currency and nobody would accept them. (LAUGHTER)

De Vries: Every time we in ERD wrote something on multiple rates, even though the '57 letter did get through--actually Irving was in the hospital at that time, I carried the ball on that June '57 letter--Jacobsson mentioned corruption and the need for anti-inflationary measures. We'd worked out the June '57 letter before Irving became ill but when the discussion came up in the Board--I think Irving said in his tape that he got ill and went to the hospital after the British drawing that he had been involved in--but when the Board discussion on that letter came up in June, Irving was still on extended sick leave.

Thorson: Did you feel that the countries were corrupt or incompetent?

De Vries: Oh, he used the word "corruption" a lot. Every time we would write something on multiple currency policy, I tried to write some good economics, and he would say, the problem is they'll have to get rid of their corruption. I'd get that note back constantly!

Finch: Everything is complicated. When you came to a transaction with Brazil, Jacobsson was fighting to have it happen because he wanted to bring Brazil more into the family; he was interested in the political dimension and Cochran was trying to get us to sabotage it in the area department...

De Vries: Didn't want the stand-by...

Finch: Didn't want it at that particular stage--He thought it would be acting too politically....

Thorson: Was this in the late '50s?

Finch: Yes, probably '57 or something like that.

De Vries: June '58. I have it in the History in a table which shows a stand-by arrangement with Brazil in June 1958. I was surprised that Brazil was listed. Did it have a genuine stand-by?

Finch: They gave us promises but they had no intention of carrying them out. Cochran was trying to hold us back and Jacobsson was very favorable because he liked the image of dealing with the biggest Latin country. And to a degree, like all these things, there are advantages to getting a country engaged and later you start to get policy change.... but Cochran felt he was going to get undermined in his attempts to be strict with Argentina, he had much more investment in our processes.

De Vries: Can we go back to the point you were making on the staff role as written up in the History? You know, the outside reviewers, if that's important for evaluating the public's reception of the Fund History, and I think it is, have often made the point that even when I write something about public's reception of the staff at the end, describing, for instance, who the staff members were, those descriptions made that part of the History too institutional. Much of the reviewers have said the rest of the History was very analytical, but when I got into who in the staff was doing what, or what jobs do they have, that was very institutional, and not the economics or the policy that the Fund was most concerned with.

Finch: I suspect that from an outsider reader's point of view that was of little interest.

De Vries: Definitely of very little interest.

Finch: That's right. I suppose if I was hoping for something out of these interviews it is a feeling, in a sense in this area almost like the Jesuits. There was a belief in the Fund staff and I think in the G-10 deputies and in the Board, that there were certain things which should be pursued and the Fund was the important instrument for pursuing them. There was very much a common purpose for this. It was not that egos didn't exist and people didn't want credit for doing things. There was a surprising degree of sort of accretion of various people who have been fitted together. It was not a McNamara-type thing so much as it has evolved out of a common faith in the importance of financial stability. And that is the issue which I'm not quite sure....

De Vries: I'm not quite sure I understand ..... that they were not pursuing?

Finch: Well, I'm not sure whether any personalizing tends to undercut this to a degree. But it seems to me that if you look at that broad sweep in the Fund's History it's the remarkable degree to which people, you know, a Klein from Argentina could come here and feel part of that effort. It was like joining a group, I think it started very early...

De Vries: You mean countries join the Fund in order to be part of the international organization?

Finch: I think they felt part of it, and I think there was a lot of support which you were getting in the developing countries. The most thoughtful elements felt that this was the way to join the world. I think maybe a bit like Eastern Europe now in a sense.

De Vries: No, but I think that came later, not in the '50s, I think that came in the '60s.

Finch: The surprising thing, take the Minister of Economy of Bolivia, he came up and embraced me 25 years later. He said the country was in trouble again and couldn't we come and rescue them? Even in the more primitive countries, there was the feeling of rightness about being part of linking into something broader, and the rightness of worrying about financial order. There is somehow a faith element behind it which attracted adherents and made it possible to work. There must be a little bit of the same feeling in the World Bank too, that people must be fighting corruption and distortion, political reasons for delaying development. The Fund, I think, was better placed with a simpler faith of the need to prevent financial disorders and the advantage of getting rid of inflation, getting rid of restrictions. I'm not faulting the History but I'm just wondering how to bring that out. Because I think that's what you've been saying today too. That you didn't find disputes between the departments. Nor with the Board, particularly.

Thorson: What struck me today is that ERD and the rest of the staff were representative of the efforts to use rationality and economic know-how to help countries realize the realities of what they were doing and what they should be doing and thus progress in getting rid of practices that were rigged to the advantage of particular groups or sectors, and seeking instead to benefit the whole country, the whole system.

De Vries: I think that's right. The flavor that David is saying about countries wanting to join the Fund in order to be part of the international community, I would say that that point comes through in the History because there are a lot of sections on new members, why countries wanted to join, etc. What was difficult here was that for a while a lot of countries were joining the Fund because they had to as a requirement to join the Bank, and they wanted resources from the Bank. So I tried to get that flavor in the History too, but certainly some of them obviously did it for political purposes. For example, China in 1980 wanting to come back into representation in the Fund and to resume its original membership was certainly as much for political reasons as for getting money.

Finch: Well, part of you are saying is that the success of the Fund History is that the disputes between the staff and the Board weren't all that great and therefore you could write it objectively.

De Vries: You could write it with a broader brush. I certainly had written in the History where there were important debates within the staff. But I didn't write such things as this fellow was a bottleneck and wasn't reading his papers. I wrote it in terms of a genuine disagreement about what the policy ought to be. That was the nature of the issue between you and Whittome--it was actually a real difference of view as to what action ought to be taken--and I wrote it up from that point of view, to give the outside world the impression that certainly the staff was debating questions internally, within the Fund. In fact, I always used to take pride that if I got the draft History through the Fund staff when it was widely circulated for comment, there wasn't a criticism from the outside that I hadn't heard first from my own colleagues. My colleagues were right there, seeing everything, and you knew what their views were. In fact, my objection in later years in the Fund from what I saw as the Historian was that there was too much of monolithic views, the Fund could be criticized for having too much the same policies and standard policies everywhere, and that the Fund needed to have much more differentiation among countries. I talked to a lot of people while doing the History in order to get different points of view. I think frank discussions of differing viewpoints are important, not only for developing Fund policy but also even to write an authoritative History.

Thorson: Do you have any recollection that when Bob Triffin was on the staff if he was an active proponent of multiple currencies and so on? You mentioned differences within the staff. He was not here very long but....

De Vries: No, he wasn't here very long and he got very interested in Europe very quickly, in the European Recovery Program, the Marshall Plan

Program, and the European's Payment Union. So he didn't do too much with his Latin American experience. I don't remember when he went to the Paris Office. He was the first Director of the Paris Office, in '47 or '48. From what I do recall, he was getting very interested in Europe very quickly, I don't even remember when he left the Paris Office and went to Yale. He didn't identify himself very much with Latin America in his later years.

Thorson: Well, Margaret, you have been very helpful and philosophical.

De Vries: OK. Maybe you want to write up a statement of the internal evolution of conditionality and how it got started. There is a section on financial programming in the second set of volumes of Fund History based on one of Walter Robichek's papers. Walter had written a paper he gave in the IMF Institute. He really was the inventor of financial programming, I have great respect for Walter. Now, David, maybe you being in the Western Hemisphere Department at that time may have a different view of how much Walter did, and how much influence other people had. Maybe you and Costanzo were influencing Walter with that. (LAUGHTER)

Thorson: Perhaps he was the one who articulated it.

Finch: He was the one that wrote it up systematically. But the use of quantities...

De Vries: Maybe he was not the inventor.

Finch: He might have. Mexico was one of the first reports to encourage monetary programming. Walter was the one who created that mission...

De Vries: It was a mission to where?

<u>Finch:</u> Mexico, in early '55. It wasn't a consultation, it never went to the Board, it was my section that talked about the relationship between keeping the fixed exchange rate and monetary policy.

<u>De Vries:</u> You were in Western Hemisphere at that time?

<u>Finch:</u> No, I was in Research.

<u>Thorson:</u> Walter credits David with the intellectual discovery of that theory in the Mexican mission....

<u>De Vries:</u> Of the relationship between money and the balance of payments?

<u>Finch:</u> I think the thing that came out of the first recording of this series was how many of us sort of contributed to finding, and developing this stand-by technique. Sidney Alexander.......

<u>De Vries:</u> Polak contends that he and Berstein developed the absorption approach. It wasn't Sidney Alexander, you know. (LAUGHTER) (DISCUSSION)

<u>Finch:</u> Peoples' perceptions all vary. These things, like most innovations, happen simultaneously. There were plenty of conditions that....

<u>De Vries:</u> That's right, the most glorious thing that I have written in the History many times is how much interchange there was between all these great intellectual people, how much theoreticians back home were benefitting from what was being discussed on the missions, like the Mexican one, and how much interchange was going on between colleagues, enabling the Fund to evolve both policy and theory.

<u>Finch:</u> Not necessarily in that order.

De Vries: The staff developed a lot of very forward-looking concepts. This comes out clearly in the short Balance of Payments book I wrote in 1987. It's no accident that the academics were way behind the Fund staff. It was this feedback and the inter-relations between when one person who had an idea and another person who had an idea, and they got together to develop it. Or the staff who were out in the field who returned to headquarters and said, "Look, this is the problem we encountered" and the economists back here would say, "Well, can we generalize this problem and the solution into something broader?" And somebody else would say, "Well, let's develop a policy about this problem and the solution and take it to the Board." In the Balance of Payments book I didn't do much on what you would call the institutional side. But there is lots of description of what the staff did. Sam Katz who was one of the reviewers has said and written, "My gosh, it's incredible how much this book shows that the Fund staff evolved new ideas and new policies. The staff developed not only international monetary law but also international monetary economics. The latter as done in the 1950s and 1960s was every bit as innovative. It certainly was, right through the SDRs.. I am not so sure that the same thing holds today. (LAUGHTER)

Finch: The interesting thing in conditionality is the degree to which, say in the U.K., you could, by using years of particular techniques, influence politicians to do things and the degree to which you needed inside people in the government supporting you and making that work. It was that sort of interaction like Mitchell arguing for precisely the things the Fund was asking leading his Minister, Healey believing that it probably was right policy, and then able to use the Fund to form Cabinet acceptance. The

Fund's participation gave the local people an ability in a sense to develop leverage.

<u>De Vries:</u> Yes. Well, I think we've covered everything. I was delighted to do this.