INTERVIEW I

DATE: February 25, 1969

INTERVIEWEE: WILLIAM B. DALE

INTERVIEWER: PAIGE MULHOLLAN

PLACE: Mr. Dale's office at the International Monetary Fund Building, Washington, D.C.

Tape 1 of 1

M: Let's begin by simply identifying you. You are William B. Dale, and your title is executive director for the United States, the International Monetary Fund. You've held this position since 1962.

D: Since November 1, 1962.

M: Did you before your appointment to this position or at any time since have any opportunity to form a personal acquaintanceship with President Johnson?

D: No, not really. As a matter of fact, I met him only once. That was--I can't give the precise date, but it happens to be the evening when the invasion of the Dominican Republic was announced.

M: He was a busy man that day.

D: He was a busy man that evening. He and Mrs. Johnson that evening invited, oh, a hundred and fifty or two hundred individuals that he had appointed to presidential appointive positions since he had become president to a reception and dinner at the White House. I remember that we all went in for the reception and had cocktails, of course, in the East Room.

The President didn't appear and didn't appear, and we began to look around to see who else was missing to see if we could identify what the problem was. I remember seeing I think Bundy--not Mac Bundy but Bill Bundy was there--so it couldn't have been Vietnam.

M: Narrow it down one by one.

D: After while it became clear it was Latin America. He didn't appear until about nine o'clock or so, after he had gone on TV. As luck would have it, at least one of the two TVs that was wheeled into the East Room was broken down, so by the time some of us got into the receiving line we still didn't know exactly what had happened! But, anyway, I remember Secretary Fowler was the principal officer at that dinner who made the response for all of us who had been appointed.

M: You mentioned your appointment. Now, is the position that you hold one that requires reappointment?

D: It doesn't require reappointment, but the tradition has been to reappoint. The provision of law is that a person who is appointed to this job--and it's the same thing for the World Bank equivalent--is appointed for a two-year term. Then the law says, "they shall continue to serve until a successor is appointed." So technically one could have a two-year term and then serve the rest of his life, and as long as no one else was appointed, that would be it. That's been the situation with my alternate, who was appointed once and has served a number of years without reappointment. But for the director in both the Bank and the Fund, the practice has always been--and I've followed this practice--to put up to the Secretary of the Treasury every two years the question, "Should I be reappointed, or should I not?"

My own view is just simply that this is good practice in public policy to explicitly raise the issue every couple of years. So I've now been appointed--I'm serving my third term. I was appointed first by President Kennedy in November, 1962, then by President Johnson in April, 1965, and the third time by President Johnson in August of 1967.

M: So he did take a positive step in renaming you in the position you already held.

D: Yes. On the advice of the Secretary of the Treasury in both cases which, as a practical matter, is where the decision is made.

M: But in neither of those instances, did it involve any personal contact between you and the President. It was simply handed down through the Secretary.

D: That's right.

M: You served then through the transition from the Kennedy Administration to the Johnson Administration over here. Was there a definable difference in policy of the administrations toward the IMF that one could discern from being over here?

D: Yes. I don't know whether it would be correct to define it as one that stemmed from the change in administration--that is, the change in presidents. Or a second possibility is that roughly around the same era there was a change in the Secretary of the Treasury, which is by far the most important single officer in the U.S. government for this agency. Or thirdly, whether there was a flow of events that led to some difference.

The main difference was that in the period up to about 1965 --which was let's say, as much as a couple of years after President Kennedy's death--the evolution of events in the fields that affect the funds most was one of study and contemplation and careful work. Then with a speech that Secretary Fowler made in July '65, there began a period of negotiation which ended about a year ago now with the establishment of the special drawing rights facility in the fund. That was the main change, and I think it perhaps was effected by the personalities of the two secretaries of the treasury, but mainly it was a matter of external events evolving.

M: Well and time elapsing too.

D: And time elapsing.

M: So it's not a conscious decision being made, presumably, about changing direction or anything of that nature.

D: No, I wouldn't put it that way.

M: During this time one of Mr. Johnson's policies that he made quite a lot of was his attempt to draw into the international community, particularly the eastern bloc states of the communist countries. Was there ever any movement in the International Monetary Fund toward trying to accomplish this same result?

D: Yes, there was in a careful and quiet way. Let me see if I can date it. About two years ago, roughly I would say, some interest began to be shown by two eastern bloc countries that are not now members of the Fund or the World Bank. One was Hungary and the other was Rumania.

M: Two years ago now?

D: Approximately two years ago, yes. The very informal and quiet discussions between the international staff of the fund and these two began at about that time, I'm not dating it precisely but around that time.

M: That's all right, that would be a matter of record, I'm sure.

D: The discussions went rather differently with the two countries--and everything I say is based on what's been told to me by the active international staff people in the European department of the Fund on this matter. First of all, I should go back a little before that.

As early as about 1963 or '64, a few of the eastern countries occasionally would make a very informal contact, such as at a reception, or something of that sort, and at least ask questions about what membership in the fund would mean. But it never went beyond that until a couple of years ago, when the Hungarians first, indicated a real interest. Subsequently the Rumanians did.

The people who have been most close to this have always felt I think that the interest of these two countries stemmed from a different motivation. They've always felt that to the Rumanians it was mainly a matter of foreign policy of, so to speak, declaring their independence from the Soviet bloc. It seemed to stem out of the foreign ministry per se rather than from the economic--well that was the Rumanian side.

From the Hungarian side, it did not come out of the foreign ministry. It came out of the finance ministry and the Central Bank. So that the people in the Fund always felt that, in terms of what the Fund thinks it stands for--that is, a liberal economic policy and stance and approach, which has its effect by permeating through the government and economic structure--the Fund people have always thought that the Hungarian initiative was a more genuine initiative, a more important, a more fully meant, fully understood initiative, in terms of the way policy is made in these governments. There were several informal visits by staff people--I think at least three to Hungary and two I believe to Rumania--during which the meaning of Fund membership and the procedure for acquirement and whatnot were discussed. It was felt up really until the invasion of Czechoslovakia that sooner or later, hopefully, Hungary first and Rumania second would become members. It was put that way because there was some evidence and feeling on the part of the people involved that if Rumania came first that would queer it for other eastern bloc countries. If Hungary came first, that would tend to open it up for other countries.

M: Because of the patently economic reasons for their doing so rather than political.

D: Right. It was always clear that neither--well, that the Hungarians at any rate, would not apply for membership even without some kind of a blessing or clearance of some kind from Moscow, whereas the Rumanians probably wouldn't clear it with Moscow. In any event, nothing further has been heard about it, or from it, since the invasion of Czechoslovakia last summer, of course.

M: When that kind of thing goes on, does or can the administration outside of the IMF staff, including yourself, can the President or the White House staff, or the Treasury Department do anything to either encourage or impede that kind of development?

D: Yes, very much so. I kept closely and very informally in touch with the active people, including the managing director who is of course the administrative head of the Fund, and who authorized these trips to these countries for informal discussion.

Membership in the Fund, in terms of procedure used, is really a subject not for the managing director but is for the governments who are presently members of the Fund. It was always clear that if the United States wanted to say "no" there wouldn't be membership for either of these countries. Very likely the other countries probably with varying degrees of reluctance would go along if we decided to oppose.

Besides, quite frankly, one of the questions was: Suppose Hungary should apply for membership in the Fund. Suppose the timing were such that this became public knowledge during a presidential election campaign in this country. What would this mean in terms of both domestic difficulties and difficulties in the international negotiations?

Well, very early on I established with my friends in the Fund that it probably would be very unwise to handle it in such a way that it would surface publicly at any time before the election last fall. I think the Hungarians clearly understood that and had no intention of surfacing anything until after that time. If Prague had not existed, they might possibly have applied by now. They might even be members by now. I don't know.

M: Does the White House staff or the President himself take a direct interest in what's going on in an agency like the IMF. Do you get, for example, telephone calls from the White House staff on matters?

D: Yes, from the White House staff, yes. For example, during the Johnson Administration by and large the person I dealt with, and dealt with quite closely, was Ed Fried, who was a staff member of the Rostow office. Ed was a member of the so-called Deming group, which was the coordinating--

M: Yes. He was Francis Bator's successor.

D: Francis was earlier on the member. Ed was his successor.

But, for example, when I would have some of these informal discussions with the staff people in the Fund on Hungary and Rumania, I would do a memo based on this conversation, and I'd send it to Deming and Ed Fried and the geographic people in State and Treasury and the economic people in both State and Treasury, and to the Council of Economic Advisers contact point and whatnot, so that the White House staff would have it by that means.

M: One of the things I was driving toward with that is, on a technical subject like this, how thoroughly does someone like the President understand the problems and the programs that are being pursued by his staff and the agencies? Do you have any way of knowing?

D: My own contact with the President, of course, was so limited I wouldn't have any very good way of saying. My guess would be that when you talk about technical substance, not much. But I think you have to realize that finance, whether international or domestic, is just a slightly different approach toward politics in the end. When it comes to questions of finance that have a political content, you don't have to understand the technicalities much at all to understand very clearly what the political issue is. One such a thing as membership in these Eastern Bloc countries, it's very easily understood what the political implications are, both pro and con.

M: Does the staff play a role in limiting what the Fund might do because of political considerations?

D: Either limiting or nursing it along. Their inclination, I think, given the complexities of the time was to sort of hold the Rumanians back and nurse the Hungarians along, because their own view, and I think it was the view of the management here--and probably the view of a number of important European countries, France, Italy, UK, all felt that this would be a very salutary development--because the ultimate political meaning, of course, is of very real importance.

Yugoslavia, for example, has been a member of the Fund since 1952 and the Fund was without any question been the most important international agency in dealing with Yugoslavia. It has played a crucial role in the devolution of the Yugoslav economy into a somewhat more liberal economy. And the Yugoslavs were in conversation with the Hungarians, and maybe with the Rumanians also, on this issue. So that the ultimate meaning of membership in the Fund, which is a profoundly captalistic institution after all, of Hungary would be one which would cast its shadow for a long time in the future. And I think people certainly up to and including the under secretary level in both State and Treasury understood that very well.

M: You implied a while ago, and I assume this is correct, that your job involves representing the United States view in the International Monetary Fund. So it never gets to a question of disagreement between you and the Treasury, but does it get to a question of disagreement that gets important between, say, Treasury and State, or Treasury and Commerce, or different agencies?

D: Yes.

M: How are those resolved?

D: First of all, let me describe my own situation a little bit more. It's a rather unusual position. I'm nominated by the President, approved by the Senate. In fact I'm chosen by the Secretary of Treasury, but that's the procedure. I'm paid by the International Monetary Fund, not by the U.S. government.

I see my own job as having three hats, three functions. I represent the U.S. to the Fund; that's the easy part. I'm an officer of the corporation, and that has certain kinds of duties which are fairly limited but they exist. The third is I represent the international financial community to the United States. That's the hard part of my job.

M: So that is a feedback part.

D: That is a feedback, very much a feedback, yes. Sure, I can disagree with the Treasury.

For the most part like any other job, most of it is fairly routine, fairly uncontroversial, I would say 95 per cent of the time. I write a memorandum, I make a written record asking for the instructions that I want. At least 95 per cent of the time those are the instructions I get. On the more controversial part of it, I may or may not agree with the Treasury, or with the other agencies involved as to what my instructions ought to be. But eventually I get them and of course execute them to the best of my ability.

M: Once that point arrives then your hat of representing the United States takes over, and you follow the directions that you get.

D: Sure.

M: How are disputes over what your instructions should be which arise between different government agencies--Treasury and State--how are they resolved?

D: There are two bodies. Under law, under the Bretton Woods Act of 1946, which provided for U. S. membership in the Fund, there exists a National Advisory Council on International Monetary and Financial Problems which was formed to coordinate policy toward the Fund, the bank, coordinate financial policies of the Ex-Im bank, and the

AID program and so forth. This is chaired by the Secretary of the Treasury and the other members are the Secretary of State, the Chairman of the Federal Reserve Board, the President of the Ex-Im Bank, and the Secretary of Commerce. The State membership also, of course, includes AID, since AID is a subsidiary of State. So it really covers all of the agencies of government, with the exception of the White House including the Council of Economic Advisers itself. But it also provides for other people sitting in when their interests are involved, and that's most frequently done, I suppose, by Agriculture for PL480 and that sort of thing.

Now, under the existing law which was changed as recently as a couple of years ago by a reorganization executive order on the 1950 act, the Secretary of the Treasury must consult the NAC before instructing me. As a matter of pure law, he does not have to abide by their recommendation, but I don't know of any cases in which he hasn't. He may have done quite a lot of work to make their recommendation the way he wanted it. But that's, as a formal legal matter, how it works.

But there is another body which is established by an exchange of letters between President Johnson and Mr. Fowler. This was all during this period referred to simply as the "Deming Group." This is a group that operates at under secretary or assistant secretary level largely. It was composed of Mr. Deming as chairman, the Assistant Secretary of the Treasury for International Monetary Affairs, the secretariat function was provided by a senior Treasury staff, and then the other members were two people from the FED, one or two from the Council of Economic Advisors, one from the White House, one or two from State, and myself. The main difference between this body and the NAC is that this body includes CEA and the White House, but excluded Commerce and the Ex-Im Bank, whose interests in most central issues of international finance were a bit more tangential, whereas the CEA and the White House were more direct.

This is the body which has in fact coordinated the U.S. negotiating position on Special Drawing Rights and other major issues related to the reform of the International Monetary System. It now has its successor, or continuation, in what's called the "Volcker Group."

M: This is the new man who holds Deming's position.

D: That's right.

M: I'm not familiar with the names of the new appointees like I am with the old ones, as you might imagine.

To go on to issues, for example, when the IMF is pursuing a policy with regard to a foreign country, how closely does the United States administration--the Johnson Administration in this case--play a role in what the IMF's doing? Take British devaluation, for example. Here's a matter that, strictly speaking, doesn't involve the United States government--what the British do with their currency here. But what role would the United States play in something like that?

D: It would play a pretty close role. It may be true in a formal sense that devaluation of sterling is somebody else's currency. It's not our currency. The repercussions involve the whole international financial system and the dollar is at the center of the system. So we were very, very active. "We," I say, the U.S. agencies involved were very active in that case.

At the other end of the spectrum, if it's a question of devaluation of the Nepalian rupee, I can handle that off the side of my desk and don't need to worry much about big implications at all. Nobody in the U.S. government's going to second-guess me on the question of that sort.

M: What Nepal does doesn't affect us like what Britain does, obviously.

D: No, that's right. In the case of the U.K. devaluation, there was a good deal of discussion internationally, quietly, before it happened with the result, by a process which is hard to define and wasn't really very well organized nonetheless, it became sort of accepted wisdom before the fact that if the British devalued they shouldn't devalue by more than 15 per cent, that the rest of the system could stand that much but not more. So that when they did devalue they devalued by 14.3 per cent, not going quite up to the limit. The figures came out in round numbers that way.

It's also fair to say, however, there was some controversy between at least parts of the U.S. government and the Fund on the U.K. devaluation. Secretary Fowler right up until the devaluation --and indeed after the devaluation--I don't believe was ever fully satisfied in his own mind that the sterling rate could not have been saved. He wasn't completely satisfied on that. On the other hand the Fund, by and large--I speak of the Fund as sort of a unified entity; it's got about a thousand staff members and everybody doesn't agree--but the principal officers in the Fund felt quite strongly that that was the right thing to do at the time.

M: Now presumably the United States could have stopped that through their Fund vote if they'd been serious enough about it?

D: I doubt it. They would be more likely to have been able to stop it by bilateral activity with the British. But that bilateral activity would itself have had to involve providing a good deal of financing to the British, and one of the themes of events during these years has been not to destroy the so-called special relationship between ourselves and the British, but to back off just a little bit. For example, we're no longer--and haven't been for five years anyway--in a position where the United States exclusively and bilaterally can really afford to provide all the financing the British might need. We more and more insisted that whatever financing is to be provided to the British should be done either through the Fund and, ipso facto as multilateral, or with participation by the Europeans as well as ourselves. Well, it would have been out of step with that approach for us to try so hard bilaterally with the British to get them not to devaluate as might have been required.

M: What about in issues that involve a balance of payments problem for which the Fund is presumably involved in one way or another, but which are carried on bilaterally. I'm thinking now, for example, of the West German offset purchase thing. Does the Fund get involved in things like this?

D: No. Not in any important way. It gets involved in the sense of being informed of the results, fine. No difficulty there, except insofar as they involve, let's say, security information having a purely military character. There's no reason for the Fund to know about it. But the general shape of the financial arrangements, the Fund finds out about or is informed about in one way or another, because it's proper for it to know, given its balance of payments responsibilities.

Something like the same thing can be said about trade negotiations. Trade restraints as such are not within the Fund's jurisdiction. But trade of course is so important to balance of payment results that the Fund has to keep well informed on what happens about trade restrictions.

Investment restrictions are much more directly the Fund's business, but the Fund agreement is very clear on the point that a member is able to impose investment restrictions without the Fund's approval. The Fund does not have an approving jurisdiction on those restrictions. It does have an approving jurisdiction on exchange controls effecting what we call current account transactions, trade or invisible transactions.

M: But the Fund's role would be sort of being informed but not necessarily consulted.

D: That's right. It's not a part of the negotiations, say, on an offset arrangement. It may informally offer an idea occasionally as to how something might be done, but that's a matter of just volunteering something.

M: You're anticipating my line of thought here. I was going to say, now, when a crisis comes up then, such as the recurring gold crises that has been a feature of the last several years, where does the initiative for whatever solution is embarked upon come from? Take the one that resulted in the two-tier gold system. Is this an initiative that comes typically from someplace like the Fund, or does it come from the American administration or from some other administration?

D: That initiative came from the U.S. administration, fundamentally. When gold is concerned, the Fund is very much involved, very deeply involved, and should properly be consulted and was consulted. But the initiative came from the U.S. administration. This was because the sales of gold that kept the gold price from going beyond $35.20 all through the period from late '61 to early last year, was largely by the United States with its official gold. In the gold pool that was set up the U.S. share of operations was, well at the end, something in the neighborhood of 55 per cent. So the U.S. was very directly involved. Neither the sale of gold to keep that price down to $35.20 nor discontinuing the gold sale and letting the price go, neither of those was an action which was contrary to the Fund agreement. And neither of them was an action that required, as a formality, Fund approval. But both of them were matters which, because of their general importance with the international monetary system, the Fund had a proper legitimate interest in. So when the U.S. government took a decision about Thursday, March 13 or 14--

M: '68?

D: '68, to ask the Bank of England to close the London Gold Market and to call a conference in Washington. Mr. Schweitzer, the managing director, was informed of that, I believe, before anyone else outside the U.S. government--but in any event very promptly. Both Secretary Fowler and Mr. Deming had a number of private discussions with Mr. Schweitzer at that time--last into the night, the following day, getting ready for the conference--and Mr. Schweitzer was at the conference. There were seven central bank heads at the conference and Mr. Schweitzer representing the Fund, so that he was a full participant. He had adequate opportunity to speak and say what was on his mind and what not.

M: Now this was a policy, an initiative that was coming from the United

States. Is it in this case one that the United States can impose on the international community, or was it such a situation that required some kind of action that they more of less had to take--

D: Well, it required some kind of action. There was a speculation that was now beginning to feed on itself, and the speculators were so sure that something had to give that they were just--their appetite for gold appeared endless. You know, there has to be anend to this sort of thing in terms of supplying gold out of official reserves. So something, we felt and we made that decision, something had to give. We decided that what had to give was maintaining this private price.

Given that decision on our part, it was very clear there was no one else in the world that was going to supply the almost endless amount of gold that would be necessary to keep that price under those circumstances. So once we made that decision, there wasn't any real doubt about the result. The doubt and the uncertainty and the controversy in the conference was just exactly what the new situation would be like so far as the nature of gold transactions between official monetary authorities in the future--whether it would be left optional as to whether countries wanted to sell some gold into the private market out of their official stocks or buy some gold from a private market into their official stocks, or not. Our view was then, and has continued to be until now, that once you made the decision to separate the two markets, official and private, there should be no connection between the two from there on.

M: And that way it can be a long-term solution. In other words this two-tier system can last.

D: Yes. Our view is certainly that it can last indefinitely. In fact, the way we see the shape of things in the future is that over time, people will become--including speculators and official institutions--less and less concerned about what happens to the private gold price. If in some years from now it goes up to $50 or $70 or $80 or $100 while the official price is still $35, over time people will learn that that doesn't necessarily mean anything. That gold which is in the private market is just like tin or rubber or hemp or any other private commodity. What happens to that price has got nothing to do with the international monetary system.

M: For example in this conference, does the President or the President's office ever get involved directly or show any specific interest in what's going on?

D: Oh, indeed yes. Ed Fried in that case was a very active participant in the decision that was made on that previous Thursday. Whether he was actually in the foraml meetings of the conference I'm not quite sure, but if he wasn't he was very much close on the fringes. And he had a number of active talks with the foreign participants in the conference. Yes, he was very much in the middle of it.

M: So it involved not only the Treasury Department but the White House itself.

D: The White House and all of these other agencies that are part of the Deming Group.

M: Is that--what you mentioned in passing there--regarding the possibility of members wanting to sell some gold outside the government established price, is this the problem that's involved South Africa here recently? Is that an attempt to break the two-tier system, or is that just a normal economic pressure that they have that they're trying to ease in some way?

D: Well, there are two sides to this. Two sides in two different ways. One is that the communique issued by that conference contained some phrases which I don't need to go into from a semantics point of view. There was a little ambiguity perhaps about the phrases used, for some reasons--

M: Studied ambiguity?

D: Yes, studied ambiguity, particularly as it affects the South African problem. But there are two separate sides. One said that none of the central banks involved in that conference would sell gold to other countries to replace gold sold by them in the private market. That was an effort to indicate clearly that they didn't want any central banks at all to sell gold into the private market and that they would enforce it in this way. So, so much on the sales side, and we haven't had any significant difficulty on that score. Nobody, as far as I know, has sold any of their existing stock of official gold in the private market.

The other side was that it said the central banks, owing to the--I'm paraphrasing--coming existence of a special drawing rights facility, which would provide for growth in official reserves, did not feel it necessary to buy gold from the market. That was studied ambiguity. And it meant at least two things. When they said they didn't feel it necessary to buy gold from the private market, what the United States meant by this was not only is it not necessary, but you shouldn't do it.

The other ambiguity was what did it mean: not buy gold from the private market? Did it mean not to just buy it in the London Market or did it mean not to buy it from newly-produced gold, such as South Africa. We certainly meant not buy any gold outside of what is already in official holdings. Well, that developed into a lot of controversy.

One of the main reasons for this studied ambiguity, one of the reasons for saying they didn't feel it necessary to buy gold was that they could agree on that formulation. The governor of the Swiss National Bank, who was at the conference, believed at the time--and may still believe--that Swiss law requires him to buy gold whenever it's offered at his buying price by anybody, or at least by any Swiss resident private or public. So he couldn't associate himself with the communique that made him obligated not to buy gold because this would have, he thought, been contrary to Swiss law.

I put it that way because later our people became convinced--I can't say of my own knowledge, but our people became convinced that this was not a matter of Swiss law that made him buy. It was a matter of Swiss tradition. But that, too, is a matter of some controversy.

Anyway the South Africans didn't quite know what this all meant to them. They weren't at the conference.

M: They were not involved in this original decision.

D: No. This was seven countries, the so-called Gold Pool Countries, mainly the United States, the U.K., the five major common market countries. One of the problems here from the diplomatic point of view is there was no bilateral discussion or communication really between the United States and South Africa at all for a number of months.

M: Why was that?

D: It's one of those things that happens like Topsy, I suppose. At least at the beginning I don't think it was really a studied deliberate action on the part of the United States. There was a lot going on. Ten days after this conference, two weeks about, there was a conference of Ministers in Stockholm where the back was broken of the major issues of the Special Drawing Rights. There was an enormous amount of activity and preparation for that. The number of officials is limited. They can't do too many things at once.

Later, I think, really it was perhaps felt it was just as well to let the South Africans stew and worry and whatnot. I always felt that Secretary Fowler had a little bit of a chip on his shoulder about the South Africans. Just exactly why, it's hard for me to say. I think he felt that they were playing a bit of a speculator's game for one thing. Whether the apartheid matter entered into it it's hard to say, but I couldn't rule it out.

M: Did it make good financial sense to exclude one of the world's chief gold producers from an agreement like this that would obviously involve them at some later time?

D: At some time of course it had to involve them, because either one had to achieve a more or less clear understanding what was going to be done with newly produced gold, or one just had to trust to luck--or trust to whatever the South Africans would decide to do.

I think it was a mistake, a very real mistake, not to get in touch with them and establish bilateral or possibly multilateral communication very early on. I think we would have avoided a lot of problems that subsequently developed.

M: You did say, though, that you think this can be a long-term solution, so the South Africans alone at least can't break it.

D: No. South Africans alone, I don't believe, can break it. The difficulty, which extends right up to this present moment, is that the Europeans who are the important countries of course in terms of supporting us do support us and have continued to support us but with a certain degree of reluctance.

I think they feel that a) diplomatically we've mistreated the South Africans to some extent unjustly. And that still goes right up to this moment.

Secondly, they are in terms of the substance of the matter a bit more sympathetic--not wholely by any means--on the South African's side, but they're rather more sympathetic with the South African views than we are. So the difficulty has always been that if everybody agreed that the South Africans ought to be isolated and given no quarter at all, that would be an easy diplomatic problem. That isn't the diplomatic problem we've had. The diplomatic problem is that the Europeans really have doubts about whether we are so right in what we're doing that they will forever stand for this system without some accommodation with South Africa.

M: Now the subject that I know least about and which is probably the most important is the one you've mentioned several times by its acronym of SDR's. I know that President Johnson once called it the greatest step forward in international monetary affairs since Bretan-Wood, which would make it of considerable importance indeed. I know roughly what it involves. Is this something that the Johnson Administration initiated and pressed forward or is this an initiative that came from the international financial community or what were the circumstances?

D: These things always have a number of fathers of course, but it's a fair statement that the Johnson Administration did in a really very meaningful way initiate the negotiation on this and carried it through.

In the fall of 1962 Secretary Dillon and then-Under Secretary Roosa who is Deming's predecessor, took an initiative to establish at the time of the Fund's annual meeting in September a group of what were called the Deputies of the Group of Ten.

The Group of Ten is a group of ten countries that agreed to lend money to the Fund, and as a constitutional matter the only constitutional function that group has is to go through a certain voting procedure and decide whether they will or won't lend money to the Fund. Constitutionally that's all the function they have.

But it was decided in the fall of '62 there was need for a rather smaller group than any easily definable group within the whole membership of the Fund, which at that point was something a little over a hundred--it's a hundred and eleven now. So they established the Group the Ten Deputies as a forum which would discuss possible changes in the international monetary system.

Roosa became the chairman in '62-'63.

M: That's R-O-O-S-A, isn't it?

D: That's right. Robert D. Roosa. It became really a high level international seminar for the first year, identifying problems and trying to analyze them. People who participated in it, as I didn't--I participated in the U.S. backstopping so to speak, but not in the discussions themselves, except once--regarded it as one of the finest seminars they ever participated in. But it was essentially a study function. And in the following year, '63-'64, there was further study in the establishment of a subgroup that began to look at possibilities of creating a new reserve asset.

By the time '64-'65 rolled around there was a group which was called the Ossola Group, chaired by Rinaldo Ossola of the Bank of Italy. No, no, I'm sorry, I have that wrong. The Ossola Group was not established until '65 and reported in '66. No, sorry, I was right the first time. They reported in May '65. And what this subgroup reported on was--

M: This subgroup in the Group of Ten?

D: That's right. It was called the Study Group on the Creation of Reserve Assets. It was essentially a technical study group, which identified various possible ways of technically going at this problem, if it were decided to go at it at all. Did very good work. Well, that meant by middle-'65 this problem had been gone into at some depth over a period of 3 years. There was a full-scale technical study as to how the problem could be coped with, if it was decided to cope with it. It was then that Secretary Fowler, with the approval of President Johnson, made a speech in Hot Springs, Virginia, in July of '65, in which he said in effect, the United States is now ready to enter negotiations about the creation of a new international reserve asset. We look toward a major international monetary conference to cap this whole process. That's what precipitated the matter from the field of study and technical identification of possible techniques into active negotiations.

M: Were there some individuals or a group of individuals in the American government who were particularly keen on getting this done--who were responsible for pushing it to this stage that you know of?

D: That's one phase of the history I really don't quite know about. I do know, of course, that Secretary Fowler cleared at least the substance of his major idea with the President. How many other people he talked to about it, I don't know. I would be very surprised if he didn't talk to Chairman Martin. Undoubtedly he must have talked to Mr. Deming, but I couldn't be sure he talked to anybody else besides those three.

M: But there were not some zealots for this who were pushing it, surfacing it all the time, making sure it stayed up for consideration?

D: Yes, I guess there were. Whether zealots is quite the right title for them, I'm not sure. A number of us were certainly interested in the idea, but I couldn't say that there's any one person who insisted it be surfaced. To the best of my knowledge, the decision to precipitate this in a negotiation was Secretary Fowler's himself--with the advice and counsel of others, but I really think that was his own decision.

M: This is then the first step that led to Rio in the summer of '67?

D: Yes, that's right.

M: What were the pitfalls intervening between those two years, primarily?

D: In '65-'66 most of the further study and identification of how this might be done was again handled in the Group of Ten. And one of the big issues that surfaced was the issue whether this creation of reserve assets was going to be done, to put it in an extreme form, by and for a limited group of big countries, or whether it was going to be done within the Fund and for the entire Fund membership. So it was the issue of universality versus a limited group.

There are a number of important issues. The other big issue, I think, was whether it was going to be done as a clearly identifiable new and money-like asset, or whether in some way it was going to just be sort of an extension of the existing arrangements and facilities of the Fund or some other body.

I think that in the year 1965-1966, the decision had not really been made yet in favor of the universal and equalitarian kind of system. Even in the U.S. government, the prevailing European view was, very largely, that this kind of thing can really be done properly only among and for a group of advanced, responsible countries.

M: You say Europeans--were the Europeans pretty well united on this type of thing?

D: There were differences in their views, but I think they were pretty generally united on this. Even the more liberal minded of them, I think, would have felt that if there's a case for making it a universal system, it's almost purely a political case, not an economic case. Whereas at least some important elements of the U.S. government obviously had the political thing in mind, but also felt that there was a genuinely respectable economic case, a financial case, for making it universal.

I think one of the most interesting things about the internal views of the U.S. government at this time--I may be doing somebody an injustice by saying this, but I think I'm right--the strength of the view of universalism in this was not centered in the State Department, surprising as that may seem. It was centered in the Federal Reserve Board.

M: That is surprising.

D: I was one of the advocates of universalism, but of course that was for an obvious reason, because it would be centered in the Fund. But the FED took up the cudgels for this, at least some important people in the FED. I don't mean the State Department was unsympathetic toward it. But they were not the main champions at this time.

Gradually, during that period the U.S. view swung over toward the universalist view. Exactly how and why it's a little hard to be quite clear about. At one stage in the proceedings of '65-'66, the U.S. put forward a proposal within the Group of Ten under which we split the difference on both of these main issues. We, in effect, had what we used to call a four-box approach. We would have two different reserve assets, one genuinely money and one a little bit less money. Then we had two different approaches toward the industrial and the less developed countries. The creation of these things would be direct and put into the hands of industrial countries. Then an appropriate amount of creation with respect to the rest of the world would be conferred on the Fund and the Fund would administer that money for the benefit of the rest of the world. The rest of the world wouldn't get it directly and automatically.

Well, I personally never liked that position much.

M: Semi-universalism is an impossibility on the face of it!

D: That's right. I think one of the most telling speeches I have ever known about in this field was one that Mr. Schweitzer. . . He's French, as you may know, nephew of Albert Schweitzer. I think he is a man of real conscience and integrity. He made an off-the-cuff speech, which at least he's always said he doesn't have any text of. He made it in Minneapolis. I can't date it exactly but it was during this year '65-'66. The only coverage that I know of it was in the Washington Post. Anyway what he said off the cuff was that he found it just impossible to understand why or how a country whose Supreme Court had in 1954 said that the doctrine of "separate but equal was not acceptable domestically, how that country could be taking that position internationally." Well, that really cut! And really it was from that time on that the tide of universalism was irresistible.

M: That was agreed upon by the Rio Conference. The Rio Conference was, strictly speaking, a meeting of the Board of Governors of the IMF, wasn't it?

D: Yes. Regular annual meeting.

M: And that is who approved the SDR concept?

D: Yes, the concept in outline form.

M: And then they referred it to whom for refining before the Stockholm meeting in April?

D: Technically they referred it to the Executive Directors in the Fund.

M: That's the 20--

D: That's the 20-man body that I'm the member for the United States. They had to do this because what they approved in Rio was a six-page double-spaced typewritten outline, which set forth the main features of the scheme.

M: Really a skeleton outline of a thing this complicated.

D: Yes. A number of complicated problems that didn't raise such very major problems were either noted, or in some cases not even noted, although everybody knew they had to be dealt with. But just contrast--this was six pages double spaced and the legal language that was finally adopted was twenty printed pages.

M: Of government small point type.

D: That's right. So that's what had to happen after the Rio decision.

M: This is where the hard bargaining presumably took place then, was between Rio and Stockholm.

D: Yes. A lot of hard bargaining went into the preparation of the outline in the year '66-'67. And there we invented. I guess it was as much as anything a U.S. initiative. Well, let me continue the story this way.

Once it was clear that the U.S., at any rate--and other countries were beginning to swing around to this--was going to strongly support the universalist view on this, then it became clear that you couldn't ultimately and finally negotiate this operation completely in the Group of Ten. It became a question of how you universalize the negotiation, too. In fact, some while before that I think the U.S. had--Secretary Fowler--had announced that somehow we had to find a way to listen to the rest of the world on this issue and to take into account their views before finally shaping the package.

Well, the question was, how do we do this? Do we just refer it to the Board of the Fund after the Deputies of the Group of Ten had carried it forward this far, or what? Well, we invented what really has to be called a bastard forum for this purpose. And I think it ought to be described because everybody, including most U.S. officials, had a good deal of doubt how useful or helpful it would be. But it turned out to be enormously successful.

What we did was to set up four joint meetings between the Deputies of the Group of Ten and the Executive Directors of the

Fund. It was a bastard group because that meant that the Group of Ten countries were represented either twice or three times, depending on how you count. There were always two deputies from every country. That meant that there were twenty deputies from the Group of Ten and there were twenty executive directors of whom ten were from the Group of Ten. Well, that seemed pretty odd, but anyway we did it.

M: But it did bring the ones not previously included in, at least in the form of the ten executive directors from the Fund.

D: Right.

M: This was the first time they'd been in.

D: This was the first time they had directly and explicitly been in. Now, there had been some discussions going on in the Fund and whatnot, but the negotiation was not in the Fund. That just bothered the daylights out of them. And properly so, I think.

The sense in which this operation was enormously successful was that I think most of the deputies from the Group of Ten, even including the U.S. deputies, really had a feeling that the executive directors from the rest of the world were more or less the great unwashed. All they were interested in was getting as much out of it as they could, and getting aid out of it, and they were unconscionable and whatnot. They learned that wasn't true. These were very respectable, very cautious, conservative, careful people, who had a great deal of contribution to make to this operation. And many of my colleagues from the non-Ten felt that the deputies of the Group of Ten were supercilious, et cetera, et cetera. Both sides developed really a great deal of respect for the other, so it was really quite a successful operation.

It was that forum which largely negotiated the outline that was approved in Rio, although it took two ministers meetings of the Group of Ten also to crack a couple of the hard nuts--mainly because the French and U.S. were violently in disagreement on some of the main issues.

M: As I understand it, the French were demanding a couple things, for example the change to the 85 per cent voting formula and the solution to the problem whether one could opt out of the SDR system. Were these decisions reached before Rio, or in the period between Rio and Stockholm?

D: Both. I guess I better refer to a document or two.

The 85 per cent vote for the creation of the SDRs was decided in the outline which was approved at Rio. So that was decided prior to the Rio meeting in outline form. It was also decided, I'm pretty sure, in the outline that there would be some kind of an opting-out possibility, but it wasn't spelled out. I guess I don't have the Rio one.

M: If those documents are available they'll have the dating of these things anyway.

D: Also, a number of the important technical issues, such as the relationship, if any, between the SDR and gold were decided at least in broad general principle in the outline. There are quite a number of key problems left. At least they later became key. I don't suppose we realized fully the extent to which they would.

M: You didn't give yourself much time to work them out either.

D: No. One of the issues, for example, was what kind of a deadline were we going to give ourselves to convert this outline into a fully blown legal document. Well, under instructions from the U.S. I was pushing a deadline of December.

M: Of '68?

D: Of '68. No, sorry, '67. Then February--since nobody wanted to accept December. Ultimately the negotiation, really in the Fund board, which is where this deadline thing was decided, was between me and the Frenchman, me plumping for February and him plumping for June or maybe never. So we temporized on April. No, I'm sorry, we did temporize on the end of March. In fact we missed the deadline by 17 days. If all the issues had been left to us in the Fund we could have met the deadline, but it required a Group of Ten meeting--ministers meeting--which took place in Stockholm right at the end of March. Then we had to clean up a number of other things that had been left hanging open because of the minister's feeling, so it took us until April 17. So we missed it by seventeen days.

M: Not far considering the difficulty.

D: Not far.

M: What about the price that we presumably had to pay. These issues that the French were successful in gaining prior to the final agreement. Are they serious or dangerous to the program in any way?

D: There isn't any way of answering that until after the thing has been operated for awhile.

M: Does the 85 per cent apply only to the activating of the SDR program or does it apply to all fund decisions?

D: No, it applies to more decisions than just the activation decision but not to all Fund decisions. It applies to that. It applies to--what else--cancellation decisions on SDR. It applies to changing certain of the technical appendices that indicate how the SDR is to be operated in the first period. Those can be changed with an 85 per cent vote. And then something that was decided in the interim between Rio and April last year, the 85 per cent vote was applied to changes in quotas in the regular Fund. That is something that had been surfaced by the EEC countries, but not agreed to by Rio. A couple of other decisions in the regular Fund that 85 per cent now applies to, unlike previously. Previously, the quote increase took 80 per cent of the votes. Also, previosuly a decision to have a uniform change in par values, or in other words a change in the price of gold took only a majority of the governor's votes in the Fund. From now on when it enters into force it will take 85 per cent.

M: The press spoke about this frequently as a Common Market veto. Is there that much unanimity in the Common Market to where it can really be looked upon as a Common Market veto? It takes all of them to exercise the 17 per cent vote, doesn't it?

D: They can lose Luxenbourg. It takes all the rest if you assume that all Fund members will be members of the SDR system. If not all Fund members become members of the SDR system, then there are some circumstances in which they could lose either Belgium or the Netherlands. But in any event, it certainly takes the three big Common Market countries.

That's a fair question and an interesting one. We have never failed to be able to divide the EEC on major issues in the Fund. I don't know whether I ought to take credit for us. Maybe the better way to say it is they've never been able completely to be unanimous in the Fund. In spite of the French putting a lot of heat on them somebody has always been willing to break--either the French or Germans or both--at least to some degree. Now that doesn't mean that we've always won everything we've wanted in the Fund. For example, in '64-'65, we would like to have had the quotas increased by 50 per cent. Well,we got 25 per cent in spite of the fact that the French and the Dutch would have preferred no quota increase, or at least one much smaller than 25 per cent. So that on something that we could live with, its always been possible to split the EEC.

M: So past performance doesn't suggest that there's a serious danger of a Common Market veto in the sense of regular activity.

D: No, it doesn't, not so far, but this still could be argued both ways. And this is the kind of thing we had in mind when we fought it as hard as we could. The very fact that the EEC has a veto possibility now that they didn't have before may possibly lead to greater unanimity in their views than it has before.

M: Unanimity didn't help them before.

D: That's right, it didn't matter, they were going to lose anyway. Now if they can stick together, at least on these big decisions, they won't lose. So you can argue that this will give them that incentive they need to be sure they are unanimous.

M: Did they place informally more or less explicit requirements on the United States balance of payments problem before they intend to allow the SDR to go into operation?

D: That was certainly one of the issues. It was pretty difficult in the provision that says, quote, "The first decision to allocate Special Drawing Rights shall take into account as special considerations a collective judgment that there is a global need to supplement reserves, and the attainment of a better balance of payments equilibrium as well as the likelihood of the better working of the adjustment process in the future."

So you have to have two main categories of things: collective judgment that there's need to allocate; secondly, a double barrelled thing, the attainment of a better balance of payments equilibrium. --whatever that means, or is interpreted to mean--and the likelihood of a better working of the adjustment process in the future. These again are negotiated words. It doesn't say, balance of payments balance. It says a better balance of payments equilibrium. It doesn't say better than what.

M: Was there any general agreement on what that meant, that is among say the Common Market people in the United States?

D: It certainly meant better than our position was several years ago. No, it's not all that clear. I think all the Europeans but the French agreed that putting a requirement for absolutely zero deficit, or even a surplus would be just foolish because the statistics from one thing don't necessarily in themselves mean all that much.

M: That was really the reason for the question. It's quite obvious that at the end of the Johnson Administration we were juggling the figures--we were putting the figures together to show some short-term transfers as credits so that our balance of payments position looked better than is implied in the long term.

D: Last year it was in a surplus in either of the two main ways of defining that. You can argue about how meaningful that was, but there it was.

M: I was just wondering whether that had been the reason why we had gone to such lengths--short term treasury issues and such as this.

D: It may have entered into it to some extent, although it wasn't by any means the only reason. But the French on this provision have always said that their view is there has to be not just some meaningless phrase little a better balance of payments equilibrium. They would say, I think, that you have to have no deficit on a sustainable basis. In fact, even though these words are the same words that were in the Rio outline and the same words which had been agreed upon in 1966 in a ministers' meeting in the Hague, we never could do any better than these words which became hallowed. The French always insisted that this isn't what was really meant. It had to be much better than that. So, this will be a controversial outline, there's no question, in negotiating the activation.

M: Now this had to be passed by the American Congress last summer. Was this a difficult operation in which the White House got importantly involved at all?

D: No, the White House wasn't involved in the testimony. Secretary Fowler and Mr. Deming both took a very leading and aggressive and interested role in this. They put it themselves high on the legislative calendar. The Secretary did a great deal of the testimony and Mr. Deming did most of the rest with Dewey Daane of the Federal Reserve, the second U.S. deputy, and myself supporting him.

M: It wasn't a close vote in Congress, as I recall.

D: Oh, no. It was almost embarrassinly unanimous.

M: I think it was unanimous in the Senate, wasn't it?

D: If there was an negative vote it couldn't have been more than two or three. I don't recall the vote but it was nearly unanimous certainly in both the House and the Senate. I say it was almost embarrassing because if you compare the relative ease with which a very complicated thing like this went through and what happened to IDA replenishment, that's why I think it's embarrassing. I think really if somebody says the Congress knew it was a good thing for the United States so they didn't care about the details, whereas in IDA it's the obverse situation, I think that would be a fair statement. As a representative of the United States internationally it embarrasses me.

M: So it wasn't necessary, in this case, for the White House to lobby congressmen or to use any arm-twisting that Mr. Johnson is allegedly good at.

D: No, I don't know that it was ever necessary for the President to call anybody in the Congress. Mr. Fowler did call on a number of people and so did Mr. Deming. But once there was a modicum of some understanding of it there was never any doubt about the outcome, and it went very quickly.

M: What about the present prospects for it ever being put into operation --or in the near future being put into operation?

D: Oh, I think that the prospects are very good. At this moment we have ratifications, or as we call them, acceptances from thirty-five Fund members with 51 per cent of the votes in the Fund. The requirement for entry into force is ratifications from sixty-seven members with 80 per cent of the votes. We've done a great deal of diplomatic activity and have the various embassies reporting on developments. We estimate that it ought to enter into force certainly during the second quarter of this year. My own personal guess would be early, rather than late, in the second quarter, but anyway during the second quarter.

M: That's enter into force, but not necessarily authorization for the first issue, which would require the 85 per cent vote.

D: That's right. That requires a separate consultative procedure and a proposal by the managing director and the voting and all the rest. So that must be somewhat less certain. But I think there's a very high likelihood that that decision will be taken this year sometime. I hope by about September, but it could be not until the end of the year.

M: What about the proposal that the French and others made during the course of the negotiations regarding expanding the Fund's purpose and operation to include the support of commodity prices.

D: That was a surprise resolution they introduced at Rio. That's one of the few times in the history of the Fund that somebody has put in a resolution from with no advance consultation at all. It's a resolution that they drafted in Dakar where they were meeting with the French African countries.

This, of course, was along the lines of general French policy on this kind of issue for quite a number of years. There was a good deal of grandstand playing involved to the French Africans and to other developing countries but some, I suppose, genuine feeling on the French part that something ought to be done in this field. They pushed it through and we didn't oppose it. Nobody really opposed it except in terms of trying to draft the language in a more reasonable way.

At the Rio meeting, we were to report--the executive directors of both the Fund and the Bank were to report--last year. Presumably that meant we were to try to get the job done last year. Well, we didn't get the job done. What we were both finally able to do was to submit to the governors a staff analytical study of the problem without conclusions or proposals as to how the Fund and Bank would act to try to meet the problem. This was a source of real disappointment to the French and some others.

In fact we had drafts from both the Bank and the staff, the Fund staff, as to what kind of actions ought to be taken, but they were controversial and we decided it was not quite proper to forward them. Mr. McNamara, in particular, objected strenuously to forwarding the Part II, as we called it. In fact he said that if the board voted for him to forward Part II, he would forward it with a personal disassociation from any and all the conclusions. Well, obviously, that's no way to forward a document. That played quite a key role in refusing to forward this thing.

M: But the American government didn't take a rigidly negative position on the whole matter?

D: Oh, no. We've played a careful but I think fairly constructive role in this thing. As a matter of fact, we've let the main argumentation be carried by the French and the LDC's and, on the more conservative side, the Germans and some of the other Europeans. So it's more the Germans versus the French. It's sort of nice to sit back and watch them battle for a while. We've played not a terribly leading role in the discussions but we've been sympathetic to the ideas as far as they can be worked out.

M: And it's still a possibility?

D: Oh, yes. There'll be something forwarded by both the Bank and the Fund this year and it will be modest but constructive I'd say. We agreed last year at the annual meeting on a deadline of June 30 this year for forwarding the rest of the work. The Fund can easily meet that deadline. The Bank will have more difficulty but I'm sure they'll meet it. They've got a somewhat more difficult problem on their side.

M: It's been part of the conventional wisdom, I suppose, to say--by the critics of Mr. Johnson's Vietnam policy--that it's had adverse fall-out effects in all elements of our foreign relations. Has it been true in the case of international monetary negotiations, financial negotiations, that there's been a Vietnam fall-out that's been very important?

D: Yes, to some extent. I wouldn't call it terribly major, but certainly to some extent. When a year and a half or two ago there began to be a theme in Secretary Fowler's public utterances and speeches by other people that security was one of the big elements in our balance of payments problem and in particular the Vietnam conflict was one of the problems and people had to have somewhat more patience because of these major responsibilities that we were carrying.

The reaction by the financial people abroad to this kind of approach was some good, some bad, of course. I think the financial people, who regard themselves largely as professional non-political people, first of all could understand that this was something that a finance minister can't do much about and so the finance minister himself has to have a great deal of sympathy on that score.

On the other hand, they didn't want themselves, particularly as non-professionals, to be regarded as taking it easy on the United States because they agreed with the Vietnam policy. I suppose a certain number of them didn't. This is not something you talk much about in the financial league. But either because they were no-political or because they didn't like our Vietnam policy, this made them a bit squeamish--some of them.

And, of course, it had the substantive effect of in fact making the balance of payments more difficult, not only because of the direct costs of Vietnam, but also because of the indirect effects in terms of the domestic policy. After all, the main reason our trade balance has pretty well evaporated is because imports have been rising in a fantastically rapid rate because of domestic inflation. This is linked to Vietnam, to cities, and youth disaffection and a whole lot of other domestic problems.

M: You've been extremely patient and cooperative and helpful here. Are there any big areas that I haven't known to mention or thought to mention that you think form an important part of the record here?

D: I'll just say maybe a few words about the more mundane operations of the Fund with big countries and small countries, but here I have in mind several small countries as much as any. The Fund's operations with less developed members are a considerable part of its bread and butter activities.

In a very large number of cases the U.S. AID programs hook onto conditions that the Fund puts on to countries. This is true in Indonesia. The U.S. AID program in Indonesia relies very heavily on the kinds of conditions and policies that the Fund works out with the Indonesians. It's true all over Latin America. It was true in Vietnam. It's true in Laos. Places that are at the frontier of the security problems, we find frequently that when major issues of economic policy come up--exchange rate changes, major inflationary problems as we've had in Vietnam--often the Fund can do some kinds of things because of their sensitivity that the U.S. can't do. And the U.S. is very glad to have the Fund out in front.

I might say in this respect that the Fund deals with some dirty cruddy kinds of problems that the Bank never has to deal with. The Bank only loans for good and proper reasons to countries that have a reasonably good credit record and they're in pretty good shape. The Fund deals with these sometimes non-countries like Laos, which is a terrible, dirty kind of problem. The Fund is right out there in the front line and the U.S. ambassador in Laos, I'm sure, would say that he's damned glad the Fund is involved in Laos. The Fund is involved with Peru right now.

D: At a time when things are very tense between the U.S. and Peru. The Fund has been involved with the U.A.R. at some times when relations have been very strained between us and the U.A.R.

I think all during this period there's been more and more a forging of a very strong tradition that the Fund is non-political. The Fund has got to deal with the central issues of foreign policy. The Fund can be involved with Haiti when no other external body is involved with Haiti. Why? Well, not because the Fund likes Duvalier, certainly, but because there's a feeling that maybe it's right to at least have a financial system that still is tolerably held together for when the revolution comes.

M: And what about the relation of the American administration to the Fund in cases like that? They consciously use the Fund in Haiti, for example, and Peru and are able to shape Fund policy so as to match American policy.

D: Well, not to match American policy. Up to a point we're able to influence Fund policy enough so that we think it's sensible. And on the assumption that Fund policy is exclusively directed to the substance of financial issues, the U.S. government by and large agrees with it.

I wouldn't want to create the impression that the Fund is sort of just an arm of the U.S. government, because that's something we have to keep fighting off, especially in Latin America. It just isn't true and even if it were true we wouldn't want people to think it was true. There is that distinction between the U.S. and the Fund but the U.S. people can work very closely with the Fund. Where there are sophisticated people in the U.S. government it works out extremely well. I think probably the outstanding case right now is Indonesia and Peru's another one.

M: Anything further?

D: No, I think probably that's about it.

M: You've been quite helpful and I've greatly enjoyed it.

[End of Tape 1 of 1 and Interview I]

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