January 1984

Review of Making International Monetary Policy, by F. Lisle Widman

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BOOK REVIEW

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MAKING INTERNATIONAL MONETARY POLICY. By F. LISLE WIDMAN. Washington, D.C.: International Law Institute, Georgetown University Law Center, 1982, 272 pp., cloth.

The Treasury Department of the United States is the chief economic department of the administration, and the Secretary of the Treasury the administration's chief economic official. For historical reasons, and because the structure matches the position and authority of the Finance Ministries of the United States' chief trading partners, the Treasury Department, not the Department of State, takes the lead in working out international economic policy with other nations.[1] F. Lisle Widman served as an international economist in the Treasury Department for over thirty-three years. During the last five years of that period, 1975-1980, Widman was Deputy Assistant Secretary for International Monetary Affairs. Thus, his period of service in the Treasury Department covered all of the major international monetary events from the reconstruction of Europe under the Marshall Plan and the establishment of the Bretton Woods system (setting up an agreed upon system of exchange rates, exchange controls, and the International Monetary Fund as a central administrator) to the breakdown of that system in 1971, the rise of the Eurocurrency markets, and the international debt crisis. He has now written a book about that service, "Making International Monetary Policy."[2]

Unfortunately the title is a misnomer and is apt to mislead. From these memoirs, Widman appears to have been a dedicated, conscientious career civil servant — an employee starting in the lowest civil service rank (for a person of

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1. *See* G. SHULTZ & K. DAM, ECONOMIC POLICY BEYOND THE HEADLINES 11-12 (1977). George Shultz, Secretary of the Treasury from June 1972 to May 1974, and his deputy Kenneth Dam, acknowledge that the particular personality of the Secretary of State can affect the economic aspects of U.S. foreign relations. Using Secretary of State Henry Kissinger as an example, Shultz and Dam illustrate the relationship between economic questions and foreign policy determinations: "Though he [Kissinger] took no special interest in economic questions, any policy decision with foreign policy implications had to be accepted by Kissinger. A failure to obtain this acceptance could easily doom the policy decision." *Id.*

2. F. WIDMAN, MAKING INTERNATIONAL MONETARY POLICY (1982).

his education and skills) and moving up from grade to grade. As such, he never made policy, in any common meaning of that word.[3] Moreover, it was not until his service as Deputy Assistant Secretary that he appears to have participated in policy-making. Instead, he served to carry out the policy made by his superiors. Eighty-five percent of the book reflects this service of policy implementation under a succession of political appointees. Thus Chapter Two describes, in painful detail, the growth of the bureaucratic "flow chart" of the Treasury Department, including a final subsection entitled "Advantages and Disadvantages of the Special Relationship with the Undersecretary." The advantages and disadvantages which Widman describes, however, are not those that might inhere for the formation of international monetary policy in a particular form of organization of the Treasury Department. Instead, the section recounts the difficulties Widman personally encountered in working within a bureaucracy as an international economist technically subject (on the flow chart) to the direction of the Assistant Secretary for International Monetary Affairs, but in which he worked mainly "at the specific request or for the personal use of the Undersecretary [for Monetary Affairs]."[4] Widman found the need to serve two masters to be "the source of great anguish and many sleepless nights."[5]

Similarly, Chapter Three, entitled "Adapting to a New Boss," discusses the effect upon the permanent bureaucracy of the political nature of the positions of the Secretary and Undersecretary of the Treasury, both positions changing with each new administration. Because Widman was trained as an economist, however, and not as a sociologist or political scientist, the "analysis" is necessarily anecdotal and would more fairly have been entitled "Memoirs of a Treasury Civil Servant."[6]

This is not in the least to say that the book is worthless; even the most

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3. SHULTZ & DAM, *supra* note 1, at *x*, describe economic policy as follows: "But between these two levels — beyond the headlines and short of the technicalities [of economic issues] — lies a neglected world of ideas and concepts, of organizational arrangements, of pressures and demands. This is the workaday world of economic policymaking and implementation." Contrast this concept of economic policy to Widman's:

> In using the term [economic policy], I refer to the overall thrust of a myriad of specific decisions on a variety of specific issues. These issues range from the decision to buy a particular amount of a foreign currency in the commercial foreign exchange market on a certain day to a decision to accept a phrase for inclusion in the articles of Agreement of the International Monetary Fund. Policy is made daily, sometimes by taking a concrete action, sometimes by concluding an agreement with a foreign official, sometimes by making a statement to the Congress or to the press, and sometimes by doing nothing.

WIDMAN, *supra* note 2, at *xiv*. In short, Widman's work concerns not policy-making, but the process of policy implementation.

4. WIDMAN, *supra* note 2, at 31.

5. *Id.* at 32.

6. Charles Coombes, who as Senior Vice President of the Federal Reserve Bank of New York, did participate actively in the Basle meetings of the senior monetary officials of the so-called Group of Ten (the industrialized nations and Switzerland, for eleven in all), published his memoirs in 1976 and entitled it *The Arena of International Finance*, a title that seems more appropriate than *Making International Monetary Policy*.

anecdotal view of the daily work of the bureaucracy has value as an anthropological document.[7] Viewing the book as a form of oral history, however, one would prefer that it had been written in response to the questions of a trained collector of such history. Some of Widman's insights into the impact of both the duplicating machine and the possibility of jet travel in the process of the formation of international economic policy rise to the level of useful generalizations concerning organizational arrangements. In general, however, his relating of what he saw and heard in his service does not add to the reader's understanding of the process as it might have if his observations had been organized for him by an interviewer trained in sociology. For this, I do not believe Widman should be faulted. Instead, I would hope that the difficulty with this book as written and published might encourage the scholarly sponsorship behind such publications to consider how to make better use of the insights, experience, and knowledge of dedicated civil servants, such as Widman, upon their retirement.

The above remarks are addressed to the eighty-five percent of the book written out of Widman's experiences in moving up through the Treasury Civil Service grades. As noted, in 1975 Widman was elevated to the level of Deputy Assistant Secretary and, apparently, began to participate in policy-making rather than policy implementation. Chapter Ten of the book, roughly twenty pages, entitled "International Cooperation in Action," is what I had hoped from its title all of the book would be.

The events Widman describes in Chapter Ten continue the story begun by George Shultz, Secretary of the Treasury from June 1972 to May 1974, and his deputy, Kenneth Dam, in *Economic Policy Beyond the Headlines*.[8] In that 1977 book, Shultz and Dam devote a chapter to the stories behind the headlines of the great international monetary events of the early 70's, the closing of the "gold

7. Although a book may have value, it is not necessarily fun to read. Widman is much too careful in his comments on the personalities under which he worked to make the book entertaining. Widman appears in his memoirs to be honest, decent, and deeply caring about helping "the American people understand the process through which international monetary policy is developed and carried out day by day . . . [so that] as educated citizens they will be better able to appraise whatever policy may prevail." WIDMAN, *supra* note 2, at *xiii*. He does not, however, write well: the writing is hackneyed and the book dreadfully edited — typographical and chronological errors abound. Numerous references to technical concepts are made without cross-reference to when a concept was first explained, and sometimes the reader is given an insight into a problem without any indication as to whether or not the problem has been subsequently addressed. Again, these difficulties would be more easily overlooked if the book were more human-interest oriented.

8. G. SHULTZ & K. DAM, *supra* note 1, at 11-14. Professor Kenneth Dam, now Undersecretary of State to Secretary of State Shultz, went on to write a most interesting history of the changing legal structure of international monetary relations and the process of that change, entitled *The Rules of the Game: Reform & Evolution in the International Monetary System* (1982). In that book, Dam brings his considerable powers of abstraction and analysis to bear on the formation of international monetary policy in an interdependent world. Intellectually, the book is more than one had ever expected of Widman. Widman, however, was inside the Treasury from 1946-1980; Dam was an economic policy insider (and not in Treasury) only from 1971-1974. In effect, I had hoped that reading Widman would illustrate Dam as Shultz and Dam had illustrated the events of August 1971 in their book.

window" in August 1971, and the eventual emergence of a "system" of managed floating exchange rates. The Shultz and Dam discussion of the "Path to Camp David," where the August 1971 decision to close the "gold window" was made, is first rate. They detail the strategic reasoning behind these extraordinary actions. Widman continues the story where Shultz and Dam left off. These few pages of Chapter Ten justify purchase of the book for those interested in international economic relations.

Widman begins Chapter Ten by noting that the very breakdown of the fixed exchange system described by Shultz and Dam, together with "the dramatic expansion of international lending through private money and capital markets,"[9] increased the need for cooperation among the major nations in handling financial crises. He goes on to describe the form this "cooperation" took in 1976 and the role taken by the U.S. Treasury in leading the posses that saved the maidens of Italy, the United Kingdom, Mexico, and Portugal from the bandits of the exchange rate crises of that year.[10] He notes that while the International Monetary Fund in theory is supposed to exercise "firm surveillance" over exchange rate policies, the Second Amendment to the Fund Agreement had not yet been ratified in 1976 and "[t]he Managing Director, while anxious to cooperate and to do everything possible to maintain the [world financial] system, did not feel he had either the authority or sufficient support from major powers to lead the way."[11] Widman also notes that with the four nations in difficulty in 1976, "[t]he press was filled with dire warnings about debt moratoria, failures of major banks and collapse of the entire banking system."[12] Widman could just as easily have been writing about 1983 as 1976.

The events of 1976, as Widman relates them, also duplicate perfectly the economic rescue of Mexico in 1983, and the Eastern block (Rumania and Poland) exchange crises in 1981, except in the latter cases the Bank for International Settlements, rather than the U.S. Treasury, acted as the posse-organizer to hold off the bandits until International Monetary Fund (IMF) loans could be brought in. In all cases, the story was and is the same: the maiden must be made to realize that it is her profligate ways and her irresponsible domestic macroeconomic policies that have brought the bandits to her door, and she must be made to promise to reform before the posse will rescue her.[13] Widman's stories of 1976 serve to reemphasize the constancy of the tale.

9. WIDMAN, *supra* note 2, at 163.
10. *Id.* at 164-175.
11. *Id.* at 164.
12. *Id.*
13. *See, e.g., id.* at 165. In recounting the Italian exchange crises, Widman notes:

> Senior Italian officials, both in the Bank of Italy and in the Treasury Ministry, knew that the country was living beyond its means and that a strong stabilization program was needed. . . . Discussions within . . . [the Group of Five, Germany, U.S., France, U.K., and Japan] were never disclosed but it soon became apparent that no major country was prepared to provide any further credit to the Italians until they had applied to the IMF for a stand-by agreement and

During these crises, in which the U.S. Treasury organized the posse, the role of the staff in Treasury was to do the hard work of what is today called "country analysis." The staff went over all the relevant figures and, speaking here of the case of Italy, "put together a lengthy paper which spelled out our analysis of the situation and outlined a complete program of policy reforms designed to restore payments equilibrium."[14] Make no mistake, the U.S. Treasury's proposed program for Italy had nothing to do with Italy's external position: it dealt strictly with Italy's domestic policy. In Widman's words: "How large could the budget deficit be? By how much would tax revenues have to be increased? How much would government expenditures have to be cut? What changes could be made in wage indexing? How much of the deficit would need to be financed by borrowing outside the banks?"[15] The maiden Italy would not seem to have a shred of sovereignty left to cover her. Widman is unable to state what Edwin Yeo, then Undersecretary of the Treasury, did with the paper, but he suggests that it was distributed to the other members of the posse.[16] He finishes the Italian story by noting that the Italian government collaborated with the IMF to work out a program and "[a]s the Italians moved to accept an IMF program, they were able to get short-term advances from the U.S. and the EC [European Community] credits became available. The Italian position which had been adversely affected by uncontrollable capital flight, strengthened dramatically."[17]

Widman's story of the United Kingdom's 1976 crises has an additional twist which should also sound familiar to anyone following international economic news in 1983. Labor was in power at the time and, as recounted by Widman, there was strong opposition within the British cabinet to any further approach to the IMF.[18] Apparently a country outside the Group of Five,[19] which composed the usual posse, proposed a rescue operation. Yeo, according to Widman, flew to London and told the British that U.S. money would be available only if the British promised to repay any loan within six months, from funds received, if necessary, from the IMF and which would be, of course, available only subject to

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> agreed to the stabilization policies which the IMF considered necessary. Further recourse to ostensibly almost automatic credit facilities within the EC somehow would not be available. The rest of the Fed swap line, which some Italians had been advertising as automatically available if they should ever need it, would be subject to prior approval. That approval, it was apparent, would not be forthcoming except in support of an IMF agreement.

Id.

14. *Id.* at 165-66.

15. *Id.* at 166.

16. *Id.* Widman writes: "[B]ut I have a feeling that a copy of this mysterious anonymous document appeared in each of three major European capitals." *Id.*

17. *Id.*

18. The "conditions" which would be imposed by the IMF seemed to some to be a betrayal of the Government's commitment to its supporters. *Id.* at 167. The echoes in recent press reports concerning Brazil and IMF programs are obvious.

19. *Id.* The Group of Five consists of France, Germany, Japan, the United Kingdom, and the United States. *See id.* at 68-69.

the usual stabilization program. Once again the U.S. Treasury staff worked out the terms of the "specific policy measures . . . we thought ought to be taken by the British authorities."[20] Widman then relates the end run which British Prime Minister Callaghan tried to make around Treasury to convince President Ford to intervene with the IMF so that IMF funds could be committed without such a stabilization program. In the end, the British maiden had to submit, and "[t]he British eventually agreed to additional restraint measures as requested by the IMF."[21]

The Mexican story is similar to that of the British except that with Mexico, the Monetary Affairs staff was plagued with being viewed in its "country analysis" work as an interloper on the turf of Treasury's Developing Nations staff. The final story on Portugal's financial crisis of 1976 is somewhat different and is of interest mainly to lawyers or prospective lawyers. In recounting the story, Widman gives great praise to the Treasury Department's attorney-adviser Nancy Jacklin, who discovered how to manipulate the rules on reserve counting so that Portugal could sell its gold on the market without appearing to do so. The praise this economist gives to Jacklin's lawyering might be of interest to law students proposing to enter government service: "There are two types of attorney-advisers on government staffs — those who see legal obstacles to virtually every new idea and those who sincerely search for some technique that is within the law to accomplish the substance of policy objectives."[22]

As a law teacher reviewing Widman's book on the work of the Monetary Affairs Staff of the Treasury Department, I would not have said it any better. This short portion of the book on the actual process of crisis management by the Group of Five and how the IMF rules are reinforced is worth its weight in SDRs, the international monetary system's new gold.

20. *Id.* at 167.
21. *Id.* at 170.
22. *Id.* at 173.