The Absurdity of Traditional Negotiating Techniques

The history of the Rio negotiation and of its historical precedents may be worth pondering by policy-makers as well as by political scientists and economists. It demonstrates once more that man is controlled by its institutional environment far more than he is able to control it.

The international liquidity debate is not new. It began, about a century ago, in the guise of a marathon debate on silver and bimetallism, in which one of the main arguments was the need to retain silver as a monetary metal in order to ward off a threatening shortage of gold, and not to crucify mankind on a "cross of gold." The problem was solved, however, outside the conference room, by unforeseen increases in gold production and, most of all, by the enormous increase of paper money in the form of currency and bank deposits.

The debate was resumed, after the first world war, in the other marathon debates of the Brussels and Genoa conferences and of the Gold Delegation of the League of Nations. Once again, it was solved, not at the conference table, but outside it, by the devaluation of sterling in 1931 and the dollar in 1933, and at the cost of a disastrous aggravation and prolongation of the world economic recession of those days.

The issue was raised again by a few academic economists in 1959, but disdainfully shrugged off by the officials. As for the proposals which I advocated myself at the time, they were scathingly dismissed as a utopian, naive and dangerous dream. Our brilliant Undersecretary of the Treasury, Mr. Roosa declined to elaborate on them since "all such elaboration would represent a fruitless exercise. . . . That . . . is the inescapable conclusion dictated by the actual ways of the world—today and *for any foreseeable future* [italics mine]— . . . The money created by a super-bank would be the most high-powered ever generated by a man-made institution, yet it would have no supporting super-government to make good on its debts or claims. . . . Simply to establish the super-bank would require all countries of the world to give up their present reserves and accept instead the fiat issue of a super-authority existing without a super-state." [7]

The "foreseeable future" of Mr. Roosa did not, apparently, extend very far. Although he still did not yet see, one year later, "any reason to presume that daring or revolutionary approaches will in fact emerge for the future," [8] he rightly expected by 1964 "that the months and years ahead will see more of a reappraisal and rediscovery of the dimensions and potentials of the International Monetary Fund for our payments system and as a center of international liquidity," and was "sure that new forms will emerge as needs appear." [9] He was soon indeed throwing his full weight behind the now defunct CRU (Composite—or Collective—Reserve Unit) proposal, and concluded his latest book with a clarion call for "the world's first effort to create--through the joint action of independent and autonomous nations—a money that can be universally acceptable among the central banks of the world." [10]

This complete turnabout was somewhat candidly explained by the imperative of the U.S. national interest: he had had to argue in 1962 *against* any proposals looking toward the creation of a new international currency because "it was clearly necessary, first, to reestablish the strength of the dollar," lest confidence be shaken, triggering massive conversions of dollars into gold, disorderly exchange rates, a shrinking of trade, an increase of national protectionism, and "widespread suspicion that the United States, if it then persisted in proposing major currency reforms, was seeking only relief from its own immediate balance of payments pressures. . . ." [11] In brief, to use a favorite slogan of other national officials, here and abroad, we should "negotiate from strength."

This condition was apparently fulfilled to Undersecretary Roosa's satisfaction by the summer of 1963, even though our deficit, far from disappearing, increased that year by $468 million, rose still further in 1964, and is now officially expected to continue as long as the Viet Nam war itself continues. . . .

Negotiations were thus opened in 1963, and dragged on for four years before a tentative, and still only partial, agreement was reached in Rio. They were marked by other bizarre reversals of "negotiating positions" among the major participants. The CRU proposal was initially advanced by the French in order to give them a stronger influence than that they could muster in the IMF, and to freeze out the underdeveloped countries. We opposed it strenuously at that time, and

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[7] Robert V. Roosa, "Assuring the Free World's Liquidity: Panaceas or Prerequisites," *Business Review*, Federal Reserve Bank of Philadelphia, September 1962, reproduced in *The Dollar and World Liquidity*, Random House, 1967, p. 102.

[8] *Op. cit.*, p. 125.

[9] *Ibid.*, pp. 157–159.

[10] *Ibid.*, p. 261.

[11] *Ibid.*, pp. 6–7.