Stanford Panel

May 2025.

Anne Krueger's remarks on John Taylor's Role at the Treasury

John and I were colleagues at Stanford, When I joined the economics faculty in the early 1990s, he was already a long-standing member of the department. We had been colleagues at Stanford for ten years when John went to Washington (again) at the outset of the Bush Administration early in 2001 as Undersecretary for International Affairs in the Treasury Department.

In May of that year, John called me from Washington, asking if I would consider the number two job at the International Monetary Fund (IMF) where Stan Fischer had just announced his planned departure. I agreed to become a candidate for that job, John forwarded my name to the Managing Director of the IMF, and I was subsequently offered the job. I accepted, joined the Fund in September, and interacted with John throughout the rest of his tenure at the Treasury (I stayed on for another year and a half at the IMF). On many issues, the concerns of the US Treasury and the IMF overlapped and we had frequent contact on those issues.

The international affairs covered by the Treasury include every major international economic activity in the US and abroad in which the American government has an interest. His responsibilities included US policies and economic interactions with individual countries and with international organizations, both regional and multilateral.

Other divisions in the Treasury cover domestic policy and operations including US government debt, taxes, enforcement of anti-money laundering, and much more. The responsibilities of the International Finance Division, which John headed, are far-reaching. They include such diverse things as coordinating economic activities with the other G-7 and G20 (and other) and individual countries, determining US policy on the dollar exchange rate and US lending to countries in economic difficulty, overseeing American involvement in the economies of other countries when their situation was in US interests, having purview over American representation in the international financial institutions (IFIs), the IMF and the World Bank, as well as the smaller regional organizations such as the regional development banks.

It is neither possible nor desirable to cover all of them. I will focus my remarks on several of his important achievements, and ignore many other issues he dealt with as well as the huge management job just entailed in covering those responsibilities

I'll focus on: US actions to support Iraq's initial reconstruction; anti terrorism financing policy; the Argentine crisis; sovereign debt; and exchange rate policy. There were important challenges for policy makers in each of them and many other issues in which John played an important role, but these five illustrate the depth and breadth of the issues he dealt with.

Economic Reconstruction of Iraq

Turning first to the Iraqi situation, planning for reconstruction after a possible war in Iraq was in John's purview and started long before hostilities did. It is impossible to describe the complexities of planning and then ensuring the functioning of the financial system that would exist after hostilities ended. John and his team had to confront challenges, starting with having the needed data to understand the situation. Real GDP had declined drastically prior to Sadam Hussein's fall, but there were no reliable data. The banking system was in John's words, a "shambles". Currency had been printed in large amounts, but even data on the price level or money supply were at best intelligent guesses. The government had accumulated debt, but there were no systematic records. Even the IMF had not been able to undertake a report on the Iraqi economy for 20 years.

John coordinated the work of a team he assembled and led. Challenges were everywhere: destroyed buildings had to be reopened even for government offices; records of banks and other financial institutions were not immediately available. Getting finances working again was just one challenge.

In the first stage after the fall of Saddam, John's team had to find way to pay Iraqis who would be employed in the Finance Ministry and other agencies in the first stage of reconstruction. First payments had to be made in dollars and a legal way had to be found to transfer dollars from the Treasury to the Defense Department. Sending new currency (cash in small denominations) involved air freighting 237 tons from Washington (and finding records of past asset holders and pension recipients, among other things). The next stage had to be to introduce a new currency, itself a complicated challenge both in the physical sense of getting them printed and in deciding what claimants should be recipients. Of course, those elderly Iraqis who had been dependent on pensions needed continuation of payments to Baghdad. After negotiations with British and other counterparts, a printer in London was tasked with producing the paper currency. Devising a plan for the introduction of the new currency was also complex, but finally was effected successfully beginning October 15, 2003.

There were many more complications, of course, and I am only mentioning a few of them to highlight how very complex and challenging the entire process was. Other institutions, including the IMF and World Bank were heavily involved in different aspects of reconstruction, of course, but US coordination of the effort was essential.

Anti-terrorism.

9/11 took place before the outset of the Iraqi war. The 9/11 attack immediately led to searches for ways of handicapping and, if possible, preventing terrorism. Terrorists are, in many cases, operating illegally from bases in countries that may not support them and, indeed, cannot even control their activities effectively.

That immediately raises questions as to how terrorists finance their operations. An immediate and obvious part of the answer is that they must have ways of enabling funds to cross borders. After 9/11, attention immediately turned to ways of choking off terrorists' sources of finance. Within a few weeks, President Bush announced that the US, in coordination with its allies, was "cutting off" terrorists' money.

Historically, trade sanctions were applied against entities as a means of punishing them or persuading them to refrain from their behavior. They were rarely very effective for very long: there are too many willing to route merchandise through third countries, mislabel merchandise, over- or under-invoice bills, and otherwise evade trade sanctions. The longer they are in place, the more ways are learned with which to avoid them.

But with the advent of the extreme terrorist threat, reluctance to use financial sanctions diminished and finally all but disappeared. Financial sanctions have proven to be almost “nuclear” deterrent as they have come to be used in more and more circumstances.

Measuring the effects of sanctions, and especially financial sanctions, is difficult for obvious reasons. Evasion through mislabeling is purposefully hidden as much as possible from the authorities. When goods are routed through third countries to evade sanctions, it is difficult to find data to sort imports into those genuinely used for trade and those being used to finance activities. But some data can prove quite useful, as for example, the magnitude of Vietnam’s increased shipments of a good to the US contrasted with China’s decreased shipments.

But when money is involved, locating evasion and preventing it is more difficult. Nonetheless, after 9/11 efforts to use financial sanctions increased dramatically. John’s knowledge of the financial system and work in the Treasury was an important part of that. The coordination between the International Financial Division of the Treasury and the Office of Financial Crimes and Terrorism was surely crucial and learning appears to have been rapid. The strategies and methods they devised at that time have proven valuable ever since.

After Russia invaded Ukraine, third party sanctions and reduced or removed access from international clearing systems were deemed to have had significant effect, and far more so than efforts at goods sanctions. Third party sanctions – whereby a foreign financial institution in another country is sanctioned from operating in the US (and perhaps also in US allies) because it undertook actions on the part of a terrorist-designated group - is a powerful weapon. In the oil trade, "ghost ships" receive oil from tankers originating in a country against whom sanctions have been applied and have proved exceedingly difficult to trace. But even oil on "ghost ships" must be financed, and some of the (limited) effectiveness of those sanctions is attributable to the use of financial sanctions.

Use of financial sanctions is a dangerous weapon, but an important one. The weapon, once imposed against a particular target, is difficult to reload. There can also be effects on other aspects of economic relations between the party or country against which the financial sanction is imposed and other issues (think heating by Russian oil in Europe in winter). It can be overused and/or misused but it is doubtful that the sanctions against Russia in the Ukrainian war would have been nearly as effective as they were without the earlier work of John and his team.

Argentina. The US inevitably is involved in the international community's efforts to mitigate and overcome crises and extreme economic difficulties. John's purview covered countries in such difficulties. I will touch upon only one here but it illustrates at least partially the breadth and scope of the many challenges that were associated with just one of the many issues with which he dealt.

There were many important countries, including Turkey, Brazil, and Argentina in crisis early in John's tenure. In these and many other countries, financial and economic problems have led them to seek support from the IMF. The US is the largest shareholder in the IMF and has veto power. In some cases, the US is eager for political reasons to see IMF support reach a country quickly while the IMF is concerned that economic policies will not be altered sufficiently to enable the country to return to a sustainable growth path. In some other cases, the opposite is the case.

There were notable successes in turning crises around. After a 2001 program, Turkish reforms led to an almost-tripling of per capita incomes at constant prices during the rest of the decade. Brazil, too, had almost a good decade after the crisis abated.

Argentina was an unusually difficult case and one in which American interests were deemed to be to support the existing government. The Argentines had a long history of excessive spending and fiscal deficits, with high and rising inflation, followed by crisis, approach to the IMF (and bilateral donors), and policy reform with new money under an IMF program. That had happened repeatedly, as foreign creditors would be willing to lend more only at extremely high interest rates or would close the market to them completely. When economic difficulties became sufficiently severe, the Argentine authorities would seek a loan from the IMF (with perhaps additional credit from individual sovereigns). An IMF program would then be negotiated with policy reforms that would improve the outlook and receive a loan in return. A cycle of crisis, prolonged and often difficult negotiations of a program, some policy reforms and debt restructuring, and then a gradual or more sudden acceleration of spending would restart the cycle.

Many other developing countries and emerging markets had had similar problems in earlier years. But until the 1990s, most developing countries and emerging markets had used tariffs, restrictions on imports, import licensing and prohibitions, and other quantitative measures to attempt to persist with their policies. When the economic pain was too great, the result was a "balance of payments crisis".

In the half century after the second world war, experience showed the inconsistency of these policies with satisfactory rates of economic growth and poverty reduction. Starting in the 1990s, more and more ountries were shifting to more open economies and lower protective barriers. Balance of payments crises were replaced by financial crises, as the drying up of foreign exchange (rather than the lack of imports and foreign credit) was the triggering crisis mechanism. Understanding of this new form of crisis was gradually increasing.

Argentina was running into serious trouble by the summer of 2001. There had been significant borrowing from private creditors as well as sovereigns. Inflation was mounting, and it became increasingly evident that Argentina would have great difficulty rolling over its debt, much less borrowing more funds, even before 2001 ended. For a while, stop-gap measures (such as shifting the currency peg from the dollar to a currency basket) were adopted but by the autumn of the year their futility was evident.

In September of that year, the IMF negotiated a program with the country which was based on information that was either highly overly optimistic or downright wrong (including scheduled debt repayments and anticipated fiscal expenditures and revenues) and on the assumption that Argentina would have continued access to credit internationally. The authorities simply refused to recognize the severity of their plight. Their data were so far off that when they circulated their numbers to members of the IMF executive board at the Annual Meetings (held in Ottawa after 9/11), it was simply arithmetic (including the addition of omitted variables) to show them wrong.

For the next several weeks, the Argentine authorities failed to come to terms with their plight until finally, in December, they could no longer service their debt payments. The crisis was so severe that the country had 5 Presidents in the following months.

Even when the gravity and severity of the economic outlook was grudgingly and partially accepted, the authorities only slowly and reluctantly acceded even to measures that were clearly less than were needed. The saga from there is complicated, but John was heavily involved in the situation and worked closely with the IMF on it. In the end, the US judged it was essential for the Fund to lend to prevent mounting political instability and a Fund program was initiated over strong misgiving on the part of Fund staff. Argentina's terms of trade improved substantially over the next several years and the country's economy consequently grew. But after a few years, stagnation set in, and there were repeated crises with high and rising inflation until President Millei was elected about a year and a half ago.

Sovereign Debt

Until the 1990s, the flow of capital to developing countries consisted almost entirely of trade credit, foreign direct investment (which was largely in primary commodities) and official credits. An exception developed in the 1970s, as the "east Asian tigers", Hong Kong, Singapore, South Korea and Taiwan, changed their economic policies from protectionism to openness. As they embarked on rapid growth, profitable investment opportunities rose sharply, but they were very poor and savings rose but more slowly.

As they succeeded, they financed additional investment by borrowing from private foreign lenders. The share of official lending in sovereign debt began falling rapidly. Until that time, when governments (which had been the primary borrowers) became embroiled in situations where they could not continue their debt servicing obligations, officials from the major creditors met to provide support. They assessed the situation and restructured existing obligations. That was done in conjunction with policy reform as agreed with the IMF and short-term support under IMF programs. There was never a formal group of creditor countries, but the French served as a secretariat and the creditor group became known as the Paris Club.

By the turn of the century, however, more than half of the credit to emerging markets and to a lesser extent to less developed countries was from private lending institutions. The result was that there were far more private creditors. The challenge for official creditors became much more complicated: when a debtor appears to be reaching illiquidity or insolvency, creditors rush to be first in line to claim their due, and willingness to fund needed debt rollovers dries up.

In the debt crises of the early 1980s, the then-managing director of the IMF, Jacques de LaRosiere, was able to assemble representatives of thirteen large banks (which accounted for an estimated 90 percent of outstanding loans from the private sector) and achieve agreement as to the terms of a haircut and restructuring they, along with the official sector (not including the IMF which claimed preferred creditor status).

By the turn of the century, there were many more private creditors. Loan documents differed in terms, tenure, voting thresholds, and much more. (by 2025, complexity is greater still because even on the official side, coherence is more difficult as China has become a major shareholder and declined an invitation to join the Paris Club).

As early as 1996, official creditors had called for an improved arrangement for resolving sovereign debt issues, but nothing had happened. But many observers agreed that something needed to be done. John led the Treasury and the US government in advocating a Collective Action Clause (CAC) be inserted in sovereign debt instruments that would bind creditors into restructuring arrangements under some circumstances. The IMF (when I was there) advocated an even stronger reform, including the formation of a Sovereign Debt Restructuring Mechanism (SDRM), which would adjudicate sovereign debt crises (when a debtor could no longer service debts), work with the IMF in projecting future fiscal balances, determining needed reforms, and be empowered to set the terms of a restructuring or rescheduling consistent with the IMF program and lending volume.

The Argentine plight was in many minds as the CAC proposal and the IMF proposal were debated, although the need for a better means of dealing with sovereign debt crises had earlier been recognized. The CAC proposal carried the day, and the effort was led by John. CACs are now part of the loan agreements between most lenders and sovereign debtors. CACs did not entirely solve the problem but they clearly reduced the difficulties and getting agreement on them was certainly one of John's major achievements.

The U.S. Dollar and Exchange Rates.

The fixed-exchange rate system agreed upon at Bretton Woods in the 1940s served the world reasonably well for over two decades. But by the end of the 1960s, pressures on the dollar were increasing, and by 1973, the Bretton Woods system of fixed exchange rates was essentially abandoned. However, although many countries declared their exchange rates to be floating, they continued to intervene in the foreign exchange market, selling US dollars when they deemed their currency was under too much pressure. Until John came to the Treasury, US administrations had often supported requests for assistance. John, as far as I know, was the first to decline such assistance and advocate a free float.

I discussed some of the many policies in which John was a key player in their determination and execution. But sometimes important policies are ones that *do not* do something. That was, in my view, what John did with regard to the dollar exchange rate and it was a major contribution. The result has been, I think, better economic policy in many countries where exchange rate changes have led to recognition of the need for domestic policy reforms and where the authorities have been more relaxed about movements in the exchange rate and exchange rates have absorbed more of the needed adjustments more smoothly.

Conclusion

It is hard to get one's head around the scope and depth of the responsibilities of the person in charge of American international financial interactions with the rest of the world. Had I tried to list all of the policy issues in which John played a major role during his time at the Treasury, I would have filled my time with nothing but a long list, and even then I would have missed some.

But to mention just some omitted items, I discussed the original challenge in Iraq, but not the later issues with Iraqi reconstruction, which were also a major challenge. American economic relations with the G-7 and bilaterally with all the major countries are important and were within John's purview. John was critical of aspects of US foreign aid policy and devoted considerable time and attention to finding ways to achieve greater accountability and assessment of foreign aid programs. He led several plans and policies designed to smooth the Chinese appearance on the world stage in finance and trade.

It was a time of many challenges in the international economy. Dealing with any one or two of them would have been enough for a four year term. John dealt with many more. He deserves as much credit for his bureaucratic career as he does for his academic one. Congratulations, John!