December 2005

The Washington Diplomat

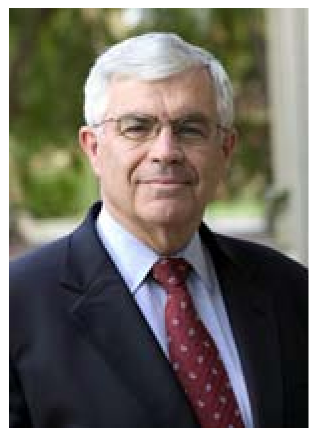
John B. Taylor

Former U.S. Treasury Official Says Quiet Cooperation Drives Financial Diplomacy

by John Shaw

John B. Taylor understands the global economy, from its lofty, commanding heights to its grimy, leaking plumbing. As a leading academic and a former senior U.S. government official, Taylor said that problem- solving, not polemics, drives most international economic discussions.

In an interview at his office on the sun-splashed campus of Stanford University in Palo Alto, Calif., Taylor said he was pleased by the wide-ranging cooperation on global economic policy that he witnessed during his recent tenure as undersecretary for international affairs at the Treasury Department from 2001 to 2005.



At the working level of international economic policymaking, Taylor said there is a surprising amount of respectful consultation and cooperation among nations and government officials.

“What is striking to me as I look back on my work is how much of it required a lot of international cooperation and diplomacy. This area is a little more technical and arcane and doesn’t get a lot of publicity. In so many cases, people were working together,” he said.

Taylor is now an economics professor at Stanford University and a senior fellow at the Hoover Institution, a public policy research center that is affiliated with Stanford. Relaxed and informal, Taylor has exchanged his blue and grey pinstripe suits, the uniform of financial diplomacy, for open-necked shirts and sports jackets.

He recalled that his four years at the Treasury Department were busy and full. On his first day on the job in March of 2001, he was handed folders describing crises in Argentina and Turkey. His work never slowed down from then on.

Taylor gave about 200 speeches and made some 120 trips to foreign countries. He participated in several hundred meetings in the White House's situation room and made hundreds of phone calls to senior finance ministry officials, central bankers and financial experts from around the world.

As treasury undersecretary for international affairs, Taylor was responsible for U.S. policies in international finance, including currency markets, trade in financial services, foreign investment, international debt and development, and oversight of the International Monetary Fund and World Bank. He also coordinated financial policy with the Group of Seven nations, chaired the working party on international macroeconomics at the Organization for Economic Cooperation and Development, and was a member of the Board of the Overseas Private Investment Corp.

Taylor said the past four years were a remarkable time to be responsible for international finance issues for the United States. That period started with a global economic downturn and a continuation of the crises of the 1990s—against the backdrop of the Bush administration's desire to implement reforms among international financial institutions and in development policy.

"On top of all that, the United States was struck by the terrorist attacks of 9/11, and we were faced with the financial implications of the resulting war on global terror—first in the battle against terrorist financing, then the war and reconstruction in Iraq, and then in the efforts to spread political and economic freedom around the world and especially the Middle East," he said.

Taylor described his job at the Treasury Department as highly operational, in which complicated challenges demanded—and often prompted—practical solutions.

"Every day, decisions had to be made in coordination with other foreign policy agencies of the U.S. government and frequently with the foreign policy agencies of other governments," he explained. "Orders had to be given and follow-up was needed to make sure they were executed. Communication outside of the executive branch—to the Congress, to the financial markets, to voters, to policymakers in other countries—was essential."
Taylor said his work on global economic issues convinced him that international economic policy can support U.S. foreign policy, bolstering political and security initiatives.

He believes that good international economic policy derives from careful attention to the fundamentals. As he prepared to leave Treasury earlier this year, Taylor's staff gave him a plaque that set out 10 broad principles of international finance and development that he articulated frequently. His staff called them "The Taylor Rules":

1. Economic policy should aim to increase economic stability and growth.

2. Official financial assistance should support good economic policy; it cannot substitute for bad economic policy.

3. Raising productivity growth is essential for reducing poverty.

4. The private sector—not the government—is the engine of economic growth.

5. The international financial system works better when official lending decisions and sovereign debt restructuring processes are predictable.

6. Contagion is not automatic. It can be contained by good policy.

7. Loans should not be made when there is a high probability that they will be forgiven. Assistance for the poorest countries should be in the form of grants, not loans.

8. Development assistance must produce measurable results.

9. Monetary policy should focus on price stability. Sound exchange rate policies support this objective, prevent crises, and allow adjustment throughout the global financial system.

10. Tax systems with broad bases, efficient administration, and low marginal rates are best at encouraging both growth and sustainable public finances.

Reflecting on his time at Treasury, Taylor said much of his work centered on America's and the global community's response to the terrorist attacks of Sept. 11, 2001.

Shortly after the attacks, Taylor was assigned a major role in the U.S. government to coordinate international efforts to freeze terrorists' assets, which became a key component of the global war on terror. He set up a special Treasury war room to deal with the issue, reviewing each country's progress in freezing assets or setting up asset-freezing regimes. He made more than 100 calls to finance ministers and central bankers, and the effort eventually included more than 180 countries.

"It was the best example of cooperation in international cooperation ever, at least since the founding of the Bretton Woods Institutions," he noted.