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Review by Kendall Stiles, Brigham Young University

Professor Basha i Novosejt has made use of newly available archival materials to construct an impressive description of the role played by Secretary of the Treasury C. Douglas Dillon during the period 1961 to 1964. This follows a theoretical agenda, namely to show that individuals—and not just heads of state—can sometime exert decisive influence over the course of history. Specifically, “[u]nlike diplomatic historians who have largely focused their attention on inter-state relation, this article suggests that private actors were also important.” The author cites the work of such academic luminaries as Barry Eichengreen and John Odell to buttress this point.¹ Over the course of the article, Basha i Novosejt explains John F. Kennedy’s decision to appoint Dillon, his reliance on his Secretary’s advice, and his sending Dillon to negotiate both publicly and privately with French finance ministry officials and with Wall Street skeptics. She shows how Dillon’s relationships with these various actors helped open doors and, in some cases, conclude agreements—some of which were kept secret even from French President Charles de Gaulle.

The article offers a very useful counterpoint to the diplomatic history mentioned above, and especially to the tradition in political science of focusing primarily on structural and global forces in explaining major shifts in policy. Work by Eric Helleiner, Robert Keohane, Joseph Nye and Francis Gavin generally fall in this

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category, and some of Eichengreen’s studies have adopted a more global, holistic perspective. It becomes clear that certain key individuals were able to stave off a crisis through direct, candid conversation and policy convergence. French Finance Minister Valéry Giscard d’Estaing played a key role in maintaining European support for the dollar at a time when confidence was waning, and financier David Rockefeller played an important role in validating Kennedy’s fiscal and monetary policy to Wall Street audiences. Both helped the administration to carry on with its middle-of-the-road approach of managing a gentle stimulus of the U.S. economy in the wake of a mild recession (unemployment peaked in May 1961 at 7.1%) while attempting to reassure stakeholders that nothing would fundamentally disrupt dollar-gold convertibility and the balance of payments situation.

The general argument is well supported by the facts—but this stems in part from the argument’s tentativeness. The specific examples provided and the general discussion of the context make it clear that Dillon played an important role. Specifically, Dillon had a strong influence on Kennedy’s adoption of a conservative fiscal policy, his commitment to sustaining dollar convertibility and stable exchange rates, and his engagement of European finance ministers in joint decision-making and planning. In particular, Dillon interfaced with French financial authorities in 1961 to maintain the financial status quo—even against the policy preferences of President Charles de Gaulle. Dillon also interceded with Wall Street bankers and investors to urge them to maintain confidence in the dollar, despite their apprehensions about the new Democratic administration’s commitment to fiscal conservatism. What is not so clear, however, is whether the role was defined primarily by the President, and whether the president’s policies were defined by circumstances. More could have been said about the fundamental financial situation circa 1960, especially regarding the volume of dollars in circulation outside of U.S. territory, which was already equal in value to the gold held by the federal government. While military spending was an important component, there was also foreign aid, the emerging Eurodollar market, and of course foreign direct investment and purchases of imports. All of this severely limited the capacity of the Federal Reserve to control money supply. As the author points out, Yale economist Robert Triffin and others had already reached the conclusion that the gold

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standard was almost certainly on its way out. To a large degree, then, the Kennedy administration policies were too little, too late, and only gave the appearance of stability and continuity.

The author may have overstated the waning confidence that was still held in the system. A nationalist backlash in Europe was predictable—the only question was which nation would step forward first (France would have been everyone’s guess). Not only had de Gaulle become increasingly vocal in criticizing American monetary and fiscal policy and the degree to which they forced other states to adjust (an analogy may be made to the response to Germany’s prerogatives in the European Union today), but even Dillon’s friend Giscard d’Estaing was not above issuing public complaints about U.S. policy. He was the one who coined the term “exorbitant privilege” to describe the ability of the U.S. to engage in destabilizing fiscal policies without paying the normal balance of payments and inflationary price.6 President Lyndon Johnson’s decision to engage in deficit spending in order to shield the American people from the cost of the Vietnam War simply brought all of this to a head and allowed Europeans to become more openly critical. But Johnson’s actions did not significantly alter the overall problem of the ‘dollar overhang’ and the rise of Eurodollar transactions. Against this backdrop, the efforts of Dillon seem less significant.

Further, the article raises questions about whether Dillon was an important player in his own right or whether his importance stemmed from being a useful tool of Kennedy’s. It was Kennedy, after all, who selected Dillon, knowing already a great deal about his policy preferences. If Kennedy was influenced by Dillon, it was largely because he was already predisposed to agree with him. Certainly, Dillon’s relationships opened doors, but even he was largely powerless to change negative attitudes about Kennedy on Wall Street. A Republican in the service of a Democratic administration is very different than a Republican in the service of a Republican president, after all. And once Kennedy was assassinated, it was clear that Dillon’s powers were primarily a function of the confidence invested in him by the President. As the author points out, Dillon had little influence over Johnson, who in turn sidelined him.

The press of global economic trends, combined with Kennedy’s confidence in him, meant that Dillon was able to shine only for a brief time as he achieved what could only be termed a delaying action. A run on the dollar was inevitable (albeit accelerated by Johnson’s fiscal decisions), as was a loss of confidence in the Bretton Woods system itself. For that matter, whether the system should have been saved is debatable. As Eichengreen has shown, the gold standard contributed to the Great Depression.7 One can also point to the extraordinary levels of stable, low-inflation growth that has been experienced by an unfettered world economy—once monetarists took the helm in major currency countries in the late-1970s and early 1980s.

While heads of state responding to global conditions may explain much if not most of a country’s foreign policy, there are other elements that the author might have considered to defend the notion that certain individuals played a key role. From a constructivist perspective, much more could be said about what gave rise to certain ideas and how it was that certain individuals became their champions. This might allow one to probe more deeply into the intellectual lives of protagonists along with the societal context in which they were trained and came of age. This could lead to questions about whether ideas bubble up or trickle down and

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6 Eichengreen, *Exorbitant Privilege.*

7 Eichengreen, *Golden Fetters.*
whether international institutions and organizations play an important role in educating and indoctrinating world leaders. Perhaps Harry Dexter White’s shadow was more important than is acknowledged. A useful reference might be Jennifer Sterling-Folker’s 2002 work *Theories of International Cooperation and the Primacy of Anarchy*, which explores American monetary policy-making during the period immediately following August 15, 1971. She does an excellent job of pulling together historical, biographical, institutional and ideational factors that could serve as a model for analysis of any foreign policy puzzle.

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