

# INTERNATIONAL FINANCE: AN INTERVIEW WITH WALTER B. WRISTON

*FORUM:* What is your general assessment of the current world debt crisis; is there really a debt crisis? In the past you have been quoted as saying that countries don't go bankrupt. Would you continue to support this statement?

*WRISTON:* Yes, I would continue to support the statement. What I mean by that is that the human resources, the minds, the skills, the infrastructures, the cities and the universities are assets of a country which far exceed its monetary liabilities. The definition of bankruptcy is when an organization's liabilities exceed its assets. Of course, turning a country's assets — its people and so forth — into a productive asset side of the balance sheet in order to liquidate debt takes time.

It's like New York City, which was said to be bankrupt, but is now debating what to do with a budgetary surplus. Four or five years ago I read in the *New York Times* that the city was bankrupt; from a financial point of view we were, but from a human point of view we were not. We got our act together and produced a balanced budget, and our bonds were sold in the marketplace. The same thing will happen to the foreign countries that pursue intelligent economic policies.

Today people like my friend Henry Kissinger, who starts sentences saying, "I am not an economist, however . . .," say that the proper economic policies will cause riots in the streets and social unrest. That's exactly what they said about New York: if we reduced the number of policemen, crime would be rampant. It turns out that the crime rate has fallen every year since the fiscal crisis. I just look at it as a pragmatist. I've been there, and the world is a good deal more durable than some of the theoreticians think it is.

*FORUM:* What would you identify as the major roots of the debt problem? More specifically, what role have the commercial banks played in the development and evolution of the debt crisis?

*WRISTON:* The origin of the debt problem is twofold. First, a good Fletcher man, [Senator] Pat Moynihan, wrote a piece for *Commentary* in

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which he took the finance ministers who went to the London School of Economics and traced them across the old British Empire. He pointed out that they were taught that foreign investment equated with exploitation. That was very common at the London School of Economics, and therefore many of these countries rejected equity. They financed everything with debt, which is unsound. Second, after inflation hit double digits in this country, the Federal Reserve finally did something, but they overdid it as they traditionally do. When President Reagan was elected, they locked the wheels and threw the world into a recession. Suddenly, we had two consecutive years where world exports declined; this had not happened since 1914. So, the export ratios, or the ratio of export earnings to total debt, which were formerly very healthy, suddenly fell precipitously. As the ratios went way out of line, the debt crisis appeared.

*FORUM:* Some critics believe that the debt crisis might have been avoided, or at least moderated, had there been more cooperation from the outset between banks, international organizations and governments. Would you agree or disagree that increased coordination and directive guidance perhaps could have helped avert the crisis?

*WRISTON:* I think that the basic argument is whether or not there is some institutional structure which would have been useful. My experience has been that crises make strange bedfellows. Almost nothing is done until too late. In 1982 the United States Treasury, the Federal Reserve, the Bank for International Settlements, the commercial banks and the International Monetary Fund all got together in Toronto and put the packages together. The situation was starting to turn. I don't believe that a government bureaucracy would have helped at all. I think the leadership of the Fund was critical.

*FORUM:* You said that nothing is done until it's too late. Could you possibly identify problems that are inherent in the international financial system that allowed banks to become as exposed as they are?

*WRISTON:* Well, how much are banks exposed? The question — the one professors never ask — is what was the money used for? In Brazil, for example, it was used to build a dam twice the size of the Aswan Dam, at Itaipu; it will supply about 16 percent of the power for Brazil. That was good employment of money. The amount of money that was wasted was extremely small, and I don't think exceeded the usual government average. Anyone who thinks all of our taxes are spent wisely in this country is quite an optimist. Afterwards people asked, "Gee, why did you lend

so much money?" But at the time we lent the money, the export ratios were very sound. We did not know that the Fed was going to stop the world. You could argue that we should have known, but we didn't; and we didn't know that if they did, it would cause a world-wide depression. We didn't even know that the British were going to fight a war in the Falkland Islands; doubtless many other people didn't.

*FORUM:* What are your reactions to recent newsmagazine headlines such as "Doomsday Scenario," "Banking on the Brink" and "The Debt Time Bomb"? I take it you don't share this pessimism that the debt crisis will have significant lasting effects on international commercial banking?

*WRISTON:* Of course not. Go back to 1975, and the headlines said "New York Banks Hold Millions of Dollars of Worthless Paper of the City of New York — Pending World Crisis." The media sells newspapers by impending crises. All I can tell you is that when OPEC stopped the world with its embargo and then raised the price from two dollars a barrel to thirty, the commercial banking system handled the greatest transfer of financial assets in the history of the world with almost no casualties. I was in the Secretary of the Treasury's office the day that the embargo was announced, and he said to me, "It is an unmanageable crisis." I said, "That's right, but you taught me that markets can handle anything, except uncertainty. Now we don't have uncertainty." Even people who believed in markets, as I do, were very worried that the whole thing would come down. It didn't. And it won't — to somebody's great disappointment.

*FORUM:* Some say that loan reschedulings only amount to a bandaid-type solution. Do you have anything in mind in terms of a long-term solution, and what role might banks play in bringing this about?

*WRISTON:* Well the long-term solution is to get the world moving again — and that's what's happened. It's interesting that they say a bandaid. The question is, what do you want to do otherwise? We have all kinds of wonderful schemes, none of which will work. But the classical way to get out of a liquidity crisis is to lengthen maturities. We did it for the city of New York, and it worked; we did it for Mexico, and it worked; and it will work in all these other countries. The mistake that was made was that there is no layer of equity under this, and that's a political problem. So the result is that these developing countries are either not going to get the access that they need to credit or they're going to have to accept some kind of investment.

This week the head of the Fund said that he believed that an increase in outstandings of about five percent over the next few years would do the trick. That's a very substantial reduction. But I have not seen any "long-term scheme" that was not "a Band-Aid," that was anything except asking somebody to subsidize somebody with somebody else's money.

*FORUM:* At this point, after several crises have been weathered, how likely is it that any of the large debtor nations, such as Brazil, Mexico, or the Philippines will default? And if one large debtor country were to default, do you believe that many others would immediately follow suit?

*WRISTON:* I think the answer to both those questions is no. The reason is extremely simple — it isn't a question of whether you want to or whether you don't want to. The question is whether or not the world is interrelated. Everything comes from somewhere else — from the wood in your pencil, to the lead to the eraser. Therefore, every country in the world needs access to international credit markets; and if a country defaults it doesn't have that access. The country would very rapidly decline. So I've never regarded a major debtor default as a realistic option, and so far that's turned out to be right.

*FORUM:* Then, you believe that the worst of this crisis is over?

*WRISTON:* To mix a metaphor, I think we're through the eye of the needle, but we're not out of the woods, if you know what I mean.

*FORUM:* Do you view the current essentially laissez-faire system of allowing commercial banks to lend what some would term "beyond their limits" as being the best system for the financing of development in LDCs?

*WRISTON:* Well I really haven't seen anyone who's said that commercial banks lent beyond their limits. But there are always platoons of bureaucrats standing ready to give you plans. It interests me that the United States government is one of the largest lenders to its own citizens, and a substantial portion of their loans are in default. It doesn't give me great confidence in their guidance. I think the deeper answer to your question is that those countries like Hong Kong, Korea and Singapore that permit free enterprise systems will thrive and prosper. Those that go for state socialism will not prosper because they don't permit the market to work. We see that now in France, for example, where their debt is mounting, their currency is depreciating and their production is down for all state-owned things. At the same time Hong Kong is prospering. The political-economic system

is what's going to determine whether the developing countries are going to make it big or not.

*FORUM:* You've just identified several areas of the world that are successful and will continue to be so, but do you see increased cooperation between commercial banks, the federal government and the IMF in determining levels of capital flows to developing areas in the future?

*WRISTON:* I think capital goes where it's wanted and stays where it's well treated. Nobody has ever written a chapter in a book that says more than that. You can't push capital, you can only attract it. There is a very limited supply in the world, so the allocation of capital by government has never worked. Where it has been tried, it has been a disaster. For example, Europe is trying to prop up its steel business — they lost a billion dollars last year. A political allocation of capital preserves dinosaur industries, but it doesn't create any jobs. I'll give you two numbers. In the last ten years in America we've created 19 million new jobs. In the same decade in Europe, they've lost 3 million jobs. In Europe capital is allocated by many countries. In the United States, it goes to the entrepreneurs around Boston, Silicon Valley or wherever.

*FORUM:* Granted, commercial banks do not like to see Congress getting its hands into the banking industry and saddling banks with burdensome or even stifling regulations. Despite that, do you believe Congress does have a constructive role to play by either regulating the industry or offering changes to its structure?

*WRISTON:* Changes to the structure are going on every day and Congress certainly has a good role to play in that. I think Congress has no role to play in the allocation of credit any more than they do in determining the curriculum at Fletcher. For some Congressional committee to decide whether or not you should study international law in two terms or one and to set the salary of the professor, and the number of books you should use makes about as much sense as the government allocating credit.

*FORUM:* Switching gears just a little bit, what impact do you believe deregulation of the US banking system will have on the ability of US banks to compete internationally?

*WRISTON:* Oh, it will help them enormously. We're under some competitive disadvantage because the capital ratios of American banks are a good deal

higher than those of banks abroad. Because they don't have to have as big capital bases, foreign banks are underpricing what we can offer our services for. So to that extent, regulation makes us less competitive. But the whole deregulation of American banking is proceeding extremely rapidly and the marketplace is working. I'm very content with the speed at which it's going.

*FORUM:* Can you identify any changes that you see occurring in the next few years specifically because of deregulation?

*WRISTON:* Well, there are fifty thousand financial intermediaries in America of which about 14,000 are what are called commercial banks. For years the Congress ripped off the consumer by saying we could only pay you five percent on your savings account. In this way, the savers of America subsidized the borrowers as a matter of public policy. When some bright alumnus of Citibank invented the money market account, you suddenly had an alternative in the market that let the individual get 15 or 16 percent on his or her money. The market worked, and the money market funds attracted \$200 billion in less than a year. This energized the Congress and the regulators to deregulate interest rates and allow the saver to get a fair return on his or her money.

The next thing that is going to happen is in insurance. The delivery cost for insurance is higher than it really should be. Sooner or later the consumer is going to understand that 25 percent off the top the first year is a little rich when others can sell it for half of that. Once that gets abroad in the land, new competitors will be in the market. What you have to do is show the public an alternative and trust them.

*FORUM:* Banks and business view Asia as the high growth area of the world, with recent financial liberalization measures implemented by the Japanese authorities as well as the development of off-shore capital markets in Tokyo. How is this going to affect the competitive position of American banks in Asia?

*WRISTON:* I think that most people believe that growth in world economies and world trade resides in North and South America and in the great arc of Asia where there has been enormous growth.

The Japanese have not yet opened their markets very wide on a capital basis. The samurai bonds were the first thing; the approval of Citibank to own Vickers da Costa is the first one that happened in Japan. I think American banks will be able to take care of themselves in those markets. Right now it's uneven. In this country a foreign bank can come in and

set up shop in all fifty states while American banks are denied the right to open at all in some other countries. The playing field is not exactly level, but it's getting better. We have for the first time since Cordell Hull a Secretary of State who has an economics background, and it's a great help.

*FORUM:* In your "Scorner's Seat" presentation at Boston's Ritz Carlton over a year ago, you criticized those who tear down institutions and leaders without offering constructive criticisms of their own. You also praised leadership qualities and the need for vision. What role do individual leaders as well as leading institutions play in maintaining and forwarding the international financial system?

*WRISTON:* Well, I had a conversation about that this morning. People come in and say, "Isn't it terrible." The answer to that usually is, "Yes, it is." But the question that follows around here is, "What are you going to do about it?" It's nice to hope for international law that is observed by all countries. But in the real world, that doesn't happen. So, you have to try to make a difference on the margin. I think that the financial community has more than made that difference on the margin.

*FORUM:* But if you have individual leaders at different institutions, what about coordination among them?

*WRISTON:* That would be great. We've got seven people running at the moment for the Democratic nomination for President. It would be nice if they could coordinate; it would make the world a little neater. They're not going to. Some of the prominent international bankers, I guess I know them all, disagree with each other 180 degrees. If you are coming from a market orientation, you have a different set of beliefs than if you are coming from a planned organization. Just as Americans believe in democracy because they think it works pretty well here, there are other people who believe in monarchy because they think it works pretty well in their country. It's the same with economics. When the crisis strikes and you can get all the people together in one room like we did in Washington with the Treasury and the Fund over Brazil — and we agreed that we would go out and raise \$6.5 billion (and we did it) — that kind of thing brings us together.

I think various leaders have changed the world of finance. Patrons of change are universally unpopular because it is very annoying for somebody to tell you the world might change when you're comfortable. Citibank has occasionally been in that position.

*FORUM:* Was IMF Director-General de Larosière's aggressive approach in keeping the commercial banks actively involved in the IMF-coordinated loan rescheduling an example of leadership and vision?

*WRISTON:* I think he was superb and that the world owes him as much as anybody. I think we are extremely fortunate that he was there. That was a perfect example.

What I was trying to say in Boston is that people who sit on the sidelines and wonder why the wide-receiver dropped a pass are entitled to that as a kind of entertainment. On the other hand, if you criticize our system and everybody in it as stupid, but don't yourself get down and do the work, I don't have much sympathy for you. There was an Irish folk hero called Mike Fink who said, "I like the music of the thing that happens." I like the leaders who go out and do the work. They can fail but at least they have tried. The fellows who sit around at the club in overstuffed chairs and view issues with alarm never appeal to me.

*FORUM:* What would you envision to be the proper role for the IMF? Should it be a lender of last resort? Or should it be the major international forum in which central and international banks can coordinate policy and resolve problems?

*WRISTON:* I think the role of the IMF is what it is doing now. As it was envisaged, when a country gets into trouble in its balance of payments, the Fund provides an automatic drawing right on the first tranche to tide them over. If that doesn't work, the country has a conditional right to draw more money, but the trade-off for that drawing is to agree upon a financial program that time has taught us will right a balance of payments problem. The Fund has used these agreements for years and years, and they work.

I don't think they are a lender of last resort. They have an international discipline which permits a country to put in economic policies that will work. The leverage that they have is that they have the funds but their funds are not nearly as important as their expertise. I would not change the role of the IMF. Its resources have been expanded and as inflation goes on around the world, they will have to be expanded more. But, their real asset is their intellectual horsepower. They can send a team in and help governments formulate policies that will right every economy.

*FORUM:* In the recent crisis, the IMF seemed to play, if not a stronger role, at least a more visible role. Do you think its strength within the system itself is getting larger?



*WRISTON:* I think they have become more visible. What was different this time was that the world was in a recession. When world exports decline for a couple of years, everybody gets sick. They had a waiting line at the doctor's office and a crowd always attracts the interest of the world. We were fortunate that Jacques [de Larosière] was there because he personally has a detailed knowledge of what makes an economy tick. I think it was the bunching-up of it all together.

I'll give you an example: if you live in Bogota, Colombia — it's at about 8,500 feet — and if there is anything wrong with your body, it will appear in the first twelve months because you are fighting a rarified atmosphere. People who live at sea level might never have that appear. What happened to the world when it went into a recession was that the strain on the body-politic appeared around the world. Everybody got sick at once. They were very busy people down at the Fund, and still are.

*FORUM:* The Group of Thirty recently published a report which discussed the possibility of the IMF's going to the private capital markets for funding infusions in the future — especially in terms of bridging operations. Given the recent reluctance of Congress to pass the IMF quota increase, do you foresee this as likely to happen in the near or even remote future? Do you think it would be a constructive alternative?

*WRISTON:* Sure, I've been for them going to the private markets forever. The World Bank has financed itself solely that way. The argument against financing in the public market is advanced by governments who believe they would preempt some piece of their capital markets. I don't think that's a very good argument. I see no reason why the Fund couldn't finance itself in the world's capital markets. I wasn't aware that the Group of Thirty was recommending this, but it certainly makes a lot of sense.

*FORUM:* As a general catch-all question, what specific actions do you believe the US government should take to ensure its own continued economic recovery and the spreading of this recovery to the rest of the world?

*WRISTON:* Well, I think that we've had an unusual phenomenon in American history. Thorny political questions are not being decided in Congress, but are being referred to commissions. Over time, the way to bury an issue was to appoint a prestigious commission which studied it to death and published a report, then nothing would happen. Recently with the Social Security Commission, something did, in fact, happen; we've

had the Commission on the MX, where something did, in fact, happen, we've had the Commission on Central America, which astonishingly came up with a basically unanimous report; nothing yet has happened, but it may. I reason from this that logrolling in the Congress is so pervasive that we cannot get our budget into any kind of shape without some external restraint. As a restraint, I would opt for a percentage of the gross national product that can be spent by the government. Whether it's 20 or 21 percent, we can argue about. But as it now stands the budgetary process in Congress hasn't worked.

The other way the budget problem would have to be attacked is with a super majority. Today if you can get one Senator who will vote for building your road in Medford, Massachusetts in return for building my dam in Oriskany Falls you can bust the budget. On the other hand, if you needed a three-fifths majority of the House and the Senate (or two-thirds or whatever) when you wished to spend more than the budget, you would have a better chance. I would like to believe that the Congress itself would do this but having watched them recently, it seems doubtful. I've come to the conclusion that we need some kind of external constitutional amendment or joint resolution that would put a simple cap on the percentage of the GNP that the government can spend.

*FORUM:* Under your leadership and guidance, Citibank has emerged as the *primus inter pares* in the international banking system. Citibank also has been at the forefront in taking advantage of deregulation. Do you see any dangers or pitfalls in the bank's aggressive strategic position? Are there any risks that the aggressive tactics may backfire and harm not only the bank but the system itself?

*WRISTON:* Well, you know risk is a good four letter word. Often, the risks of doing something are high, and the risks of doing nothing are equally high. The trick is to keep what you do within your risk-taking capabilities. I am satisfied and confident that the risks that we take are within our risk-taking capabilities. It has always fascinated me that when we went into the consumer business seven years ago, it was described in business magazines as a risky strategy. Last year we earned \$200 million in the consumer business — everybody said that they knew all along that it was a terrific idea. The sideline people will never be happy.

Do we make mistakes? Sure. We make lots of them. You move the world a little bit forward. The fact that a family in Running Deer, Wisconsin lives on a farm and has access to a money market fund is partly

because of us. I think that's terrific. That people can go and pay for their dinner at Durgin Park with a credit card is partly due to us, and that's pretty good for a lot of people.

Everything is a trade-off: people who like what we do, think it's terrific; people who don't, view it with alarm. It's true about everything. No one is going to agree that everything we do is right, but we have a thing called a marketplace. If we make too many mistakes we have a board of directors that gives me a one-way ticket out the door. People get fired. If you look around the country there are six bank presidents who have gotten fired this year — Mr. Galbraith notwithstanding.

*FORUM:* After your departure from Citibank, what will the bank have to do to remain on the “cutting edge”? What is your formula for success?

*WRISTON:* Well, it's really quite simple. We just went back and commissioned someone to write the history of the bank. What we found out was very simple: every time we correctly identify all the trends in the world and structure ourselves to take advantage of them, we have periods of tremendous growth. The first success was at the end of the century when we perceived we were moving from an agricultural to an industrial society. We have correctly perceived and hooked onto the fact that the consumer is the driving force in the recovery.

We have perceived that there are several things that you have to do if you are going to be successful. One is to have absolute integrity. Second is to be customer-driven — instead of sitting around saying what we want, find out what you want. Third, you must decentralize so decisions are made close to the customer and not in the bureaucracy. Finally, you must hire and train the very best people in the world and give them responsibility.

The next team that's coming in here believes all of those things; so I don't have any qualms about tomorrow. They'll do it a good deal better than we did. They've had wider experience, probably more intense education, and are more technology-oriented. I think they're terrific. I'm going to enjoy watching them.

*FORUM:* The international banking system has shown remarkable resilience in the face of numerous crises over the past fifty years — for example, in the post-war reconstruction efforts of the 40s, adjustment from decolonization in the 50s and 60s, the oil crisis in the 70s, and the debt crisis in the 80s. How do you explain this resilience?

*WRISTON:* The people who say it's a remarkable resilience don't really believe in markets. That's interesting because they believe in political markets. They believe that some guy on the MTA is smart enough to elect a President of the United States, but not smart enough to buy a tennis ball. It's an interesting phenomenon. I happen to believe he's smart enough to do both. The people who don't listen to him (a) will not get elected, or (b) will economically not survive. The financial system of buyers and sellers, of good ideas and bad ideas, will create some winners and losers, but the system itself is extremely resilient because it's like a democracy — a distributive judgment of thousands of people. We know there's no substitute for that, and in my opinion that's why our country has lasted as long as it has. That's why the financial system lasts.

For example, we trade in foreign currencies of 95 countries. Each trader makes up his or her own mind every second about what to do. If we ever centralized that and said, "Oh great guru, will sterling go up or down against the mark?" and if we were wrong, which undoubtedly we would be, we'd lose an incredible sum of money. That's the trouble with all centralized planning. Because they are making up their own minds some people will guess right and some will guess wrong. Therefore we can get hurt, but the system will work. To a certain extent it's the same in the financial community. I don't know who's in here today, but people will probably borrow \$500 million. Our loan officers will say yes or no, and I'll never know a word about it. If they say no, the customers will go across the street to Morgan, and maybe they'll make it. That's what makes horse races. We don't all make the same mistake at the same time. So some of us guess wrong and we limp along and get beat up, the rest of us prosper. That's the resiliency.

*FORUM:* With the end of the first fifty years of Fletcher, and the close of the Wriston era at Citibank, what do you foresee for the next fifty years in international banking?

*WRISTON:* I believe the gold standard was replaced by the information standard. As the satellites go up, and the Pac-Man generation grows up, national censorship will become irrelevant because you will be able to talk directly [to anyone in the world] by satellite. This will have a profound effect on international politics. It will have an even more profound effect on international finance. The world will get tied even closer together than it is now, regardless of the political dinosaurs who don't want it to happen. The difference between what financial institutions do and what Reuters does is only a clearing function. Over time, success is going to be determined

by information, not money, delivered in an understandable form with great speed. The game will go to those people.

Secondly, the fundamentals will never change. Two and two will still be four in any language. Anybody who forgets it from time to time will fall down, just as he always has.

Third, I would argue that an integrated world financial system is a positive influence on world peace and world cooperation and is a buffer against the political madness of nationalism. Not as Bismarck said, "If goods don't cross borders, armies will" — that was a mercantilist concept. But rather, anything that happens anywhere in the world is immediately transmitted to the marketplace. That means that if you are really dumb in the way you handle your affairs the market coalesces against you. It's not just your neighbor, it's the whole world. I think that's a very cheerful thing myself. I'm an optimist.

