The Association for Diplomatic Studies and Training
Foreign Affairs Oral History Project

JAMES WALLAR

Interviewed by Charles Stuart Kennedy
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INTERVIEW

Q: Today is the ninth of March 2002. This is an interview with James Wallar. I am Charles Stuart Kennedy, and this is our first interview. OK, you are somewhat different from the majority of our people in that you have a background in the Treasury Department. Which I am delighted to get into because it is so important in our field of foreign affairs. Do you go by Jim or James?

WALLAR: Jim.

Q: Let's start kind of at the beginning. I want to get a little feel where you were from. When and where were you born?

WALLAR: I was born and reared in Columbus, Ohio. I spent four of my grade school years in eastern Pennsylvania in a little village just outside of Allentown called Cetronia known for Dorney Park which featured a huge roller coaster.

Q: What about your parents? Where did your father's family come from?

WALLAR: Well I am glad you asked that question because one of my projects in my retirement is to investigate the family tree and, more interestingly, put it in an historical context. My father's people we traced back to Virginia, the part that is now West Virginia, outside of Harper's Ferry along the Shenandoah River. This ancestor, William Waller, fought in the Revolutionary War, including the battles of Trenton, Princeton, and Monmouth Court House.

Around 1795 the family migrated toward the western part of Virginia which is now Preston County West Virginia, southeast of Morgantown. Around about 1813 they moved further west, to the area of Cambridge, Ohio. Subsequent generations moved about south central Ohio. My grandfather, the first to receive a college level education, gravitated to Columbus turning his back on farming, the occupation of his forefathers, and taking up a new, white collar trade: accounting.

Q: Before we do that in your research do you know where your family came from? I was thinking it would be England.

WALLAR: The lore in the greater Wallar community is that our line came from Wales. But no one can trace the vessel on which they crossed the Atlantic or where they landed. The supposition is that they came ashore in Philadelphia or Delaware, both of which were home to large Welsh communities. As many did at the time, they probably traveled to the Shenandoah Valley on the Great Wagon Trail through Pennsylvania and Maryland then across the Potomac around what is now Shepherdstown, West Virginia. Then some branches of Wallars drifted further south into Tennessee, and then out west to Missouri and Kansas. Some of the Wallars in Ohio moved to Indiana and Wisconsin.

Q: OK, well now let's take your grandparents. What were their occupations?

WALLAR: My grandfather Wallar and his brother took the train from their small farming community of Mount Sterling, Ohio up to Columbus. He landed a position with an investment firm. At this time, in the 1920s, this was an up and coming business. He was very good with figures and rose to controller in the firm. My father always told us that grandfather lost money in the stock market crash. My research suggests something different. The owners of his firm were convicted of mail fraud, deliberately deceiving investors. He was not implicated in the scheme, but he probably did lose money and was shaken. His next job was reasonably staid, selling insurance. He joined Massachusetts Mutual which at the time was one of the few insurance companies that had not been embroiled in a financial scandal. He was an insurance salesman for the rest of his life.

On my mother's side, her father's name was Grau, "grey" in German. His parents came to America around 1890 and came directly from New York to Columbus, Ohio. Migration was big business in Germany with agents providing background on the best places to live and selling train tickets. Columbus had a very large German community in the south end of town. Small red brick houses with cobblestone streets with the slanted slate roofs and bakeries and of course breweries were reminiscent of their homeland. His father was a brew master until prohibition forced him to some other occupation. My grandfather was a tool and die operator in a Timken roller bearing plant in Columbus and eventually worked his way up to be a floor manager.

My two grandfathers were very different. Grandfather Wallar had gone to college, studied Greek, loved poetry, politics, and crossword puzzles. Grandfather Grau dropped out of high school and was a self-made, hard-working, hard- drinking individual. Grandfather Wallar married a first generation German immigrant, and Grandfather Grau married into a family with German roots but who had been in American two generations.

Q: OK, let's go to your Grandfather Wallar. Where did he go to college?

WALLAR: He went to Antioch College in Yellow Springs, Ohio. We have a picture of him on the 1909 football team sitting on the steps of the main building of the college in front of a grassy plain where they played. My sisters and I recently visited the college. The director of alumni relations was enthusiastic when he saw the picture. The building is still there; the grassy plain is still there; but Antioch has long since given up having a football team.

Q: Has Antioch closed or not?

WALLAR: It had closed but it re-opened. When I was going to school at Ohio Wesleyan University, Antioch was part of the Great Lakes College Association (GLCA). One of the GLCA overseas programs I participated in was through Antioch College. During those days the school was considered extremely liberal. At the time my grandfather attended it was a very strict and affiliated with the Christian Connection. Horace Mann, its founder, was an educational reformer and believed that a well-rounded individual needed to study science, math, philosophy, and history.

Q: What about your father?

WALLAR: My father was a salesman. He attended Dennison University in Granville, Ohio and became enamored with dairy technology. He believed that the dairy industry had a bright future. He transferred from Dennison to The Ohio State University and majored in dairy technology. Just after he graduated he enlisted in the Army Air Corps as a second lieutenant. We were told many years later when he applied for a pension that it was unusual for college graduates to enlisted at that time. He specialized in radio communications and managed air control towers around the United States, mostly in Pueblo, Colorado.

After the war he ran the Borden's milk and ice cream facility in Columbus, Ohio. Growing up I would sometimes accompany my mother would to pick him up from work. He would take me into the cold storage room, open up a quart of chocolate milk in a glass bottle. He would drink half and I would have a couple of swigs, and he would finish the rest. Every birthday we had ice cream cake that he would bring home packed in dry ice with the typical dry ice cloud that would ooze out of the container.

He reached a ceiling in Borden's and joined the Mojonnier Brothers who manufactured dairy processing equipment. That is when we moved to Pennsylvania. His job was to go around to dairy farms and sell bulk coolers where farmers would store the milk until tank trucks would pick it up. Then he graduated to selling processing equipment to dairies like Lehigh Dairy in Allentown.

As he was approaching retirement he was let go. He just cost them too much money with his salary. Being a salesman and determined to succeed he applied to an ad to sell plumbing supplies. Now he knew as much plumbing as the average do-it-yourselfer – maybe less. But he said OK, this is what has been given to me so he picked up the heavy bags of O rings and pipes and what have you and put them in his trunk and started knocking on doors. Within two years he was one of the firm's top salespersons.

Q: And your mother?

WALLAR: When she met my father, she was working in a factory in Columbus and then she studied stenography so she could take shorthand. She drove a Red Cross station wagon for publicity purposes during the war and worked at the defense depot facility in Columbus close to the airport. After the war she stayed home and raised three children. She was active as a church secretary and very religious and welcoming. She never met a stranger. I thought about today's interview and putting my family history together, I credit my mother's openness to let me study overseas as an important factor form me pursuing a career that would be largely spent abroad.

Q: What religion did you follow.

WALLAR: Lutheran.

Q: Did that stick with you for your career?

WALLAR: No. While I was raised Luther while at college I attended a Methodist church because I enjoyed the minster's sermons more than the Lutheran minister's. Sunday mornings were quiet on campus, and the church was a pleasant fifteen minute walk. I married an Episcopalian. When we first married, we would go to church in Georgetown. In our overseas tours finding a convenient church was not always easy so we didn't attend services except on holidays. On Sunday mornings I would set aside an hour to read philosophy.

Q: You went to Ohio Wesleyan. What was it like?

WALLAR: It is a small, mid-west liberal arts college, and I played football. One of the reasons I went to Ohio Wesleyan was I could play football. My father liked that too but was more enamored of the academic scholarship I received. By the way, another person from Columbus who received the same type scholarship would go on to be an outstanding Foreign Service Officer – Sharon Anderholm Wiener.

Playing football even at a small college is a huge step up from high school. I was an 18 year old playing against strong, young men three years my senior. The tackles and guards and even the fullback and quarterback were big people. Tackling those muscle-bound bodies was like tackling moving a brick wall. About half the first year try outs quit after the first week. I also wondered if this was something I should really be doing, but I stuck it out and made the team. Not first team but the squad that would practice against the first team. I did play in a few games when the score was out of reach.

Q: What did you major in?

WALLAR: In the end I majored in economics. But I took my time getting there. I started out thinking science would be my major. Being a liberal arts college, in those days I was required to take many courses outside my major. The idea is to expand your way of thinking but also to expose you to topics that might change the direction of your interests. Both happened to me.
I enjoyed the history and literature courses and an introduction to economics. I was

required to take a modern spoken language. I was deathly afraid of speaking a language out loud. I was not an outgoing person at all. In high school I had gotten by taking Latin. No need for any Latin conversation.

I asked around as to what was the easiest language to learn. I was advised it was Spanish. So, I took Spanish, and really liked it. I discovered that making noises, which were words in Spanish but strange to my ear, actually communicated with other people, and they responded with the same strange noises that I miraculously could comprehend. Spanish become my minor. Half of my junior year I studied in Bogota, Colombia through the Great Lakes College Association at the Centros de Estudios Colombo-Americano. In January my advisor told me that I wouldn't have enough credits in any one discipline to graduate if I spent the entire academic year in Bogota. He pressed me to return and declare a major. To finally answer your question, my major was economics. I took a solid block of economics courses for a year and a half to graduate.

But my international studies were not over, much to my surprise. The summer between my junior and senior years I was selected to take part in a six-week American-Yugoslav Seminar in Yugoslavia. Two students from each of the Great Lakes Colleges Association schools participated. It was run out of Antioch College. A Slavic studies professor had applied to the State Department to use excess dinars that had accumulated after WWII. At that time, Yugoslavia needed wheat but had no dollars to buy it from the United States. The U.S. government agreed to sell wheat to the county wheat for their local currency, dinars. So the State Department had these dinars to use, and this clever professor figured out a way to spend them and advance education and cultural exchanges.

Since the dinars would pay for all my expenses, all I had to do was to pay my way to Belgrade and back. I worked the graveyard shift at the Columbus Coca Cola Bottling Plant to earn money for the flight. Since I had traveled to Bogota and hitch-hiked around Colombia, Ecuador, and Peru, I thought I could get around in Europe. I talked my Dad into letting me fly to Vienna Austria. I reasoned that I could hitch hike from Vienna down to Belgrade, no problem. My dad didn't know anything about travelling abroad, and as it turned out, neither did I.

Only when I got off the plane in Vienna did it dawn on me that I didn't know a word of German. I made my way downtown on busses and found a youth hostel and bought a map. I walked to the edge of town and stuck out my thumb. Two days and maybe a half of dozen rides later, I was in Belgrade and joined the other students.

The first weeks of the seminar were held in Novi Sad where we studied Serbo-Croatian. Here I was, a person afraid of speaking foreign languages, attempting to learn a second one. I became the best speaker of Serbo-Croatian in our group and gave the farewell address for our group in Serbo-Croatian. We traveled around the country with Yugoslav students. We went down to Lake Ohrid, over to Pristina and Titograd (now Podgorica) then up to Dubrovnik, over to Sarajevo, and then to Ljubljana and finally up to Lake Boehme where we spent two weeks.

Q: Excuse me, I wanted to ask while you were in Yugoslavia did you get any feel for communism or their peculiar way of using it at all?

WALLAR: That is a very interesting and good question. This was a time when Yugoslavia was really starting to develop. Everywhere we went there was a sense of optimism and a sense of camaraderie. Yes, there were jokes much like the folks from Ohio like me make jokes about West Virginia. It was all good natured.

The group of Yugoslav students that were on our bus came from all over, Slovenia, Macedonia, Serbia. While particularly the Slovenians and Macedonians were worlds apart in terms of economic development, at the time the students all seemed to be joined together. Then there was the sense that under Tito they could hold the county together and find their own path to economic development and not necessarily follow the Soviet model lockstep. Of course, they are right next to Hungary, so they felt pressure, but they exhibited fierce independence. In 1990 when the fighting broke out in Yugoslavia I was dumbfounded and could not believe that these students that I had known were fighting each other.

Q: You know I spent five years in Belgrade. I couldn't believe it either.

WALLAR: I was there the summer of '69 when they were beginning to build Novi Belgrade. For one morning I worked in a young socialist work camp digging with a shovel. They taught me how to count in Serbo-Croatian, counting each shovel full of dirt.

Q: I attribute it to bad leadership. There were these animosities, but there wasn't any reason for them to persist except bad leadership including the church did not play a positive role in Yugoslavia at that point

WALLAR: Christian Orthodox and Muslim societies had been living side by side, intermarrying for hundreds of years. I remember we read <u>Bridge Across the Drina</u> which talked about the Turkish invasion and life afterwards. It seemed to be very pleasant and Sarajevo was just a delightful town. Churches and mosques side by side.

Q: Well it is a lesson for all of us what can happen if you have the wrong leadership.

WALLAR: Yes, you are absolutely right and for me it taught me that history doesn't go just in one direction as I am constantly reminded.

Q: Coming back to Ohio Wesleyan, what was the campus like? And the campus life too?

WALLAR: The main campus was small with mostly old buildings, some quite striking made of massive stone. Only the science building was new. Housing was spread out and about a quarter of a mile or more from the main campus and the football field was on the far side of the campus. Lots of trees and grass. The football stadium, Shelby Field, was modeled after The Ohio State University stadium. OWU actually played one of the first games in what was then the new Ohio State stadium.

Campus life at that time was about young people, students testing restrictions, that university official imposed on them. The phrase at the time *in loco parentis* meant that university administration officials acted as your parents while you were away from home. No drinking on campus. Girls had to be in their dorms by 10:00. Women could not wear shorts, only skirts and slacks. Chapel was mandatory ever Wednesday at 11 am. It was a very proper place at the time. During my stay rules began to be relaxed. The curfew was extended to 1:00 and women could wear shorts to class.

Q: Oh my God, you shocked me. So, it was co-ed.

WALLAR: It was co-ed, yes.

Q: What did you all do for dates?

WALLAR: Dates? I never had a steady girlfriend until my senior year which was when I met my wife. She was serving salads at the salad bar. My freshman year I lived in a dorm. I shared a room in the fraternity house the next year and half-year, after I returned from Bogota. My senior year I was a counselor at two off campus houses which basically covered the expenses for my room. The houses were early 1930's structures with large porches. Not quite dilapidated but they were never going to see renovation for better days. But for junior and senior men's dorms, they were fine. About ten men lived in each of these houses. I took my meals in the cafeteria instead of the fraternity house. That how I happened to meet Gale, my future wife.

Q: What did you aspire to be when you were in college?

WALLAR: Until I had settled on economics, I didn't have a clear idea. I must have signed up for interviews with firms that visited the campus. I did have a sense that I wanted to do something other than just jump into a job. With economics, Spanish and an interest in Latin America, I opted for graduate school in international studies. I was still was not certain of a career path when I started graduate school at the School of Advanced International Studies (SAIS) here in Washington, D.C. It was only through my experiences in part time jobs in the private sector at the World Bank that I decided to give the U.S. government a try. Investment banking sounded interesting, and I had an interview with J.P. Morgan in New York City. A very buttoned-down operation. In one interview I asked about their views on social policy in Brazil. That cut the interview short.

Q: Well you graduated from college when?

WALLAR: In 1970.

Q: So, what was the employment field for someone with your education?

WALLAR: I don't recall that graduates were having a difficult time landing a job. I wasn't ready to settle in, after my experiences overseas. I was accepted in the Peace Corps and was to be posted in the altiplano of Peru. I was accepted by VISTA, Volunteers In Service To America, and I was going to be stationed in Arizona with a Latino community. I applied to the Fletcher School at Tufts and was accepted but not offered a scholarship. I was accepted to SAIS and they awarded me a National Science Foundation stipend for room and board and free tuition. I got paid to go to graduate school for four years to earn a PhD.

Q: Wonderful. You must have done well.

WALLAR: I thought I could always sign up to the Peace Corps and VISTA, but not so with such a scholarship. So the decision was pretty straightforward, and I became a SAIS person.

Q: Well what was SAIS like? SAIS is at Johns Hopkins isn't it?

WALLAR: Right. It was set up by Christian Herter and a few others after WWII. They were concerned that when the war broke out the diplomatic service, and America generally, wasn't equipped with individuals with language, political, and economic skills to be effective. SAIS was dedicated to that ideal and it was the basis of my course work. The school is just one building so there was no campus life. When not at school I had part time jobs. The first was with a consulting and lobbying group that specialized in international trade issues. The second was at the World Bank where I worked part time during the school year and then full time during the summer. I had an option to stay on at the World Bank, but I wanted to explore the government sector.

Q: You were at SAIS from when to when?

WALLAR: The fall of 1970 until May of 1972. By that time I earned a master's degree. My stipend would take me for another year or two to earn a Ph.D. I decided that I had enough of academia. My work experiences, particularly at the World Bank, whetted my appetite to get on with it so to speak. SAIS has a very good professional network in Washington, D.C. One of the interviews they organized for me was at the U.S. Treasury Department. That interview went well and my resume was good enough to get a starting position at the Treasury Department.

Q: Well, let's see. You were at Treasury for the rest of your career.

WALLAR: Yes, the rest of my government career was at the U.S. Treasury from May of '72 to January of 2006.

Q: Did you get involved in the Vietnam War at all?

WALLAR: No, I did not. I had a high number in the draft, so I was never called up. That was always a possibility. High school buddies of mine went and some didn't come back. Some came back very damaged. I was very fortunate in avoiding that.

Q: What was your first job with the Treasury?

WALLAR: My first job with the Treasury was in the Office of Tariff Affairs. The Treasury has a very large distinguished building. If you look at it from the outside, it is quite imposing. Big columns and broad stone stairs to the main entrance. My office was at the basement level. The building has a grassy moat around it. My window looked out on the moat. But if I looked up, I might see birds flying over the White House because my office was on the west side of the building. But looking straight out the window I was too low to see the White House.

Q: Yes, I have walked past that building.

WALLAR: There was a regular public a street between the White House and the Treasury at that time.

Q: Well is it still operational?

WALLAR: No, they have closed that off years ago. Now it is a secure walkway protected by a gated-fence and the Secret Service.

My primary task was to review casework on anti-dumping and countervailing duty investigations. Anti-dumping is when a foreign exporter sells for less in the United States than in his home market. That is defined as dumping. If that dumping causes injury to a U.S. industry then Customs would impose anti-dumping duties to close that price difference. Countervailing duties were for offsetting subsidies. If an exporter availed themselves of government subsidies to export, then a countervailing duty could be imposed to the extent the imports benefitted from that subsidy. At the time, this was a newly discovered way to combat unfair trade practices. There was a very flamboyant assistant secretary for enforcement who promoted the use of these statutes. His name was Eugene Rossides.

Q: Oh yes, he was very much in the forefront of policy.

WALLAR: That is right. "Fair and free trade" Eugene Rossides. He first became famous by being an outstanding quarterback for Columbia University. He always had a football in his office.

Q: Wasn't he the one who was on top of not the policy but the theory of emerging nations?

WALLAR: No, I don't think he was involved with that. That was Eugene Rostov.

Q: These were two of the names who were.

WALLAR: Rossides was quite effective. Cigar chomping, a bald head at a young age, always energetic and always on the move.

Q: Well what were you doing for him?

WALLAR: The U.S. Bureau of Customs, which is now called Customs and Border Patrol, did the leg work on anti-dumping and countervailing duty investigations. They would pull all the material together in a background memo and make a recommendation for action or no action. I would review those recommendations and accompanying information and add a cover note for the deputy assistant secretary who then forwarded it to the legal office for review and the assistant secretary's office for approval. This was a springboard for my international career. The General Agreements on Tariff and Trade in Geneva, Switzerland had a committee on anti-dumping practices. The deputy assistant secretary would take me to these meetings. At that time the anti-dumping committee member countries could fit in a small room, just a little bit larger than this one.

Q: About 20 feet.

WALLAR: Yeah, with two of these tables length to length, name placards and the old, heavy black headphones you would strap across the top of your head for simultaneous translation.

This was when the GATT was in a small old mansion up on the hill from the lake. It was close to the UNCTAD and the Palais de Nation complex. The GATT had a few buildings up there. Later they purchased the old International Labor Organization building on the shores of Lake Geneva which is where they are now. The GATT was transformed into the World Trade Organization.

I would prepare briefing books for the deputy assistant secretary. He was of the old school, a Roosevelt Democrat and committed public servant. A lawyer by trade but rather than making money by joining a law firm he decided he wanted to dedicate his life to being a public servant. His name was Matthew Marks. Quite a remarkable individual. Married to a Belgian. Spoke fluent French. Went on ski holidays until his 70s and was very rigorous in interpreting the law and fair in applying the law.

Q: What were your problems? I mean who was fiddling around with unfair trade practices? Other nations?

WALLAR: At that time most of the cases were against Japan. Japanese steel, roller bearings, textile products. The odd cases against Brazil. Not so much Korea at the time because Korea was very much a developing country. But most of the cases were against Japan, and a few on European countries.

Q: Were the Japanese was it just their way of doing things or did they have a plan?

WALLAR: Much has been made of Japan Inc and having an industrial plan for strategic industries. Steel was one of those strategic industries. But in terms of a pricing, generally speaking they would price to the market. If the market in the United States was a lower sales price for steel than it sold at in Japan they would sell at that lower sales price. By the legal definition, if they were selling for less in the United States than they were selling at home, that is dumping. Then it was up to the International Trade Commission, which used to be called the U.S. Tariff Commission, to decide whether that dumping caused injury to a U.S. industry. If there was, then anti-dumping duties would be applied.

Q: In this were we pretty effective in stopping this?

WALLAR: I believe so. Of course, I speak from a certain side. As I say Mathew Marks was a man of principle, and he wanted the law to be applied fairly. We had a very distinguished man as general counsel by the name of Lee Richter who was a first rate lawyer. He would make sure the law was being adhered to very closely.

But as these things go, Congress was not pleased with some of Treasury's decisions. In the end after I left and after Matthew Marks retired, Congress decided to move the administration of the investigations on anti-dumping and subsidies from the Treasury Department to the Commerce Department. Commerce absorbed the U.S. Customs Service office that performed the investigations.

This is like having the fox guard the chicken coop because the individuals that bring these cases are companies and corporations and those are the constituencies of the Commerce Department. Commerce wanted to do right by the industry and by certain committees on the Hill.

The administration of the law became much more aggressive and some of the actions were challenged in U.S. court and eventually in the WTO. Today one of the reasons why the WTO is facing difficulties is because the current administration feels that the WTO has gone beyond its remit in reviewing U.S. anti-dumping decisions, judging some to be inconsistent with WTO rules. While this is true, the U.S. still has won more cases in the WTO than lost, according to my understanding.

Q: Well foreign governments just looking at them, they had to be aware of our restrictions; you couldn't dump. Were they trying to get around it? What was driving it?

WALLAR: Well the Japanese of course were driving it because they were promoting their steel industry which provided a foundation for their industrial growth. In the anti-dumping committee in Geneva we would have to defend the cases and the technical merits of the cases. Naturally the foreign companies, the Japanese companies, or the European companies would talk to their government representatives and say hey, the Americans have done this or that which we don't think is legal so therefore you should challenge them in Geneva. So, we would have to defend these cases in Geneva. If we found they had a good point we would come back and huddle and discuss if we should adjust the policy or not.

Q: I would think within a very short time the playing field would be level. With your *people doing this and I assume the Japanese were doing the same thing on their side and all over it would level the playing field.*

WALLAR: That was indeed the intention, to level the playing field. As Matthew Marks liked to put it, the anti-dumping and countervailing duty statues were like safety valves to let the industry let off steam. If industry didn't like what the imports were doing to them they could file these cases, get anti-dumping duties imposed, level the playing field and life would go on.

The cases increased because they were product specific. If there were a case on cold rolled steel, what about hot rolled steel? What about pipe and tubing or rebars? The list goes on and on. So, the steel industry would have to file several cases to get the relief they were looking for. This goes on today because some companies feel it is better to try and level the playing field or at least harass imports than invest in new technology to improve productivity to meet the competition with lower prices.

The theory of anti-dumping was espoused by Jacob Viner, an economist at the turn of the century. He wrote his book on the theory of dumping. I think it was 1921. The theory of dumping is basically premised on anti-trust. Cornering a market. If a foreign company would sell in the United States at less than its home price and thereby driving out U.S. competitors, they would eventually raise their price when all of the U.S. competitors had been driven out of the market. That was Jacob Viner's theory. He stated that injury had to be caused to the whole of domestic industry, not just firms directly competing with imports but also those firms using the imported product, the consuming firms. The U.S. law does not provide for taking into account any injury to consuming industries.

Q: Well basically you weren't looking to exclude people, it was just the price. Is that it?

WALLAR: Trying to level up the price. Product could still flow in. Importers would just have to pay an extra duty. Maybe they were competitive at that price because of the quality or the service provided or the fact that it was a unique product but there were no quantitative restrictions in those particular laws, anti-dumping and countervailing duty. There are other laws fair trade laws on the books that do provide restrictions but not the anti-dumping and countervailing duty laws.

Q: Brazil you say was a problem.

WALLAR: Brazil was a problem in subsidizing exports, rebating more tax on exports than had been paid domestically. We also a cases against Mexico. One of them was when George Schultz was secretary of the treasury. I can't remember if it was anti-dumping or countervailing duty case. Secretary of State Kissinger had something going on with the Mexicans. I am not sure what it was, but he called up George Schultz. The people at State always knew what we were doing. We coordinated with State's economic office and let them know when we were going to take action against a country so they could prepare themselves from any blowback.

Kissinger told Schultz, as I understand it, that his economic people at State had told him that Treasury was about to impose some antidumping or countervailing duties against imports from Mexico. He asked Schultz not to do it. Schultz's office, which never got involved in these issues, asked Marks to explain. He informed the Secretary that these are fair trade statues and that the process is quasi-judicial and he cannot stop their application for foreign policy reasons. I understand that Schultz dutifully called up Kissinger and said sorry Henry, these cases will go forward, but we will give you an extra day, so you can tell the Mexicans what is going to happen.

Q: Then you basically had Congress watching you who had their constituents watching them.

WALLAR: That is right. Industry was not pleased that sometimes Treasury decided not to pursue a case. I can't remember the details but one was the allegation of subsidized exports of cheese from Europe. To apply countervailing duties the subsidy has to be specific to the export. The Europeans had a general policy to subsidize European farmers. The subsidy wasn't contingent on the export of cheese from France to the United States. The subsidy didn't depend on the exporting, but when they exported of course, the cheese was subsidized just like port salut and brie and all the other good French cheeses were subsidized whether consumed in France or elsewhere.

U.S. dairy producers felt that all European cheese should be subject to a countervailing duties. Mathew Marks said this is a broad, general European- wide policy. It affects all of their cheeses. If they export, well they just happen to export. The subsidy wasn't contingent on exporting. So, we weren't going to investigate that. Dairy farmers were not happy with that decision.

Another countervailing duty complaint was against apartheid in South Africa. Matthew Marks was not a believer in apartheid by any stretch but again he felt this was not within the purview of the statute to take countervailing duty measures against all exports from South Africa that benefitted from inexpensive labor under apartheid.

Q: Did you find yourself going to other countries and checking on things?

WALLAR: No, this was the purview of the Customs Bureau. They would do the leg work and go to the other countries. Occasionally I would go for policy discussions. I mentioned Brazil was one place I visited. It was shortly after they opened their new capital in Brasilia. It was like landing on the moon because from the top of my hotel you could see the edges of the city. Beyond the edges it was just red dirt. And jungle. At the time the Treasury had an attaché in Brasilia. I talked with him about what was going on and briefed the ambassador. I went with the ambassador to meet with the Brazilian authorities. That was my first experience seeing an armed guard protecting an ambassador. A bit unnerving.

Q: I think there was a movie called Man from Brazil or something like that. It was a French movie but it was filmed in Brasilia at the time and bringing out just what you are *talking about. These futuristic buildings in the middle of nowhere.*

WALLAR: Nowhere. The socialist design. I think it was a German . I forget the name of the architect who came up with the concept. The others who were posted there said the place was dead on the weekends because all the government officials would fly back to Rio. The attaché said it was not quite what he had signed up for because previously his office had been in Rio.

Q: How did you find the attitude of the Department of the Treasury which you were in? Did you have much interaction with State and all?

WALLAR: Yes, Mathew Marks as I mentioned came to government rather than joining a law firm. He was very much an internationalist. He very much wanted the State Department to be totally aware of what we were doing. There would be a State Department representative with us to the GATT Anti-dumping Committee meeting. I don't know whether this name means anything to you, but Eleanor Constable was our contact at State.

Q: I have interviewed Eleanor.

WALLAR: She had just rejoined State after seeing her family grow. After Eleanor it was Tim Diel who went on to greater things and then headed up the U.S. Business Council for some years. Our office developed a good rapport with these State Department colleagues. We educated them as to how these laws operated and apprised them of upcoming decisions and potential issues.

As I recall Mathew Marks also invited them to the informal meetings between the two parties to a case. These meetings gave each side a chance to explain their views to Marks, the senior technical person administering these laws. Sometimes representatives of foreign governments would attend with their private sector party who was subject to an anti-dumping or countervailing duty complaint. For example, someone from the Japanese Embassy would attend with the Japanese firm being investigated and their lawyer.

Q: What was your impression of Japanese lawyers?

WALLAR: The lawyers the Japanese hired were American, based in Washington, D.C. There was one firm that was actually Japanese American, it was Tanaka. They were very sharp, and they knew the law. They put up very good challenges to the assertions made by the lawyers representing the domestic firm. U.S. lawyers representing domestic firms were also very talented and also very aggressive. Some used their clout with Congress to get their points across.

Q: Well what about Congress? I mean they obviously had a constituency which was American business, but did you deal with people who really understood and were seeking a fair use of this power or were they more out to win no matter what?

WALLAR: They were more out to win. Mathew Marks would go up to the Hill and consult with Congressmen and Senators and their staff members. Russell Long on the Senate side, chair of the Senate Finance Committee, and Wilbur Mills, chair of the Ways and Means Committee. They were powers unto themselves. They didn't know the fine points of the law but they knew who was winning and who was losing and the need for action when necessary. It was a tough road but Marks wouldn't back down. He was dedicated to be fair to all sides. Perhaps this might be one reason Congress decided to move administration of these laws from Treasury to Commerce, which created other issues but the industry couldn't seriously complain any longer.

Q: Well is there any difference between the Republican administration and the Democratic administration?

WALLAR: No, it wasn't like that.

Q: It was bottom lines in that sense.

WALLAR: There were at that time no major differences. I mean Rossides was a Republican as was his successor, Ed Morgan. I don't know if that name rings a bell.

Q: No, it doesn't.

WALLAR: Ed Morgan, assistant secretary for treasury enforcement, had been in the Nixon White House. As I understand it had back dated some papers for the President and this led to Mr. Morgan spending time in jail. As the drum beat of impeachment hearings was growing stronger, when Morgan was at Treasury he was quoted as saying something like, "the tanks are coming down Pennsylvania Avenue."

Q: You did this for how long?

WALLAR: I did this for about three and a half years. Mathew Marks had tried to convince me to become a lawyer because the office I worked in had several lawyers, and I was doing the same work. In fact, the person who took my place was a lawyer. The lawyers in the office all joined law firms and made lots of money representing foreign or domestic clients in anti-dumping and countervailing duty cases. For my next 30 plus years I would have a very different kind of experience. They and their families did extremely well but remained in Washington and focused on one issue. Quite the opposite of a Treasury career overseas.

Q: Well I would think that dealing with an issue such as duties and all is a fairly restrictive issue and being a lawyer you kind of learn the law so in a way it is like a chop mark to put on your resume, but it really doesn't mean anything.

WALLAR: Well I don't know about that. As I say they did very well for themselves.

Q: Well as I say that is because of the mark.

WALLAR: I wouldn't trade the kind of career I had for anything. To answer your question, I did this for 3 ½ years. In mid-1975 Mathew Marks was asked by a good friend of his, Hal Malmgren, for recommendations of a Treasury person to work on trade negotiations in Geneva. Malmgren was standing up office of the U.S. Special Trade Representative in Geneva for the Tokyo Round of the Multilateral Trade Negotiations (MTN). He wanted a junior officer to work with a senior Treasury person, Jon Hartzell.

The Tokyo Round, the latest in the series of trade negotiating rounds after WWII, was negotiating not only reductions in tariff rates as was usual in the Kennedy Round and the Dillon round and other negotiating rounds, but for the first time they were renegotiating rules on non-tariff measures.

Objectives included codes on the setting of product standards to ensure no discrimination against imports, a code on customs valuation of goods to ensure all countries took a similar approach, a code on import licensing to ensure they were not a disguised form of import restrictions, a code on applying safeguards against imports so they would be only temporary and phased-out quickly. They were also aiming to negotiate rules on anti-dumping and countervailing duties. GATT provisions for these measures were very broad. It was a new territory for negotiators, and they wanted an expert. Mathew Marks asked if I would like to go to Geneva and be part of the U.S. negotiating team for several years. I agreed.

Q: How did you do this? Were you married?

WALLAR: Yes, I was married by that time.

Q: Obviously, you might have said yes, but this had to be renegotiated at home.

WALLAR: It had to be renegotiated, but Gale is a real trouper. She was an Air Force brat, used to travelling around. I met her in Ohio Wesleyan. Her father had been stationed in the Pentagon and did an outstanding job. He was given his choice of his next assignment. He said he would like to go to some quiet college and be the ROTC commandant away from Washington hustle and bustle. He was given the possibility of going to the Air Force Academy in Colorado. Still too close to the brass. He settled on Ohio Wesleyan.

Gale attended Ohio Wesleyan because since her father was a professor she could attend tuition free. She had had her heart set on going to Syracuse which has an excellent fine arts program. She had been accepted there. That was not to be. Her loss, my gain.

She was keen on living overseas because she had actually spent four or five years in England growing up when her father was stationed there. He had been a navigator in WWII and flew about 24 or 25 missions over Germany. He was very experienced and was pleased to return to England for five years in the 50s. The family had travelled around Europe – France, Germany, Spain. So she was enthusiastic about moving to Geneva.

Q: All right, well let's talk about that. What were you doing?

WALLAR: The Geneva delegation was very small, maybe twenty people. There were representatives from agencies that had a role in trade policy. One was from the Department of Labor, two or three from the Department of Commerce, two from the Department of Agriculture, one from the International Trade Commission, and three from the Department of Treasury. The rest were from the U.S. Special Trade Representative's Office (USTR).

The head of the delegation was ambassador William Walker, a lawyer. He welcomed the array of expertise but believed that if we harbored loyalties to our home agencies conflicts could arise that would not represent the best advice possible. To remedy this in his own mind, he had us all seconded to USTR. Our home agencies paid for our salaries, but we were subject to personnel reviews as employees of USTR by the ambassador.

I mentioned that Christian Herter helped create SAIS when he was a U.S. Congressman. After serving as Secretary of State, he created USTR. He shared that the State Department wasn't representing the interests of U.S. industry in trade negotiations, but giving the lead to the Commerce Department would have just the opposite effect, not taking into account interests of foreign governments and being too much in industry's pocket. USTR was set up to receive advice from trade policy agencies as well as the Office of Management and Budget and the President's Council of Economic Advisors. Based upon this advice and senior-level discussions, USTR sought to be an honest broker to develop trade policies and negotiating positions.

This was my first experience to interact frequently with delegates from foreign countries. There were multilateral meetings in the GATT's large conference room and also many bilateral consultations and negotiations. I was assigned to help negotiate the standards code, the anti-dumping and countervailing duty codes, and the import licensing agreement. Each member of the delegation was given several counties to negotiate tariff reductions. The allocation must have been by the alphabet because I got Indonesia and Israel. I would have discussions with delegations from those two countries, making requests for tariff reductions on specific goods and receiving their requests for the U.S. to reduce tariffs on products of interest to them.

Q: I would imagine particularly having Israel would be difficult because Israel always had these pretty close ties to our Congress.

WALLAR: Politics never entered but the security aspect did and at the time. This was the mid 70s. Israel's economy was still very much in the emerging market mode. Their model was more to protect and grow local industries. I recall that security was very tight to enter the Israeli consulate in Geneva.

Q: OK well let's see. What would be the issues with Israel on security and all. What sort of issues were you having?

WALLAR: It was more a question of economic security. I can't recall the specific products, but I do remember that their tariffs were very high and they were very reluctant to reduce the them on the products of interest to the United States. They wanted to protect and nurture infant industries.

I think Israel claimed at that time to be in the developing country category and therefore should not be required to reduce the tariffs as much as developed countries. Treatment of developing country obligations in the GATT was subject of a separate negotiating group to establish special and differential treatment for developing countries. Given their development status, they argued that they shouldn't have to make as much of a concession or implement new obligations being negotiated as quickly as developed countries.

Q: Well then do you recall any particular cases during this period that got your very complete attention?

WALLAR: Cases, or situations in the negotiating room?

Q: Situations yeah.

WALLAR: Two stood out. One is we continued to have technical discussions in Geneva while the U.S. elections played out over the course of U.S. election season, more than a year. While there was no deadline for the negotiations, foreign countries did not want to sign off on a deal with a U.S. administration that could not get a deal through Congress. I wouldn't say that we were spinning our wheels as there were always technical issues but no big decisions would be made until after the U.S. elections. Some thought our being in Geneva was a boon dongle. But we were working.

William Walker had been appointed by President Ford. When Carter was elected President, it took several months to get a new ambassador to lead the delegation. President Carter appointed Alonzo McDonald, a business consultant with McKinsey. It must have been late spring in 1977 before negotiation resumed in earnest. Robert Strauss was appointed as U.S. Special Trade Representative. He had been the chairman of the Democratic party and was quite a colorful figure.

Q: I have interviewed him.

WALLAR: You have? Really? He would come to Geneva and try to push countries to move ahead. I was with him in the meeting with the Japanese senior negotiating team in Geneva. They were always very polite, always very reserved, always did their homework. They knew to the last sentence what they wanted and what they thought we wanted in a negotiation.

After we had sat down at the long table Strauss reached into his pocket and pulled out his wallet, slammed it on the table and said, "In Texas we put our money on the table so we can see eye to eye on what we want to get." The Japanese of course just looked at each other in total amazement no knowing what was going on. Then the Japanese would make a very polite comment about something that Strauss wanted them to agree on. Strauss pretended to interpret their politeness for agreement, would paraphrase what they had just said so it sounded like they agreed, and then wrap up by saying something like, "Let me call the president right now and tell him what you have agreed to." The Japanese hadn't agreed and said "wait, wait, don't call."

Strauss was diplomatically a bit blunt but it was all done in good humor and all done with a very clear intent in his mind of what he wanted to achieve in negotiations. He was very effective in negotiating with foreign delegations and even more effective, coming to your point, with Congress. After the negotiations were concluded my next assignment was in the front office of USTR in Washington, D.C. as one of the special assistants to Alonzo McDonald who had gone from ambassador to Geneva to Strauss' deputy. Our primary, overriding purpose was to secure passage in Congress of all the new rules and tariff reductions agreed to in the MTN. Strauss of course, was a master of dealing with Congress. We spent long days of writing briefing papers and meeting with businesses and Congressional staff. In the end the legislation sailed through without any opposition. Strauss quipped afterwards, "Maybe we shouldn't have worked so hard on this."

One lesson from the experience is blending politics the technical aspects of negotiating an agreement. Since the delegation was small and resources were stretched I was given sole responsibility to conclude negotiations on the import licensing code. Some countries, including the U.S., have a requirement to get a license to import certain goods. Sometimes this is for statistical purposes. Sometimes for health and safety reasons. The code under negotiation aimed to limit licensing requirements that were unnecessary or arbitrary and hampered imports. If the licensing requirement was for statistical reasons, the code required the license to be issued automatically, without signatures of many officials. Other obligations included requiring that the license application be acted on in a short period of time and not be unduly onerous on trade. The import licensing code was just a couple of pages long but it turns out to be very important.

As a young person this was my first time in the chair for the USTR representing U.S. interests and speaking and negotiating with other delegates. It was quite stimulating. I smoked a few cigarettes in the final session wondering if the deals I had struck with several delegations in private would hold in the open discussion with about 20 other countries others and result in a final agreement. I was actually pleasantly surprised when the chairman announced that an agreement had been reached and the final text would be draw up.

In my other negotiation groups I was support staff. On the countervailing and anti-dumping codes lawyers from USTR Washington would come in for serious negotiations. The standards code was highly technical and also relied on a senior USTR negotiator. Import licensing was not a politically sensitive issue, but rather technical. They allowed me to handle the negotiations, always based on inter-agency guidance developed in Washington. I was pleased and somewhat surprised, even startled, that a young man on his first assignment could actually reach agreement with delegates from different countries on an international code, however modest its reach.

Q: A wonderful feeling of accomplishment. Well how long did you do this?

WALLAR: Basically the fall of '75 to the spring of '78. My wife and I both enjoyed our experiences in Geneva. We didn't have children at the time and traveled to see much of Europe. In the 70s you can appreciate that Europe was still in the process of rebuilding. Traveling throughout Germany, in particular, you could still see the effects of the war. Cities had been cleaned up but reconstruction was very modest. And you saw allied military troops everywhere; Canadian, American, and British. The country looked and felt occupied.

After the negotiations concluded I came back to Washington still on USTR's payroll and worked in the front office on Alonzo McDonald's staff. I remember at the time Susan Schwab was a staff person in USTR. Later she worked on the Hill and became the USTR herself. But in 1978 she and I were at the Xerox machine running off copies of analyses of how the MTN agreements would benefit each and every state in terms of increased employment or economic activity. It was an all-out lobbying effort.

Q: Was the attitude in the USTR? Was State, I won't say the enemy, but the opposition?

WALLAR: At this time, no. That tension developed later. At the time State was very much a part of the negotiating team as part of the mission in Geneva, traveling teams, and decision-making in Washington. I don't recall that they were very active on the domestic side in terms of pushing the legislation through because that was high politics, which Robert Strauss excelled at, and technical aspects just getting the information out to the right people. But overall at that time there was very good collaboration between State and USTR.

That changed later as I would discover. Once you are a trade person you never atone for your sins. Getting ahead of my story, eleven years later I was summoned back to the states to head up the Treasury Department's International Trade Office. I participated in the inter-agency process. And at that time there were clear divisions between State and USTR. There were also major differences between Treasury, OMB, the Council of Economic Advisors, and usually State on the one hand, and Commerce, Labor, Agriculture on the other. I wouldn't say it had become confrontational because it was always collegial, but the inter-agency dynamic was much more tense.

Q: You each had your very specific point of view more or less. Well now you did this from when to when, when you moved over?

WALLAR: I stayed in USTR until the legislation passed which I believe was in the summer of 1979. We all got pictures of Jimmy Carter signing the legislation in the Rose Garden. I was asked if I wanted to stay on in USTR. Bob Hormats was the new Deputy for USTR and later would be the Under Secretary of State.

My first assignment would have been to fly to Italy to negotiate voluntary restrictions of their exports of candies shoes which were very popular. The shoe industry had a strong lobby and was pushing for the administration to take action to restrict the import of candies. I don't know whether you recall the secretary of commerce at the time, Frederick Dent, advised Gerald Ford during his ill-fated election campaign that, " more people wear shoes than make them." Ford resisted pressure to impose restrictions. Now the pressure was on to do something.

Having spent 3 ½ years on anti-dumping and countervailing duty cases, I understood the protectionist element of trade policy. The Tokyo Round opened my eyes to the positive, economic growth generating aspects of international trade. I decided that I wanted to expand my horizons and explore other economic policies. I decided to return to the Treasury Department.

Q: What were you doing in Treasury then?

WALLAR: I worked in the Office of Development Policy for Jon Hartzell who was the director. Jon was part of the original MTN delegation in Geneva with Malmgren. I worked for him briefly until I was moved over to non-tariff measures. My official title was an assistant to the director of development policy. I was interested because I had studied development economics at Ohio Wesleyan and SAIS and worked on development project evaluations at the World Bank.

Hartzell's office worked on foreign assistance programs, including policies of the U.S. Agency for International Development (USAID), the United Nations, and the specialized agency, the United National Committee on Trade and Development based in Geneva. Treasury had no decision-making authority in these areas but was part of the inter-agency process to develop U.S. government positions on activities of these bodies.

Q: How did you find working with the UN?

WALLAR: This is when I became reacquainted with Eleanor Constable. She was now a DAS in State's economic bureau. She led a delegation to negotiate the terms for the UN second development decade, a road map for development. She asked if I could be the U.S. Treasury representative on her delegation.

We spent a week or so in New York working with UN officials and delegations from many developing countries. I think there were certain frustrations that she felt as head of the delegation. We had a meeting with the U.S. ambassador for economic and social issues, Joan Spero who had been an executive with American Express. The negotiations were very tense negotiations. Developing countries which were known as a block called the "G-77" wanted more ambitious provisions in terms of financial assistance and other support than we were willing to accept. They also wanted more lenient obligations applied to themselves, easing their burden, including to international financial institutions. They also wanted a firm commitment that developed countries would devote one percent of their GDP to development assistance.

One of my jobs as the Treasury representative on the delegation was to protect the international financial institutions, the International Monetary Fund (IMF) and World Bank, from any type of incursions on their policies. Generally, loans or extensions of credit from these institutions had conditions attached. Treasury agreed with that philosophy and did not want developing countries to water down policy corrections that they would have to take in exchange for receiving resources from the bank or the fund. To this extent, my task was mostly defensive.

The negotiations were hard-fought negotiation. In the end there was agreement, but it was less robust than developing countries had hoped. Rather a commitment to one percent of GDP for development, I think the language was something like developed countries would strive toward achieving that one percent. And the World Bank and International Monetary Fund programs were cast in a positive light.

Q: Were there advocates of this policy of having these individual agreements? I mean were they opposing you and you were trying to keep an eye on these?

WALLAR: Representatives from developing countries would draft very aggressive language for the declaration on that how international financial institutions should be more willing to extend loans on softer terms, to expand their soft loan window, and ease up on conditionality. These were challenges that, in a diplomatic way, we moderated to retain the authority and structure of these institutions.

Q: What were some of the other issues in the office?

WALLAR: Two other issues were foreign assistance and the common fund. I was the Treasury representative to the International Development Cooperation Agency (IDCA), a very short lived group. IDCA was chaired by Tom Erlich and his deputy was Jessica Einhorn who later became the dean of SAIS. IDCA was created to coordinate all U.S. development assistance, including the U.S. Agency for International Development, the Overseas Private Investment Corporation, the U.S. Trade and Development Agency, and the Export-Import Bank. Treasury was responsible for U.S. policy in the multilateral development banks, like the World Bank and InterAmerican Development Bank and were not subject to IDCA's coordination. A sore point.

Clearly, some senior officials sensed the need for more coordination, to use the assistance wisely for development and to advance the U.S. government's strategic interests. I sat in on the discussions that took place in the old part of the State Department. The process wasn't effective because IDCA did not control the purse strings of these agencies. Money talks. So the discussions were just that, and IDCA faded away.

Another issue was the common fund. Fred Bergsten was the assistance secretary of Treasury for international affairs. Later he would create the International Institute for

Economics that would evolved into the Peterson Institute for International Economics, a think tank. Bergsten was very dynamic and articulate and spoke his mind.

At the time one of his biggest projects was to join with other countries to create a common fund under UNCTAD, the UN Committee for Trade and Development. Some developing countries were totally dependent on one or two commodities to earn foreign exchange. Fluctuating commodity prices would create difficulties in budgeting and planning. For example, sometimes coffee prices were high if a frost damaged the crop and other times they were low when yields were high. His idea was that developing countries could pay into a common fund during times where their commodity prices were high and draw on the fund when prices were low. This would smooth their revenue streams and facilitate budgeting. Although much effort was put into the concept, the common fund never took off.

Q: Are they still trying to do this because it makes very good sense.

WALLAR: In the end the IMF created lending facilities to perform similar tasks. The IMF relies upon member country capital infusions which they use to borrow in the market place. That is a more certain source of funds than the UNCTAD's common fund would have been.

Q: Well you did this for how long?

WALLAR: I was in the office of development policy from the end of '79 to mid '82. When the Republicans came back into office in 1981, the first task we were given was to show that countries with low taxes had the most dynamic economies. The data didn't support this hypothesis, so the administration turned to the idea that trade, not aid, was the key to development.

Since we enjoyed our first overseas assignment, and Gale was used to moving every few years, we thought it would be good to have another working and living experience abroad. Treasury had a network of attachés overseas that started after WWII. Their objective at that time was to recapture stolen assets. That network still existed but its focus was on economic policy and central banking issues. The positions were mostly filled with distinguished and long-serving career experts.

A position did come up in the African Development bank in the Cote D'Ivoire. I decided to try for it. Eleanor Constable agreed to support my candidacy and wrote a nice note to my assistant secretary, Mark Leland. Mark Leland was a wealthy businessman who had married a Rothschild. Very international and open to ideas.

He called me into his office and said, "I have this note here from Eleanor Constable supporting your application for the position in the U.S. Executive Director's Office in African Development Bank in Abidjan. Have you thought about this?" I replied, "Yes sir, my wife and have read up on the Abidjan. It is the Paris of West Africa. We would really enjoy living there and I would like to continue to work on development at the African

Development Bank and still be associated with Treasury." He then surprised me by report, "Well I have just been given notice that our attaché in Bern, Switzerland wants to come back to the states. Would you consider moving to Bern, Switzerland?" I smiled when I answered, "I don't have to call my wife on this one. Yes, sir." So another overseas chapter began.

Q: Well let's talk about it. What were you up to?

WALLAR: The attaché post in Bern was relatively new, only four years old. The long-standing attaché offices in Europe were Bonn, Paris, Rome, and London. There were also relatively new Treasury offices in Tokyo, Brazil, and Mexico City.

Q: There must have been one in Geneva too wasn't there?

WALLAR: No. Bern as the capital hosts the embassies. There are many foreign delegations and consulate offices in Geneva working with international organizations, but no Treasury person worked there.

As one person put it, I got to sit" behind the eagle," that is it is the front office suite of the ambassador's, DCM's, political and economic counsellor's offices. I had the smallest office, but I was" behind the eagle" that was secured with a separate cipher lock. That gave it a certain aurora.

The ambassador was Faith Whittlesey, a political appointee. Very dynamic individual, on the politically conservative side, and very enthusiastic supporter of President Reagan. She traveled around the country and engaged with Swiss leaders, but she didn't have any background in banking and finance. I introduced her to some bankers, both Swiss and American, in Zurich and Geneva, and explained the importance of Switzerland, in part, as a financial turntable. High net worth individuals deposited their funds to the country for mostly safety reasons, and Swiss banks were developing investment banking business to make the country a platform for investors.

Switzerland was my first post but I can tell you from that and subsequence experiences being a Treasury financial attaché is the best economic job overseas bar none. The financial attaché had access to the finance ministry, the central bank, private bankers and the banking and securities regulators. Now access to one or two of those communities is not untypical, but access to all is not usual at all.

Central bank and finance ministry officials typically don't usually get along. They come from Venus and Mars with different attitudes towards finance. The central bank keen on keeping inflation low and the finance ministry keen on robust economic growth and employment. They do have to talk, but they are not always on the same wavelength.

Private bankers might talk to the central bank and their regulators, but they very seldom talk to the finance ministry. Bank supervisors may be in the central bank but regulators for the securities market very seldom talk to the central bank.

As an attaché I had access to all of these groups and would hear comments on what they thought financial or economic policy might be. I might have more insight on policy issues from my conversations with finance ministry and central bank authorities.

Treasury paid for a train pass so I could travel from Bern to Zurich frequently which is where most of the large private banks and central bank were headquartered. The central bank's vice chair was in Bern in an old building on the main town square across from the Parliament building. I traveled to Lugano for the Italian-Swiss banks, to Geneva which was the home of many small private bankers, and to Basel which also had a few small private banks and was home to the Bank for International Settlements.

My overarching responsibility was to report on the Swiss economy and developments in the banking and financial system, including any issues that impeded U.S. banks from operating on the same basis as the Swiss banks. Operationally, I was involved with a few enforcement issues that ran up against the Swiss banking secrecy law.

The U.S. Securities and Exchange Commission (SEC) established as a priority investigating potentially high profile insider trading cases. Treasury was developing measures to counter money laundering that would conceal the identity of potential criminals. In both cases Swiss banks were precluded from sharing their information about their clients and their clients' transactions with U.S. authorities due to the Swiss secrecy law.

Under that law anyone who divulged secret information to a foreign agent could be locked up. There is an old movie, I think it is a Hitchcock movie, starring Robert Young and Peter Lorre called "Secret Agent." It is about a secret agent in Switzerland trying to gain information about a foreign government and being pursued by Swiss authorities. The movie is fun but is also very close to the realities of the 1980s.

Swiss banking secrecy was becoming a point of contention between the U.S. government and the Swiss government for a couple of reasons. Number one, the United States government was becoming much more aggressive in trying assert its authority beyond the border to gather information about a crime allegedly committed in the United States.

There was the famous Mark Rich tax case. Mark Rich was a U.S. citizen and a commodities trader based in Switzerland. He conducted trading operations in the United States but used a series of fictitious "daisy chain" transaction to hide profits and then deposited his earnings in Switzerland. U.S. authorities found Rich guilty of tax evasion, as I recall, but they could not touch him or his profits in Switzerland. Even though the U.S. and Switzerland had a mutual legal assistance treaty, the Swiss could only share information in the case of dual criminality, that is the crime alleged in the U.S. also had to be a crime in Switzerland. Tax evasion was not a crime in Switzerland.

In insider trading cases we worked with the Foreign Ministry, the Federal Police Office, and the Swiss Bankers Association to find a mechanism to share information in specific cases. Rather than approaching the banks, the SEC would provide the Federal Police with precise questions about a client and their transactions. They would sent it to the Swiss Bankers Association which, in turn, would supply it to the bank in question. If that bank had relevant information, it would be sent back to the SEC through the same chain. All very official but also somewhat informal. Ambassador Whittlesey and the head of the SEC's enforcement division, John Fedders, hammered out the agreement. I arrived about the time the deal was being finalized but was involved in implementation and working out problems on the Swiss side. I think this was one of the first "work arounds" of Swiss banking secrecy.

The international spotlight was also on Swiss banking secrecy for harboring money of unsavory characters. The harboring wasn't new but international attention was new. I was at an informal session of the Swiss Cabinet when they were discussing measures to freeze the assets of Ferdinand Marcos that were in Switzerland until a case could be made in the Philippines as to whether or not these were ill gotten gains. The pressure to do so from the international community was intense.

There was also the case of Oliver North who had a bank account in Switzerland at Credit Suisse in Geneva. Oliver North used that bank account to transfer funds for I forget the….

Q: Contras.

WALLAR: Yes, the Contras in Nicaragua. North was on the President's National Security Council. He organized weapon sales to Iran and used the proceeds to support the Contras who were against the communist government in Nicaragua. These were private transactions and the embassy was not involved.

Once his bank account and its purpose came to light, Oliver North was under investigation. We received an action cable from Washington seeking clearance for two senate staffers who wanted to come to Geneva and confront the Credit Suisse officials. I took a copy of the Swiss Banking Secrecy Law to the ambassador and explained that if these senate staffers come into Switzerland seeking secret information from Credit Suisse they could be arrested as unauthorized foreign agents. I drafted a cable, very polite, saying you should bear in mind these provisions and if you should land in Switzerland without being authorized by the Swiss Government to undertake this investigation you could end up in jail. They never came.

Later I was instructed by a cable from Washington to make representations to the general counsel of Credit Suisse that these funds did not belong to Mr. North but to the U.S. government. The general counsel, who I knew well, chuckled when I made the request. He explain that no one, not even a representative of the U.S. government can merely lay claim to a personal bank account. We would have to go through other channels to make claim to those moneys

Q: You know I haven't heard in years but practically most of my growing life I believed *that a Swiss account is where you hid money. I mean it was done for tax purposes, for criminal purposes, to keep your wife or husband from knowing what you were doing. I mean for the Swiss it was big money.*

WALLAR: It was big money and Switzerland was a safe haven not only for tax evaders and criminals but also those fearing confiscation of their wealth by their home government. I arrived in Switzerland about a year or so after Mitterrand was elected President of France. When I visited Basle, which borders France, I was told about many French moving their assets out of France and into the discreet, private banks out of concern that the new socialist government would confiscate their wealth. So people would do it for political reasons.

As you point out, some would do it for tax reasons. As one Swiss banker said to me, "Making money is easy. Keeping it from the tax authorities is the hard part." Some bankers were not concerned that they were hiding ill-gotten gains. One of the famous quotes was something along the line of, "I am not a priest, I am a banker." A very much hands-off attitude, see no evil attitude.

But that attitude was changing. Insider trading and money laundering by infamous despots were beginning to put Swiss authorities and bankers in an uncomfortable spotlight. At the same time, the big Swiss banks had designs to become global investment banks. Credit Suisse, the Swiss Banking Corporation, and the Union Bank of Switzerland, realized that to be a major investment bank meant offices in London and New York. This would mean they would have to comply with U.K. and U.S. law and could have their assets frozen if they did not.

Sure, they could still claim a conflict with the Swiss Banking Secrecy Law. But profits made from managing individuals' wealth accounts in Switzerland paled in comparison to what they could make as a global investment bank. Thus, there was a new willingness to informally sacrifice some of the traditional barriers to sharing information with foreign authorities particularly U.S. authorities. The push of U.S. authorities to get information and the pull of global investment banking operations for Swiss bankers worked together to weaken Swiss secrecy Naturally the banks did not advertise this, preferring the old image. But reality was moving in a different direction.

Q: Would they use the money; the banker would get the money and give interest for having the money. You weren't paying the bank to do it. They were using the money on their own.

WALLAR: First of all, well yes, monies deposited in their banks they could use it to support their lending, so-called fractional banking.

I should point out that, contrary to popular belief, these accounts were not anonymous. Accompanying a Swiss numbered bank account there was a name somewhere in the system. There are no secret accounts.

Sometimes these accounts would be untouched for years at a time. After so many years of inaction the bank would say nobody is claiming this money so we will put it on to our books. So some Swiss banks made money this way and from traditional banking secrecy. But as I said this was at a time when the big banks could make more money by becoming a large international bank. International investment banking was just starting up and the big Swiss banks that were keen to meet the challenge of banks in London and in New York to become major players on the world scene for investment banking.

Also the Swiss regulatory authorities, namely the Swiss Banking Commission, was being to crack down on money laundering. Before WWII Switzerland was basically an agrarian society. They made inroads in textiles because electricity generated the waterfalls in the mountains powered the looms. Private banking has a long history in the country but banking as a big business came later. In general, the banks were not very popular to with the locals. Neither was foreign interference in the administration of their laws.

Q: Did you find that you were subject to people coming up and saying can you tell me about this or that? In other words, anybody associated with a Swiss bank professionally must have been subject to inquiries about how can I use this to my advantage?

WALLAR: You mean how can I use a Swiss bank account to my advantage?

Q: Yes.

WALLAR: No one ever did. Professional financial advisors or accountants would set up these accounts.

The Swiss Banking Commission was keen to improve the image of Swiss banking and became very tough on banks not being able to account for where the money came from, that is to identify the true beneficial owner of the account. Later in my career I would work in the Organization for Economic Cooperation and Development in Paris on an anti-bribery code and the creation of the Financial Action Task Force (FATF). Mark Pieth, a professor in Basel, was instrumental in laying out the rationale and framework for the anti-bribery code and representatives of the Swiss Banking Commission were active in FATF. They didn't much like the Swiss financial system being used to corrupt foreign government officials or being used by corrupt government officials to hide ill-gotten gains. I think here was a certain bit of morality involved.

Q: What about crime bosses in the United States?

WALLAR: I don't know about crime bosses.

Q: Well high up in crime circles.

WALLAR: I mentioned Mark Rich was the most famous case. He was a commodities trader and was pardoned by President Bill Clinton. But when I was in Switzerland he was a fugitive from U.S. justice and had lived and worked in Zug. Zug authorities liked him because he paid his taxes there which were modest compared to the taxes he evaded in the United States.

Q: So, you had various roles that you were doing.

WALLAR: I was doing the typical kind of embassy reporting on economic conditions, financial conditions, and the development of capital markets. This was the time when international capital markets started to take hold. Now we take them for granted but back then there had still been restrictions on cross-border capital flows. Fewer restrictions and development of rapid communications was transforming national financial markets into global ones.

The Swiss wanted to be players in the global market and be part of the group of countries that would drive international finance. So back then it was largely the Group of Seven, G-7: France, Germany, Italy, the U.K., Canada, Japan, and the United States. The Swiss wanted to be part of that group since they were a turntable for substantial flows of foreign capital.

The very astute and crafty chair of the Swiss National Bank was Fritz Leutwiler. In 1964 Switzerland joined the G-7 and Belgium, the Netherlands, and Sweden in what was called the Group of Ten, G-10. Switzerland's membership increased the membership to eleven but the group's name didn't change. The G-10 pledged additional resources to the International Monetary Fund through the General Agreement to Borrow, the G-10 GAB. This lending mechanism was fashioned after that of the Bank for International Settlements that was created by central bankers after WWI. Leutwiler wanted to be part of the more exclusive club of the seven, but didn't make much headway.

The financial crisis triggered by the Mexican debt crisis took the Swiss banks by surprise as it did most others. The common thinking was that lending to a sovereign country was largely risk-free. Walter Riston of Citibank I believed observed that sovereign don't go broke. But in 1982 Mexico couldn't pay its U.S. dollar denominated debt since the value of the peso in relation to the US dollar had sharply declined. The Swiss banks were reeling. I reported on these conditions to Treasury which worked with the IMF on program to ease Mexico out of the crisis.

I also worked closely with the Bank for International Settlements (BIS). As I mentioned this was an institution created after WWI. Initially it was private where banks in Chicago and New York bought shares. The BIS was a forum for central banks to discuss and coordinate policies. Eventually the U.S. Federal Reserve Bank bought the private shares owned by U.S. private banks and became a member. The BIS was a precursor to the IMF and the G10 GAB, extending loans from some of its members to another member to support its currency. Basle was chosen because of its central location in Europe. Bankers would step out of their trans and walk across the street to the BIS. In the 1970s the bank constructed a new building a bit further from the train station.

The BIS was very much a central bankers' club. When the central bankers arrived for a quarterly meeting and I happened to be in the building I would be asked to leave since I worked for a Finance Ministry. Otherwise I was always welcomed at the bank.

BIS had excellent economists. Alexandre Lamfalussy was the general manager. I got to know him quite well. Many years later he would play an important role in the creation of the European Union's unified financial market. I would talk with him and others about developments in capital markets, international debt, and central bank policies.

Q: Well then, I am just trying to get the timing of this. How long were you doing this particular assignment?

WALLAR: I was at the embassy in Bern from August of 1982 to August of 1987, almost five years. I extended for the fifth year. Not necessarily good for my career but at this time we had two little kids. Our son was a year old when we arrived and our daughter was born in Switzerland. For a young family living in Switzerland was very attractive. There was hiking, skiing, good schools, and an appreciation for healthy life style. Speaking more generally about living overseas as a family, the experiences brought us much closer together than had we been in the states.

The Swiss people were very pleasant, knowledgeable, engaged internationally. As an example of the latter, a few weeks after we arrived we drove into the mountains to take a hike. In a small village we parked our car next to a Swiss barn. An old man stuck his head out of the second floor of the adjacent chalet with red geraniums in window boxes. Typical set up. Beautiful countryside, mountains in the distance. I asked him in my best Hoch deutsch (high German) because I didn't know the Swiss German dialect, if it would be ok to park our car next to his barn. He replied, "Sure, no problem. You sound like you are from America." "Oh yes," I responded. To which he came back with: "What do you think of President Reagan's policy in Nicaragua?" Here is this farmer in the middle of the Swiss countryside was up to date on international affairs.

Q: You and your family were much more of a team you did things together.

WALLAR: We when we returned to the Washington area for three years in 1990 the kids just disappeared. After school they were just off here and off there. We weren't a team anymore. So that is one reason when we talked about another overseas assignment when we were back in the states the kids were all for going back overseas. But that comes later.

Q: I wonder if this is a good place to stop this session and we will pick it up the next time. Where are you off to?

WALLAR: Treasury had a policy of no back-to-back foreign assignments. They felt an attaché should come back home and become familiar with current policies. However, the assistant secretary, David Mulford, called me up and asked, "Jim, how would you like to go to Bonn? I replied, "Mr. Secretary, I thought there were to be no back-to-back assignments." "Oh, that's all right you know." So, from Bern we drove up the road to Bonn.

Q: OK, well how about next week sometime?

WALLAR: Monday at 10:00?

Q: Monday the 16th.

WALLAR: Monday the 16th, OK

Q: OK, I will open it up by saying today is April 9, which is Maundy Thursday 2020. It is also the anniversary of Lee's surrender. On that note this is an interview between Stu Kennedy and James Wallar. We did we last talk?

WALLAR: About ten days ago we had the first interview in person. With Covid-19 we had to reschedule and now are talking on the phone.

Q: Oh, that is right. Well then let's pick it up. Where did we leave off?

WALLAR: I was at the end of my tour in Switzerland. Is it fair game for me to go back and fill in just a few blanks in the previous conversation?

Q: Oh absolutely. In fact, we really encourage this to milk you for as much as we possibly can.

I just wanted to offer a few anecdotes before we move to my next posting.

One of my memorable experiences was as a duty officer. While I worked for the Treasury Department which paid my salary, I was actually seconded to State. This meant that I was a Foreign Service Office on a limited appointment and subject to State's personnel reviews and also obligations. One of those obligations, as you know Stu, is to be a duty officer.

Q: Oh yes.

WALLAR: You get phone calls after hours or on the weekends when the consulate is closed for whatever reason: the person lost their passport, or they are sick and want to go home. When it was my turn to be duty officer I was issued the duty book with all of the tabs on what to do in almost every situation, a log to register calls, and firm instructions to call the consular officer only if it is a dire emergency. The rule of thumb was that if the situation could hold until Monday morning then wait until Monday morning when the consulate reopened.

By coincidence I was the duty officer during the evening when Gale and I were also guests at the Ambassador Whittlesey's residence She was hosting a dinner and had thoughtfully invited some bankers to introduce me. We got along well. She had me accompany her, together with the political officer, when she presented her credentials to the Foreign Ministry. It was the only time I ever wore a top hat and tails.

Q: Oh my god I never did in 35 years. I did wear them for my wedding.

WALLAR: Good for you. The Swiss are rather traditional.

I was seated at the long dining table enjoying the conversation and food when a waiter tapped me on the shoulder and said, “Sir. There is a phone call for you as the duty officer.” I excused myself and went to the phone nook next to the dining room. I spoke to the Marine guard who had received an afterhours call. He said, “Sir we have just had a death threat targeting the embassy.” I said, “A death threat?” “Yes, somebody said there is a bomb that will go off.” I said, “Did he say the embassy, or did he say the chancery?” “I don’t know sir; I think he said the embassy.” These situations are, by their nature, unexpected. I said, “OK we will get back to you.”

I went to the ambassador at the head of the table and asked if IO could have a word. I quickly briefed her on my exchange with the Marine guard, she gazed at the ceiling for one second and said, “OK tell the staff to clear the table, serve dessert and coffee and call the police.” I did as she instructed. The guests were just starting to tear into their American steaks which were whisked away and dessert was served with coffee.

No sooner had the last dessert been served, the ambassador stood up and said, “It was a pleasure having you all this evening. I wish you all the best and now it is time to bid you a good evening.” The guests looked at each other, mystified. But they were very gracious and filed out and paid no attention to the police cars and sniffer dogs that were roaming the grounds. That was my first introduction to being a duty officer. Nothing came of the death threat, fortunately, but it was a sign of the times and harbinger of things to come.

Q: Oh yes. I got a call one time when I was in Belgrade from our ambassador. I was the consul there. Never called me at home. It was George Kennan. He said, “I have just been called by two American students who lost their passports on the train. Of course, they didn’t think of calling the embassy, they thought let’s call the ambassador. He quickly turned it over to me. Anyway, go ahead.

WALLAR: I had one of those calls on another occasion when I was duty officer. It was from Rainer Gut, chairman of Credit Suisse in Zurich, one of the big three Swiss banks. I answered the phone and he explained who he was, and I said, “I know who you are. This is Jim Wallar,” because I had met him in Zurich. He said, “Jim I am glad I got you. My wife is American, and her passport expires tomorrow. We have a plane to catch. Can you help me?” Well this is one time I did bend the rules and the consular officer was very gracious and came in and did the necessary. For the chairman of a big bank like that who was a friend of the ambassador’s, you go the extra mile.

Another anecdote was that I was called by Treasury to meet Treasury assistant secretary David Mulford who was flying into Zurich. That is all I was told. I dropped everything and hopped on a train to Zurich. I didn't have an overnight bag. I was told to meet him and be of assistance. That's it.

I went to the Dolder Grand Hotel where he was staying, a very exclusive place on a hillside overlooking the Lake of Zurich. I learned he was engaged in secret negotiations with other countries that resulted in the Plaza Accord in September 1985 to devalue the dollar against the Japanese yen and German Deutschmark. This would ease some of the financial strains in the international monetary system. Clearly the talks had to be kept quiet so as not to unnerve currency markets.

As Mulford entered the private meeting room where the negotiations were going to take place, he turned to me and said, "Jim, no matter what happens, pull me out of this meeting at 9:00 tomorrow morning." Here it was 3:00 in the afternoon. What chance was there that the meeting would last all night? Little did I know. Discussions were contentious and they lasted all night.

The special assistant to German Finance Ministry state secretary Hans Tietmeyer ,who was in the negotiations, was standing with me outside the meeting room. We were not privy to the conversations but every so often we would get a slip of paper with hand writing. This was another paragraph of the communique that they were hashing out. We would type it up on a typewriter and make copies.

The night wore on and into morning. When 9:00 am rolled around they were still in the private room with the doors closed. I just took a deep breath and said, OK, I have firm instructions. I knocked on the door and opened it. The room was just a mess. Dirty dishes, smoke from pipes and cigars filled the air. It looked like an accident. The men had been up all-night negotiating and were not looking their best. I turned to Mulford and I said, "Dr. Mulford, it is nine o'clock in the morning." He looked at me with a puzzled stare. I froze. What have I done? Then he snapped out of what seemed like a trance, looked around, and said, "Oh yes, nine o'clock."

He put on his coat, made his apologies to his incredulous colleagues, and hurried out of the room. I followed along and asked, "Is there anything I can do to be helpful?" He said, "No there is an auction at Sotheby's that starts at nine o'clock, and I want to bid on a very valuable Persian rug." He had served as a financial advisor to the Saudis in his private life and was an expert in antique rugs. Mulford was a cool customer.

Mulford visited Switzerland on another occasion. At the time when the U.S. government was starting to run larger budget deficits there was an interest in trying to attract foreigners to purchase treasury bonds. This was not a done thing at that time as it is now. The purpose of his visit was to talk with bankers in Zurich as well as the private bankers in Geneva, the big well-known houses like Pictet and Mirabeau, to test interest in receiving targeted treasury bond issues that be sold to individuals with the banks doing due diligence to ensure there was no money laundering. We tried to work through issues of Swiss banking secrecy but at the same time giving Treasury comfort that only reputable people were buying these bonds. In the end it didn't work out. But it was another insight into the workings of the financial markets and the interest of Swiss bankers in supporting the United States. Generally Swiss bankers liked investing in American because they believed it was the only economy that really worked.

The ambassador invited me to a meeting in the consulate with Klaus Schwab. He had started a low-key symposium called the European Management Forum about ten years earlier. He was making a pitch to get high level U.S. participation in his conference. It was a bit of a stretch because the conference took place in Davos in January. Rather out of the way, but hotel prices were good because it was low winter season. The Ambassador did talk some U.S. officials to attend including assistant secretary of State Doug McMinn who I knew from USTR. In 1997 the conference became the World Economic Forum which is a big deal these days. But it sprang from humble beginnings.

Just one other anecdote. Ambassador Whittlesey was the U.S. ambassador to Switzerland two times. In between John Davis Lodge was the ambassador. He was an elderly politician, but still very astute. He had been an actor, rather famous at his prime. His wife I think had been a ballerina. They were quite a change of pace from the hard charging Ambassador Whittlesey. Ambassador Lodge would have staff evenings, a light supper and then adjourning to the movie room to which his old, silent, films. He was quite a distinguished individual.

Q: Did Ambassador Whittlesey give you solid support? Because in Switzerland finance is the name of the game.

WALLAR: She did give me solid support but it was an area in which she was not comfortable which is why I think I mentioned in the first interview she wanted me in the front office so I was close at hand. I sat next to the political counselor and the economic counselor and the DCM. So that was her inner outer office so to speak and so we were all close by should she have any questions about finance. And she came to occasions like when J.P. Morgan did the first Swiss bond issue and hosted events with bankers. She gave me great support whenever I needed it.

Q: Why was she ambassador twice while you were there?

WALLAR: Yes. She went back to work in the White House with some people who were very aggressive. I forget the makeup of the White House staff, but she was a great supporter of the president she didn't get along with those who sought to moderate his conservative message. She liked Switzerland. So, when John Davis Lodge left, she left the White House, despite it being close to the center of power, and came back. She picked up where she had left off, very engaging and dynamic.

I was a member of a group called the Waistcoat club. We didn't have to wear waistcoats, but we did have to tell one joke to get in. This was a club of diplomats and townspeople, the town Burghers with old family names like Von Graffenried. It was quite an experience to be in old Bernese homes in the old town and mingle with the elders of the society and other diplomats.

Q: What was your joke?

WALLAR: All right, I learned my joke from ambassador Lodge. It goes like this. There was a renowned scientist who tried to discover what made a person happy. Through all of his research he discovered it was sex that made people happy. That was the definitive answer. He was giving a lecture on his conclusions and decided to take an informal survey. He asked, "How many of you people have sex once a day? Well a few hands went up. "How many have sex once a week?" More hands went up. "How many have sex every two weeks? More hands went up.

There was a man in the front row that had a huge smile on his face but kept his hands on his lap. The scientist just couldn't understand it, how could this guy seem so happy? "How many of you people have sex once a month?" More hands went up but the guy in the front row, positively beaming, still didn't raise his hand. The scientist was getting frustrated. So finally, he asked "How many of you have sex once a year?" Finally, the hand of the guy in the front row shot up. The scientist shakes his head in disbelief. "How can it be. My research says sex makes a person happy. How can you have sex only once a year and have such a big smile, happy smile? To which the fellow replied, "Well that's easy. Tonight's the night!" The Waistcoat Club members laughed and let me into the club.

Ambassador Whittlesey was kind enough to host a farewell dinner for me. A very big spread with bankers from Zurich, Basle, and Geneva and some academics. It was a very nice send off.

Q: And off next to Germany?

Yes, we headed up the road to Bonn where I would be the Treasury attaché. This was a big step up. Germany was the economic powerhouse of Europe. They were part of the G7. What they did and said mattered in the global economy. Another step up was that I now had a large staff of eight. In Switzerland, the office was just myself and two local Swiss assistants. In Bonn I had a treasury deputy attaché, Joe Eichenberger followed by Bill Murden. I had a State Department economic officer, Prescott Pabst Wurlitzer from Milwaukee, a real Wisconsinite. I had a staff of four German locals, two administrative staff who translated and made appointments, and two economists and an excellent office manager. It was a big operation and a big embassy.

When I arrived, the ambassador was Richard Burt who had been the leader of the Strategic Arms Limitation Talks (SALT). The deputy chief of mission was Jim Dobbins. By a twist of fate Gale and I had rented the Dobbins' house in northwest Washington after we had come back from Geneva. We didn't know the Dobbins but just saw a posting for the house on a State Department bulletin board. We rented that house for a year or so before we bought our own house.

Q: I have interviewed Jim Dobbins.

WALLAR: Great. I saw him much later when he was the assistant secretary of State and more recently over at the Rand Corporation.

Q: Yeah.

WALLAR: In Germany the chancery was a large building on the Rhine River constructed after the war by the U.S. High Commission for Germany. Very elegant. On the third floor, the Treasury attaché's office space was very generous, larger than the ambassador's suite in Bern. The room for country team meetings was also large with much of the space occupied by an extremely long, wide table. It reminded me of something out of a German movie. The ambassador naturally sat at the head of the table. My position was at the other end of the table, which was probably 30 feet away. Treasury was not the lowest person on the totem pole, but just about.

My job was largely economic reporting. I travelled throughout the country to visit banks and economic think tanks. After the war, government ministries and funds for think tanks were distributed around the country. The economic ministries – Finance and Economics – were in Bonn. Economic think tanks were south in Munich, north in Kiel, and in Hessen and Karlsruhe.

Wiesbaden was home to the Council of Economic Experts, sort of like the U.S. President's Council of Economic Advisors. I met a fellow there by the name of Otmar Issing. We had lively discussions. As you recall, after the war Germany had charted a course between pure market economy and socialism, something they called "social market economy," *sozialmarktwirtshaft*. The country had grown quite quickly after the war but started to hit headwinds. The cost of labor was relatively high and labor markets were inflexible, hard to let workers go if demand turned slack. The government was deeply involved in industry – utilities and airlines – which weighed on productivity.

The government adopted a policy called "*Die Wende*," "The Change," to privatize some industries, like the airline Lufthansa, and make labor markets more flexible. When I arrived the economy was showing signs of renewal. Discussions continued about what more they could do and what more they should do to generate higher productivity and growth at the same time maintaining the social safety nets which were very important for social cohesion. German economic officials liked to talk about market efficiencies, but Germans traditionally looked to government to solve problems.

Labor market reform was an important and divisive topic. The finance minister as well as the labor minister thought that more flexible labor markets would contribute to higher economic growth. Ideas being discussed included renewal of part-time work legislation but with more flexibility because shifting to part-time could only be for 18 months and renewed only once. Other ideas included the government not acquiescing to requests for wages to be bound throughout a sector based on one collective bargaining agreement; higher unemployment benefits particularly for immigrants; easier rules for weekend shift work; and reducing non-wage labor costs, specifically health insurance. Employers had to pay a portion of those costs so naturally lowering health care costs could support more employment. U.S. pharmaceutical companies were opposed to some aspects of reducing health care costs, particularly the government fixing the prices of drugs.

Q: I was surprised. I had been in Frankfurt as vice consul back in the 50s. I went back there just to spend a day when I was going to Kyrgyzstan and I was surprised they still shut down business on Saturdays and Sunday. I mean it was nice for the shopkeepers, but this is time to make money and very inconvenient for the public.

WALLAR: Absolutely. Shop hours was one of the hottest debates. The stores would close at noon on three Saturdays of the month and be completely closed all day Sunday. One Saturday of the month, called *langersamstag*, stores stayed open until 5:00. A great concession. The retail union was quite strong. They wanted to preserve leisure time for their workers.

Restrictive store hours meant that consumer spending was less than it otherwise could have been, reducing demand for the production of consumables. Not that the overall economic effect of longer store hours would be significant, but longer hours would be an important symbol of change. But tradition and privilege were hard to change. In a pinch, on Sundays we could go to the train station shops to buy food. Train stations, shops in train stations were allowed to stay open to cater to travelers. Of course that is all ancient history now. But it was quite a topic of heavy discussion in the late 1980s.

Q: I was amazed anyway.

WALLAR: Shopkeepers were not at all accommodating, in my experience. When the noon hour came, they just closed the door. If you didn't have your goods ordered or in hand, you have to leave. "We are closed." That is it. It sure imposed discipline on a shoppers, but was a headache rushing around on Saturday mornings. The tradition of Germans having stay-at-home spouses was starting to weaken as more women joined the work force. They too complained about the restrictive shop hours. Something had to give.

Q: Well what did these various economic institutions do? I mean do we have these types of things here in the States or is this more of a European manifestation?

WALLAR: At the time economic think tanks were somewhat unique to Germany. Over the last 15 years in the States think thanks have become a huge business.

In Germany they were part of the economic policy landscape, part of the dialogue. Ifo in Munich and the Kiel Institute for World Economy were very big players and would make splashy headlines with their projections. It was stimulating to attend their conferences and participate in discussions with experts. I became good friends with some, and they included me in annual seminar with experts from each of these institutes. The conference was in the mountains in central Germany at a youth hostel. Very primitive conditions but there were always very high level debates about the path that Germany should be taking for its economic development while maintaining its social market character.

Q: How did we view Germany at the time? I mean did we feel that Germany was our friend and support and all that or did we consider that Germany was a problem?

WALLAR: Germany was a friend. Many Germans still remembered U.S. interventions to support them after the war. There were tense political discussions about the U.S. government placing Pershing missiles in Germany aimed at the Fulda pass, the major route of any possible Soviet Union invasion of Europe.

There was a debate among those in Germany who didn't want to have a German army, the pacifists, and didn't want to any weapons, offensive or defensive, in Germany. They were quite against the inclusion of the Pershing missiles in Germany while the government leadership in Germany was in favor. They feared any hint of Soviet Union invasion and were staunch allies of the United States. It was a politically a difficult time for both sides.

Q: This is the period when the Soviets had put medium range missiles in striking distance of Germany. We figured making the Germans say let's neutralize this threat. We responded with our Pershing and cruise missiles which we put in various places including German and Holland which sort of neutralized the threat of the Soviets.

WALLAR: During this tense time we were honored with the visit of President Bush and first lady Barbara Bush. This was the first time for me to be a site officer. It was a very tense time in Bonn. The memory of the war was fresh. The memory of a possible another war was very much on people's minds.

Another area of responsibility was analyzing and reporting on the financial sector. Deutsche Bank was the king of the commercial banks and Dresden and Commerzbank were also large, private commercial banks. But just like the shop hours you mentioned Stu, I was surprised to learn that a very large share of banking was done by government banks. These were state banks in most if not all *länder* (states), such as the *Bayeriches Landes Bank* and the *Westdeutsches Landesbank* called WestLB. They had helped finance reconstruction and were now expanding their operations to compete with the larger banks both domestically and internationally.

The *Kreditanstalt für Wiederaufbau* – KfW – was the largest state bank. Originally established to help with reconstruction, KfW was expanding. Its board was chaired by the finance minister. KfW still exists although a large part of its mandate now is international lending, especially for economic development.

There were local savings banks, the *Sparkasse*, and cooperative credit unions – Verinbanks and even the postal service – PTT -was in the banking business. There were the exclusive private banks, like Rothschild, in Frankfurt like the Swiss private banks. Very discreet. There were other specialty banks, like those dedicated to the bond market.

While you think of Deutsche Bank as being a large commercial bank with a broad retail operation like Citibank or Bank of America, it's retail operations were quite limited because of the competition from all these other types of banks. The bottom line for Germany's large commercial banks was that were at a disadvantage in international competition because they did not have a large domestic deposit base.

The policy question was whether the German banking system was very efficient and effective in promoting the country's overall economic growth, particularly with such a significant role of state-owned banks. Could they funnel funds into worthwhile investments that provided good, positive rates of return? Or was lending more a political tool? Should there be a change in the rules to favor private commercial banks that focused only on financial rates of return? This was a very hot debate that still continues today. You can say that if these state banks were inefficient and only lending based on politics they would go bankrupt. However, they were just good enough to stay above water. States didn't mind having a financial arm they could use from time-to-time, but not overdoing it to the financial detriment of the bank.

There was a similar debate about Germany's stock exchanges. While today the Deutsche Bösre based in Frankfurt is the country's main stock exchange, in the 1980s the Frankfurt Stock Exchange, while it was the largest stock exchange in the country, was competing with exchanges in Munich and in Hamburg and in Bremen. There was a fellow by the name of Rüdiger Von Rosen who was at the forefront of bringing more business to Frankfurt and to develop it into the country's central stock exchange. Von Rose was very elegant.

He had been an assistant to Karl Otto Pöhl, president of the Bundesbank, the central bank and was well connected. Von Rosen helped build the foundation of the current Deutsche Börse that is a highly sophisticated electronic exchange – no open out cries on the exchange floor as in the old days. It is the country's leading exchange for stocks and bonds and also a major player internationally. As you know probably better than I, one U.S. approach to Germany postwar reconstruction was to decentralize power. So, think tanks, banks, and stock exchanges flourished in different parts of the country. In the 1980s the tide was shifting toward at least thinking about more centralization, in some aspects.

Q: What role did Berlin play in this. I mean it was divided then. At that time, it was in sort of an entity within East Germany but belonged to the west economically?

WALLAR: They had a think tank, DIW, which was influential, but not predominate. Big banks and auto producers that had been headquartered in Berlin did not move back after the war for obvious reasons. They found new homes elsewhere. Frankfurt for the big banks and of BMW as always down in Munich, Daimler Benz set up in Stuttgart. The economic heft of Berlin was not very significant at the time. Quite the opposite. Berlin was a draw on the budget, so a bit of a challenge.

Q: Did you play a role with American bankers coming to Germany and explaining the system to them? I mean was there much connection between American banks and German banks?

WALLAR: Yes, very much. One of my roles was to help U.S. banks navigate some of the policy issues in the German banking system. Most U.S. banks established in Frankfurt. Citibank was particularly strong. The head of that bank had come from Japan where he was used at team approach to the business, respectful of all of his employees. This was a Japanese management characteristic – all on one team from the teller to the president of the bank.

When he started out at Citibank in Germany he sought to adopt the same team type approach. He proposed an offsite retreat so the team members could better know one another. A team building exercise. The bank would pay for everything. He was taken aback when he was sued by the workers because extra hours off site was contrary to their contract. So much for team building.

Apart of the peculiarities of the labor market, generally U.S. banks were treated fairly. There was an issue of where information about the bank's clients would be stored. Germany had and still has very strict protections of personal information. Many U.S. banks established themselves as branches, which meant their head office was a central repository of information. For example, U.S. banks would send information to their New York headquarters or a subsidiary in London. German authorities wanted the information to be retained on German soil. A comprise was worked out with the banks giving extra assurances to protect the information so business could continue.

Bank of America wanted to get into the retail market and established an office in Dusseldorf. It was a very hard and eventually an impossible slog because of the competition from so many local and state-backed banks. Like politics, all banking is local. People like to bank locally and there are allegiances by banks to their local firms. Bank of America had a hard time establishing a retail branch and, in the end, gave up.

The Germans were establishing a new mutual fund law, and we pressed them to give U.S. mutual funds the same treatment as German mutual funds. One aspect of this was the limitation of German insurance firms to invest in foreign mutual funds. Regulatory authorities were naturally concerned about a potential mismatch between an insurance firms assets and liabilities. Too much foreign exposure would be too risky, in their option. At the same time, the European Commission was beginning to issue regulations on these issues. That meant that some of the dialogue on these policy issues took place in Brussels.

Q: How did you find your relations from the embassy? Was it a different one from Switzerland?

WALLAR: Yes, different. Bonn was huge embassy with all the trappings. I got along well with colleagues. Ambassador Burt tested me a few times, and I seem to have done my homework and I passed. I would say that we had a good relationship, but it was distant perhaps because the building was massive. Biweekly staff meetings helped bridge some of the distance.

Prescott Wurlitzer, the State Department economist on my staff, was instrumental in ensuring that State and Treasury worked together. He felt that some things we were doing might be of interest to the political section and would brief them. If there was real interest we would meet for a more detailed discussion.

Recall that I was seconded to State as a foreign service officer on a limited appointment. I was subject to all the State rules, but Treasury paid my salary and allowances. There was some irritation over housing. There was an American community – *seidlung* - in Plittersdorf but my predecessor, Jon Hartzell, had secured a rental property on the outskirts of Bad Godesberg, about a mile and a half away from the American *seidlung.* It was a large house that had been built post war for British officers on a street called Im Etzenthal, in Hiederhof. Most of the people who lived in those houses were British embassy folks. But the street featured in John Le Carrie's book, *Little Town in Germany* as being very British. There was some resentment that we lived "off campus," not in the American community. The Embassy housing staff were nice, but I could sense they thought I was privileged and didn't quite see any justification for it.

Q: Did you entertain much official entertainment?

WALLAR: As in Bern and in Geneva so in Bonn we hosted official dinners. Gale was an excellent diplomatic hostess and cook at the same time. Whenever I would submit my costs for reimbursement, say for the meat and wine, she would ask what about my costs? But official after hours functions were more limited in Bonn because most people lived in far flung suburbs, like us.

Q: Well were there many sort of international economic meetings in Bonn when you were there?

WALLAR: No there weren't any international economic meetings in Bonn. It was very much a small provincial, university town, not originally thought to be a capital.

The finance minister was Stoltenberg who came from Schleswig Holstein, the "cool man from up north." The state secretary in that ministry was Hans Tietmeyer whom I had seen in Zurich in the smoke-filled room negotiating the Plaza Agreement. Under Tietmeyer was an office director by the name of Horst Köhler. Later he would become the president of the European Bank for Reconstruction and Development, then managing director of the International Monetary Fund. His last official post was President of Germany. But in 1987 he was a humble office director.

Köhler and his wife invited Gale to his house for dinner. This was rather exceptional. He was a good friend of America. His daughter had an illness, and they had sent her to the States for treatment. He was very passionate and dedicated to reform the German economy and to build a stronger European Union.

Much groundwork was being undertaken to move toward a European Monetary Union. Think tanks were examining some aspects but also finance ministry experts. I recall meeting one of Köhler's deputies, Herr Winkelmann, who had just come from a meeting in which Stoltenberg had made the decision to allow free capital flows within the European Union (EU).

At the time there was an exchange rate agreement between Germany and Benelux were the relationship between currencies was kept in line, a so called snake agreement. The snake could move a little bit but if it moved too much then there would have to be a realignment among the currency values. These realignments were taking place more frequently as investors evaded national capital controls. Stoltenberg just said let's just go for a European Monetary Union so we would have free capital flows and have all European currencies convert to the Euro. No more snake.

Winkelmann was enthusiastic that Stoltenberg's decision had set the course for a monetary union. As you recall Stu, it was the French who were the keenest to move toward a European monetary union in part because they wanted to Europeanize Germany but also in part because they wanted to have a more accommodating monetary policy than that being applied by the German Bundesbank. The Bundesbank was naturally highly concerned about any prospect of inflation. They followed a very strict monetary policy, limiting the growth of money. The French were bound by the Bundesbank's policy since they wanted to keep the French franc in line with the German Deutschemark. In their view, the consequence was less economic growth than otherwise with a more accommodating monetary policy.

The week that Winkelmann informed be about Stoltenberg's decision I had a call from my colleague the treasury attaché in London, John Abbott. He reported that he had heard a rumor in her Majesty's Treasury that the Germans are going to go for an EMU – European Monetary Union. He was incredulous. The perceived wisdom was that there could be no EMU without a PU – political union. I said yes, it is true it is going to happen. He said the Brits were very skeptical of any EMU.

This was the beginning of the next major European wide economic push – from a common trade market to an integrated economic and financial unit. I attended a conference where Chancellor Kohl spoke with passion on the need for European unity. The need for Germany to become part of Germany to Europeanize Germany not to Germanize Europe. I was moved by the passion Kohl demonstrated when he came to that part of the speech. He didn't fight in WWII but lived in its aftermath. Never again. You could really sense him speaking from his heart about it. I was convinced that the EMU project would proceed and brought to fruition because he wanted it to. And so did the French. The German-French axis in the EU was very strong.

Q: I keep forgetting where were we with unification? Had it happened yet?

WALLAR: No, it hadn't happened. But it would begin just as I was ending my assignment in Bonn when the wall dividing east and west Berlin fell. Maybe before getting to that story I should mention a few other impressions and recollections.

I visited the Bundesbank that was created as Germany's central bank in the 1950s. It's headquarters are in Frankfurt. They constructed a new building sometime in the early 1970s. It was a tall, concrete structure sort of like the bank itself, heavy and grey. It was right next to the American community – *seidlung* - in Frankfurt where you probably lived when you were the consul general.

Q: The Karlschure Seidlung. Actually, my great uncle I think, I didn't realize it at the time.

WALLAR: Oh really. Your great uncle.

Q: I mean it was a pretty close relationship. My remembered him. He used to keep Dachshunds and put bonnets on them.

WALLAR: That is interesting.

The Bundesbank was eight to ten stories high. My first meeting was with the vice president, Helmut Schlesinger. From his office on the top floor you could see the American baseball fields which were right across the street, part of the *seidlung*.

You ask about the feelings of Germans towards the United States. Schlesinger was extremely appreciative of American help and advice after the war that assisted the central bank in creating the new Deutschmark, a stable currency. He noted that several of the American economists were Jewish. He marveled that they were willing to give such good advice and work with them so closely after the war. It was another moving experience, this deep appreciation for U.S. assistance.

The Bundesbank was fiercely independent and liked to show it. The bank was not in Bonn, putting some distance between it and politics. As I noted earlier, the bank's governing board took their mandate to pursue price stability and restrain inflationary pressures extremely seriously. They adhered to that policy and would not bend to political pressure to ease up. One time before I arrived Chancellor Schmid had suggested that the Bundesbank lower interest rates because German economic growth was flagging. The Bundesbank, seemingly just out of spite, raised interest rates to demonstrate its independence. The story was that they wanted to show that they would not be ordered by politicians into doing what they thought was not correct.

Q: You know you were mentioning baseball diamonds. I remember when my wife and I were in Nuremburg where Hitler had these mass rallies at the stadium there was a baseball diamond.

WALLAR: That is interesting. Well later on in my story when we got to Moscow there were baseball fields in the shadow of Moscow State University. I just couldn't believe it. I never knew baseball was so universal.

Q: Well just one more anecdote about baseball diamonds while we are on the subject. Apparently, it was when we were concerned about Cuban troops in Africa, If a U.S. overflight saw a baseball diamond, they knew that Cuban troops were nearby.

WALLAR: There you go.

As I mentioned the notion of a European Monetary Union was starting to take hold in official quarters. I was sent off to a conference in Maastricht, Netherlands. This town would be the site where there was the EU would finalize fiscal rules that would limit deficits to three percent of GDP for member states. Jacques Pelkmans, a Dutchman who was "Mr. Europe," lectured about the EU. The seminar explained how the European Commission, which is the civil service part of the EU, was putting together ideas for an ambitions financial market integration. They already had a mandate on trade and competition, but they saw bigger things to come. In time, that broader integration did come to pass. At the time it seemed a bit farfetched.

The seminar started on a Monday that became known as Black Monday, a 22% decline in the U.S. stock market, the largest drop one-day drop until just a few weeks ago. It was a tense time in the financial markets. I called Dr. Mulford in Washington to ask what I should be doing. He advised me to stay at the conference but report on any significant developments out of Germany.

Little did I know around the same time secretary of the Treasury James Baker flew into Frankfurt and consulted with Bundesbank officials. Ambassador Burt, who was quite protective of his prerogatives, called me down to his office after I returned. His office was on the first floor, mine on the third and at the other end of the massive building. A bit of a hike. After a brief wait I was told to enter.

The Ambassador looked at me with a kind of a scowl and asked if I knew that Secretary Baker had been in Frankfurt and not tell him? Not tell the ambassador? If so, he said I was fired. He then proceeded to pronounce that if I wasn't informed that Secretary Baker was in Frankfurt what good am I to the him? I should leave. This was a little unpleasant to say the least. Secretary Baker sent a soothing note to the ambassador to straighten out the situation. Baker wrote that the markets were very fragile and secrecy was very important. I was doing a great job and had all his confidence.

Burt backed down this time but was suspicious. I had declined to go to the annual country team sessions in Berlin in late October because I wanted to continue reporting on German finance markets. Three days away from the office for an in-house conference seemed a luxury. The Ambassador was also annoyed or envious that we had a classified fax in my office. The machine was the first of its type and was very slow and very noisy and very cumbersome to dial into a secure lime. In the event, we seldom used it. Still, there seemed to be a suspicion that I was sending secret messages to Treasury.

Stu, this was my second experience at an embassy working with State and other agency colleague. One of my operating rules I developed was to do all of my reporting in open, cleared cables. Classified most of the time, but open channel which the economic minister counselor would sign off on. State was always fully apprised of what I was reporting and what I was doing and could ask questions if they wanted. Some of my Treasury colleagues in other posts had a more secretive approach.

I learned that if you were open with State Department colleagues they appreciated it, even if they thought you were doing something on the telephone or by E-mail, but they appreciated it and basked in the glow of a “kudo” for one of my cables from Washington. If they had questions I was happy to explain any details. In the end, most were interested in politics or other topics. Finance and economics wasn’t something they wanted to get too deeply involved in. So I felt it was just good policy to be open about what I was doing, take questions. Nobody wanted to take over my turf, an area many thought dry as toast.

Q: You will note with my questioning that I display real ignorance about financial matters. I got a D- in economics in my economics course I took at Williams.

WALLAR: Some people enjoy it and some don’t. I remember when I was studying, I had a hard time understanding basic concepts because they are counter intuitive. I had taken varied courses in my liberal arts college and decided to major in economics because it combined social aspects with data to frame issues. I wasn’t a mathematician although I didn’t mind math. I was more interested in concepts.

One of my professors, Professor Grimes in microeconomics, gave me the best advice: “Just take notes. You may not understand what I am telling you. In fact, you probably you won’t understand what I am telling you, but by the end of the course it will all come clear.” I took notes and he turned out to be right. I was studying for the final exam in the library at Ohio Wesleyan, and the concepts were just wasn’t coming to me. Then all of a sudden it was like a light bulb switching on. They just fell into place. I aced the exam. It surprised me. Anyway, I understand your view of economics but, as with almost anything, the more detail you dive into the more interesting the subject. I made a career with the economics major but changed jobs covering different aspects – trade, finance, fiscal and monetary policy, currency circulation, security so many different facets.

Q: Maybe this is not the time to ask you, but you can answer it later on. But while you were working at the German scene did you ever even in your dreams imagine a unified Germany and what that would mean economically?

WALLAR: No, I didn’t. Not at all. It was not something that was discussed until my last months in Bonn. One of the senior economists in the office, Herr Lange, who had been at the embassy for 20 years, had relatives in East Germany. He would talk about visiting them and giving them Deutschmarks which were worth about ten times more than the East German Ostmark. He never mentioned the notion or even dream of the country reuniting. It had become a given, a way of life. It was just the way it was.

You mentioned Berlin. When I arrived in Bonn, I was relatively new and the financial crisis was in full blossom which is, in party, why I didn't attend the first country-wide team meeting in Berlin. The following year the ambassador announced another country team meeting in Berlin. The country team included senior staff in Bonn and consul generals from Frankfurt, Munich, Hamburg and Dusseldorf. I asked why not have it in Bonn? Why go to all the expense to have it in Berlin? I resisted, but this time ambassador Burt leaned on me. My Treasury desk officer advised me to go along.

I flew to Berlin which was a novel experience. When the plane crossed into East Germany it reduced speed and quickly descended to a very low altitude for security reasons. We landed at Tegel Airport which is almost in downtown Berlin.

Then it became clear to me why the ambassador held the country team meeting in Berlin. We used the very spacious, pleasant American Army's headquarters in a leafy, green suburb. There were big conference rooms larger than the one in the chancery in Bonn. The military took care of all the logistics and supplied the food and wine. We had the dinner in a big open garden under tents. It was quite a treat. West Berlin was a very lively city. We didn't go to East Berlin, but we did visit the wall and Checkpoint Charlie.

In September of 1998 the International Monetary Fund (IMF) decided to hold their annual fall meeting in Berlin as a sign of solidarity with the city. As you might recall in 1988. There were German protests not only against the placing of the Pershing missiles but also against the IMF. Some groups didn't like the IMF imposing "conditionality" on developing countries in exchange for short-term loans. They believed the IMF was suppressing economic growth and impinging on a country's sovereignty. Then again, a country came to the IMF for a loan because it was in some financial difficulty.

There were also protests against the German banking system by the Red Army Faction. The month before I left Germany the head of Deutsche Bank, Alfred Herrhausen, was assassinated by a bomb that the Red Army Faction denotated as he was driving to work from the suburbs outside of Frankfurt.

In short, the IMF's meeting in Berlin attracted attention, including the wrong kind of attention. A week before the meeting was to take place my wife, Gale, was driving the kids to school up on the Heiderhoff. My son attended the British Preparatory School. As she got to the turn off to go up to the top of the hill there were police cars blocking her way, sirens blaring, lights flashing, and plenty of commotion. The Red Army Faction had tried to assassinate state secretary Tietmeyer who lived in the Heiderhoff. Gunshots were fired at his car but fortunately he and his driver were uninjured. All very dramatic and all over the news.

The next day the embassy regional security officer (RSO) called me into his office. He thought that since I was a U.S. Treasury official and associated with the IMF I should drive an armored car for my protection. He issued me this huge, heavy Chevy with bullet-proof windows. It was a tank. It accelerated very slowly and stopped even more slowly. It was a hazard for me to drive. To top it off, the armored care wouldn't fit in our garage built for smaller European cars. The Chevy's tail pipe stuck out, and I couldn't close the garage door. The next day I turned the car in to the RSO and said "I will take my chance in my little Peugeot. "

This was also the time of Perestroika in the Soviet Union. Changes were underway that we couldn't imagine. No longer exercising its iron fist in central Europe, the Soviet Union began to collapse. Poland held elections that were demanded by worker's union Solidarity. Hungary had opened its borders to East Germans who could transit Czechoslovakia and then go to West Germany via Austria.

At this time Vernon Walters was our ambassador. Did you ever meet him?

Q: Yes, I did but in a different context when he was number two at the CIA for the senior seminar.

WALLAR: He was a man of great experience and fluent in many foreign languages. At one staff meeting he had a map of central Europe put on the wall. He pointed to Poland and Hungary – to the north and south of East Germany – as countries that had opened up. He thought the Czechs, sandwiched between those two countries would be the next to go followed by East Germany. In his assessment it was just a matter of time. This was the first inkling that liberties that were being won peacefully by protests in neighboring countries would come East Germany. And he was right.

Vernon Walters respected the Germans and regarded them as optimists. When I accompanied him on his introductory calls to the finance minister and central bank president, he would recall his first visit to post war. Despite the rubble outside a person's house, if you went inside there were always flowers on the table. When there are flowers on the table there is hope and when there is hope there will be economic recovery. He sensed that the German's had the spirit to overcome obstacles.

I accompanied him to his first visit with the finance minister, Theo Waigel who had replaced Stoltenberg. Waigel was a vivacious Bavarian. Prescott Wurlitzer learned that Waigel's favorite pipe tobacco was Captain Black. I had a can of that tobacco in by brief case and explained Waigel's preference to the ambassador. After they shook hands, Ambassador Walters said to Waigel, if my intelligence is correct I think you like this tobacco and plopped the can on the table. Waigel's eyebrows, which were quite bushy, went up. He replied, "Your intelligence is quite perfect."

Q: Well Walters had the reputation of being the only American official who could see something was going to happen in East Germany. I interviewed the man whose name I forget right now, but who was our ambassador in East Germany at the time. He said he *was sitting in his garden with his wife shortly before all hell broke loose, and things really started to change. He said you know this must be the dullest job in the world.*

WALLAR: Yes, the fall of the wall was quite unexpected and may have been caused by some miscommunication. It was the era of Perestroika, opening up in the Soviet Union. German authorities didn't really want to open up but experienced protests as never before and saw people easily escaping East Germany rather than being shot. In this uncertain environment, rather than striking with an iron fist, they just soft pedaled the situation to an American journalist. That, as I understand it, led one guard to "let down his guard" so to speak, and allowed people to exit East Berlin freely to West Berlin.

My wife and I were watching television on that evening, November 9. The kids were in bed. We saw people starting to stream through a checkpoint from east to west. We saw young people bashing the concrete wall that had divided the city, chips flying and holes being poked through. People poured through sections where the wall had collapsed. We were just incredulous.

Soon thereafter Trabants and Wartburgs, cars from East Germany , were streaming into West Germany. The television showed pictures of people lining up to buy fresh produce like oranges and bananas. The Trabants and Wartburgs created havoc on the highways. Germans like to drive fast in their Mercedes and BMWs. But the East German cars were lucky to go 40 miles per hour. It was a happy, joyous chaos.

Bundesbank officials were concerned that the Chancellor wanted to make a political decision with respect to currency conversion to ease the financial burden of re-unification for East Germans. As I mentioned the Ostmark to the Deutschmark was about ten to one on the informal markets. The Chancellor said for the first 4000 Ostmarks the exchange would be one to one. For savings accounts it would be two to one.

Bundesbank officials were quite upset because this meant that overnight there would be a huge increase in the money supply which could spark inflation. The Finance Ministry wasn't so keen because this exchange rate would mean that many of the companies in East Germany would be not be competitive because their goods were so inferior. They were concerned with industries going bust or needing subsidies to reform. But the Chancellor was adamant, and his political gesture held. It did initially ease the transition of households but the economic costs for East German industry were quite high.

To their credit, West Germany poured money into East German infrastructure, school system, health system and reconstruction that the east had never seen before. You will recall that when the Soviets were in East Germany, they stripped the country of anything that was useful and took it back to Mother Russia. I say to their credit because Germany didn't ask for money from the World Bank or from the IMF. They did this on their own. I think that is something that is often overlooked when we criticize German economic policy and exchange rate as is occurring again, now.

Germans pride themselves on being export champions. In part that comes from Germans being thrifty, saving rather than spending. They save more than the country invests, yielding a current account surplus. A favorable exchange rate also helps. In the post war reconstruction, the Americans agreed that the Germans should have a favorable exchange rate vis-a-vis the dollar because they wanted the German economy to grow and prosper. This was the lesson learned from the harsh terms imposed on Germany after WWI.

The Americans were also quite keen on European countries working together and forming the European Coal and Steel Community which lead to the European Common Market. In the GATT there were discussions about new European agricultural subsidies. These subsidies are often called the glue that bound European countries together in the early years. The U.S. administration basically did not contest these subsidies since they were important for European political unity, economic prosperity, and peace, main goals during the reconstruction era. The U.S. government perspective has changed since then. But there was this deep-seated desire for Europe to succeed and to make accommodations for that to happen.

As you recall President Bush and Jim Baker, were instrumental in helping with German unification. I think Margaret Thatcher was less enamored with a unified Germany for historical reasons. But as I mentioned Kohl and Mitterrand were quite keen. Mitterrand and the French were the driving force and Kohl very passionate about Europeanizing Germany. While focus had shifted to the German domestic unification process, the drive for European unity was in full swing.

Unfortunately, I couldn't see the end of this play because that October I had received a call from Treasury's assistant secretary, Charles Dallara. David Mulford was now under secretary. Dallara asked: "How long have you been overseas, Jim?" The answer was 7 ½ years, which was probably about 4 ½ years too long. He wanted me to come back to Washington to be the director of the Office of International Trade. The current director, Bill Barreda an excellent economist and true mentor, had been promoted to deputy assistant secretary. I could not say no. At the beginning of December we packed up and by the holidays were back in the States.

Before I close on my German experience I just want to add two kind of personal notes. At the time, the undersecretary of the treasury was Beryl Sprinkle, a monetarist. He came to Bonn to visit and then wanted to drive down to Remagen which is down the Rhine from Bonn. When we arrived Sprinkle got out of the car and walked up to the bridge and just stood there in a moment of silence. I asked him what is so important about this bridge. He said he was driving a tank in WWII and crossed over this bridge when the allies entered Germany. Beryl Sprinkle was quite known for his hard monetary policy and being outspoken. He used to say "international coordination is doing what we tell you to do." After a while he backed off that position, but he was a strong believer in markets in line with the Chicago school.

The other personal experience was a visit of my parents. We drove down to Naila. I don't know if you have ever visited down there. It is north of Nuremburg. This was before the fall of the wall. Naila was on the border of East Germany. The village had become rather famous because there was a family that escaped East Germany in a hot air balloon and landed outside of Naila.

Q: I remember the incident. I never was there.

WALLAR: We had German relatives who had migrated from Naila to Zanesville, Ohio in the 1850s and then to Columbus, in the 1880s. My grandmother's family, who were first generation Americans, still had connections back in Naila. After the war my mother helped collect coats, other clothes, and food to send to the German family in Naila. At her urging I called the family out of the blue. One family member remembered our name and graciously invited us for dinner and an overnight stay.

The village was not doing very well. On the border East German armed guards stood atop towers looking down at a no-man's line strewn with the concertina wire. It was very foreboding. Nonetheless, we had a great visit with the family. After dinner our host, Alfred Bishoff, our relative, dramatically presented a can of Hershey's chocolate syrup to pour over our ice cream dessert. With great fanfare he pointed out that his was a can that my mother had sent to him in the 1950s that he had been saving for a special occasion which was now and proceeded to open the can. My mother broke down in tears. I was the translator because our relatives spoke very little English and my mother and father spoke absolutely no German. It was quite emotional. And the chocolate was still good.

Q: Were you there during the unification?

WALLAR: No. The Berlin wall came down on November 9, and we left at the end of December. Formal unification happened some months later. Bill Murden, my deputy, had the honor. I argued that I should stay in Germany because I had good contacts and I could be effective. But the Uruguay Round of trade negotiations was up and running and there was talk about a possible North American free trade agreement. The assistant secretary thought my trade background was a good fit for the job. They didn't want to bring in someone who had to learn on the job. My trade background caught up with me.

Q: Well can we talk about that or how are we doing on time?

WALLAR: Excuse me?

Q: Do we have time to talk about that?

WALLAR: Talk about the Washington experience?

Q: The trade experience when you were back in Washington.

WALLAR: Sure, we can continue if you would like.

Q: Absolutely.

WALLAR: Treasury's Office of International Trade had about eight experts, all of whom had worked for the previous director. Mary Beasley was the deputy. A young fellow had just left the office. His name was Tim Geithner. He joined another office that was negotiating access to financial services in the Uruguay Round. You might recognize his name as he would become the Secretary of Treasury.

Another staffer in my office just out of graduate school was Matthew Goodman. He became the Treasury Attaché in Japan, then joined Goldman Sachs in Europe where I would see him again, then became an economic advisor in the National Security Council and an advisor to the economic undersecretary of State. Matthew now chairs the political economy unit at the Council of Strategic International Studies, CSIS.

In January 1990 when I joined Treasury's trade office, Perestroika, the opening in the Soviet Union, was taking hold. The Soviet Union was disintegrating and central European countries were gaining their independence. Russia as well as other former Soviet-dominated countries, wanted to establish "normal trade relations" with the United States. Imports of goods from countries that don't have normal trade relations with the United States are not assessed our lowest duties.

The U.S. has two basic tariff rates. One is the pre-negotiation rates, pre-GATT rates. GATT stands for the General Agreement on Tariffs and Trade, created at the end of the 40's. These rates date from the 1930s and 1940s and are quite high. The other tariff rates were much lower because they had been reduced through successive rounds of trade negotiations. Imports from countries which we had normal trade relations and were members of the GATT, would be assessed based on our MFN, most favored nation, duty rates, our lowest tariffs.

Since Russian never joined the GATT, its imports into the U.S. attracted the pre-GATT duty rates. In January and February I was part of USTR led delegation to negotiate with the Russians on establishing normal trade relations with the U.S. One negotiating session was in Washington and another in London.

At the first session we asked the Russians how they set their tariff rates. They told us that they calculate scientific tariffs. This is a concept that the United States used at the turn of the century. The idea is basically to equalize import prices with domestic prices. That is if the import good was coming in at $10 and the domestic price was $15, the tariff would be $5. Very scientific. You have just protected yourself. The European Union would use this later for agricultural trade as part of their Common Agricultural Policy. The concept was an historic relic for us. We were amazed that the Russians still used it.

Establishing normal trade relations with Russia wasn't just a question of trade policy. The so-called Jackson-Vanik amendment mandated that any country which created difficulties in immigration shouldn't receive full MFN treatment. We had to work the politics of that issue as well.

The negotiations were successful. The Russians agreed to reduce their tariffs in exchange for our tariff reductions. We were able to get annual waivers from the Jackson-Vanik amendment to be able to give Russian imports MFN duty treatment and normal trade relations. That was one of my first assignments.

Another, related activity was the Presidential Trade Enhancement Initiative. Eugene McAlister, who was assistant secretary of State, put together a delegation to travel to central European countries that had been behind the Iron Curtain hear about their trade policy reforms, offer advice, and maybe find a way to give them better access to the U.S. market to help spur their economic transformation from a state-controlled economy to a more market oriented one. The countries included Poland, Hungary, Czechoslovakia, although rumors of a breakup of the Czech and Slovakia republics were prevalent, and Bulgaria. These countries were charter members of the GATT, although not very active participants after the war. This made granting them MFN treatment easier than in the case of Russia.

Warsaw was very dark with very few street lights. We stayed at the Marriott Hotel which was the only "western class" hotel in the city. The place was packed. In the lobby, bar, and café were businessmen doing deals. Like a gold rush, the next economic frontier. Very lively. The economic minister was committed to move toward a market economy and had plans for doing so, provided the politics could line up.

In Prague we met with ambassador Shirley Temple Black. She was very keen on us doing something tangible. The city was dark and dirty with few stores or cafes. A restaurant the embassy staff got us into was more like a speakeasy, closed to outsiders. You had to knock on the door, and they looked you over before they let you in. The policy direction toward markets was also foremost in their minds, but the politics were on hold pending a breakup of the country. The country had been a European industrial dynamo before the war.

In Sophia the accommodations were very nice, the Intercontinental Hotel, but the city was pretty grim. Old buildings, few shops. I asked a central banker what he thought of the new changes. He replied, "Well I grew up speaking Bulgarian. I learned to speak German. Then I learned to speak Russian. Now I am learning English." The Bulgaria policy was not yet firmly developed but seemed to be stuck in the Soviet era. They talked of their specialties allocated them in Soviet central planning: Cyrillic computers, fork lifts, and wine.

One of my tests of consumer prosperity in each of these countries was to county how many people stood in line to buy oranges. When the Berlin wall came down we had witnessed East Germans lining up to buy oranges and other fresh produce that they seldom had been seen. During this trip in the winter of 1990 there were long lines to buy oranges in every city we visited. About five years later I returned to several of these places. No lines at all.

Another major activity of the office was the Uruguay Round. Negotiating positions for the U.S. delegation were worked out in interagency meetings. I represented the Treasury. I accompanied assistant secretary Dallara to Brussels for what we thought was going to be the wrap-up session. It didn't work out. The Europeans refused to cut their agriculture subsidies.

Negotiations in the Uruguay Round were much like those in the Tokyo Round. In addition to tariff reductions, rules on non-tariff measures were being negotiated. Revising some rules, like the standards, licensing, and anti-dumping and countervailing duty codes, were on the table as well as new topics like intellectual property rights and services, including financial services.

On the latter American Express was very keen on being able to provide their credit card services across border, from New York into foreign countries. They also wanted to be able to establish in those countries and receive national treatment to do business and not be burdened by excess or additional regulations. They also wanted to be able to provide their services to citizens of those countries coming to the United States, such as opening a credit card account, and allowing them to perform transactions from their home country over the internet or through the mail. These are the so-called four modes of services delivery.

Services was a new, conceptually a difficult issue. How do you make concessions on services and bind them so they could not be re-instated or undercut by other measures? Dick Self, with whom I shared an office in my first Treasury job back in 1972, was the lead services negotiator for USTR. He came up with an approach by which a positive commitment could be made for any specific type of service. For example, the country would make a positive commitment to allow foreign credit card companies to sell its products into the country electronically or by mail. And they had to make a positive commitment to allow foreign credit card companies to establish in their country and to give it national treatment. And they had to make a positive commitment to allow citizens of their country to come across borders and create a credit card account. For each service a county would need to make positive commitments on each mode of delivery of that specific service. It was a very cumbersome.

Q: Very comprehensive.

WALLAR: It was very comprehensive, right. All the countries participating in the services negotiations had to consider and consult and decide whether they were going to make a positive commitment on several hundred of different types of services. If the country did not make a positive commitment, the market was closed or could be closed. The incentive was that if a country didn't make services concessions then it would receive concession. That is the nature of reciprocal trade negotiations. A country had to put something in the pot, so to speak, in order to partake of the soup.

Q: How did the negotiators from these closed counties react? I mean were they getting instructions from their countries to be open or were they having to fight both sides of the battle?

WALLAR: Central European countries were fighting both sides of the battle. They wanted to open up and reap benefits of trade because they had been cut off from getting fresh produce, for example, or semi-finished goods for investment. But they also had to be very mindful that their industrial structure was very fragile. They had been members of COMECON, the Council for Mutual Economic Assistance lead buy the Soviet Union. State-directed economic planning. Now the industries in these countries would be subject to market-driven competition from the west. Quite a different kettle of fish.

Do you remember when Jeff Sachs went into Poland and talked about the opening up quickly, the "big bang theory," and let the chips fall where they may? Very disruptive. I understand the politics of it. Economists like to talk about staging reforms, do this, then that, then the other thing. But politically, support for change may not always be present. The "big bang" was premised on striking while the political iron was hot.

Developing countries wanted to have "special and different treatment" in the negotiations. That is, they did not want to make as many concessions or be strictly bound by the same rules because of their developing country status. Or they wanted a longer transition time to implement some of the obligations they would undertake.

This issue first surfaced in the Tokyo Round. Lance Graf, the lead negotiator on this topic for the U.S. delegation in Geneva, helped craft and agreement on special and differential treatment for developing countries. The idea was that such treatment would be temporary. This made sense. Developing countries should want to strive to adopt the best policies they could to promote their economic development. Restricting trade often just props up an inefficient or possibly even corrupt monopolists who would extract economic rent consumers, that is, charging higher prices than if there had been open competition.

Generally, the Uruguay Round was a more challenging negotiation because of the range of topics and developing countries being more emboldened not back down. They believed that they had come up short on benefits in the previous round and weren't going to let it happen again. The negotiations were also more difficult because of the U.S. and Europeans pushing to move from negotiated settlements of complaints under the GATT to a more disciplined dispute settlement system.

In the GATT if a country violated rules, another country could complain. There would be a working party to discuss the complaint and the solution. The two countries would work out any differences, over time. The incentive to strike a deal was that the complaining country, if justified, could impose restrictions with a similar effect on the party that had violated its obligations. In the Uruguay Round the U.S. proposed a dispute settlement mechanism which would essentially be a quasi-judicial. Once a complaint was filed, there would be a dispute settlement panel to hear the complaint and make a decision binding on all parties that could be appealed. We believed that the U.S. was more in the right than in the wrong when it came to abiding by international rules. That meant that U.S. industry would benefit a rigorous dispute settlement mechanism.

The dispute settlement approach was fashioned under the Bush administration (Bush ’41). The Clinton administration was not as enthusiastic about trade and questioned the dispute settlement strategy. It was too late to change course. The results of the Uruguay Round transformed the GATT into the World Trade Organization, the WTO. The WTO incorporated all of the GATT rules plus the new rules on services, intellectual property rights, and the dispute settlement mechanism.

Q: What was your feeling, did you have any feeling on how these negotiations were going on, great difficulties or…

WALLAR: How they were going on with different countries?

Q: Different countries yeah.

WALLAR: Developing countries, particularly India and Brazil, were flexing their muscles. In the Tokyo Round there was similar caucusing on positions among developing countries but negotiations were to some extent more collegial, less combative.

Rather than posturing, some developing countries believed that following good economic policies would generate their own rewards. For example, in the 1980s Chile had undertaken economic reforms guided by folks from the Chicago school, very market oriented. In negotiations on tariffs, USTR would try to negotiate bilateral concessions on certain tariff line items for certain products if a country were a major market or potential market. They would say if you reduce tariffs on such and such product by 20%, we will reduce our tariffs on this other product by 20%. The negotiations were very product specific.

The Chileans wanted nothing to do with this type of approach. They said if we reduce tariffs on one item but not another, we will be distorting relative prices and that would cause problems in our own domestic economy. Instead, we will negotiate across our entire tariff structure. For example, we would make a 5% tariff reduction across the board, but not 25% on this item and 30% on that item. USTR was unhappy because this is not how they approached tariff negotiations.

Services negotiations were particularly difficult for those countries who didn’t have the human capacity to devote someone exclusively on that issue. The concept of making services concessions in exchange for tariff concessions was new and not immediately well understood. Carla Hills, the USTR at the time, came to the Treasury Department with her deputy, Jules Katz, to explain the concept of negotiating services and goods to Nicolas Brady, the secretary, and undersecretary Mulford. I was included in the meeting. Carla explained the nature of services negotiations, taking examples from finance. Brady asked how the negotiations would work in practical terms. Carla said that concessions on tariffs, be they on agricultural or manufactured goods, and concessions on services access would be weighed together to ascertain whether the "pot" of concessions was sufficient to strike a deal. Brady looked up and asked, "Do you mean you would be trading concessions on tomatoes for concessions on banking?" Carla said, "I hadn't thought of it that way. but yeah you are right. Trading tomatoes for banks."

Q: Well anyway it worked.

WALLAR: It worked. Failure to conclude the round in Brussels meant that we devoted effort to negotiating the North American Free Trade Agreement, NAFTA. I don't know whether I am running out of voice or if you have something special this afternoon. You might want to take a break.

Q: OK, why don't we. It has been two hours. We will pick up NAFTA next time.

WALLAR: OK Stu. Great talking with you. You ask great questions. You are also a very patient listener. I appreciate that.

WALLAR: Stu, good morning.

Q: Hi Jim.

WALLAR: How are you? How was your weekend?

Q: Oh boy. Went to the theater, came back, and had a couple drinks the usual stuff.

WALLAR: Did you have a special meal yesterday?

Q: Actually yeah. They bring around food in paper bags.

WALLAR: Paper bags? Is it liquid?

Q: No, no, I mean I am saying paper bags counts as a couple of plastic containers. We had some ham and all, but my daughter promises me when this is all over we will have a good Easter meal.

WALLAR: We all look forward to those days.

Q: OK, well today is 13 April 2020 with Jim Wallar. Jim would you pick up where we left off?

WALLAR: Sure. We talked about my activities as the director of Treasury's Office for International Trade, including negotiating with Russia and the Uruguay Round. The next topic is the negotiations of the North American Free Trade Agreement, NAFTA.

Q: Oh boy.

WALLAR: NAFTA was an initiative of President Bush ('41), He was passionate about promoting Mexico's economic development. He also recognized that Mexico's economic policies operated as a shadow of U.S. economic policies. For example, when the U.S. pursues a loose monetary policy it affects the Mexican economy. As I understood the President's broad economic rationale, they thought that linking our two countries closer, formally though a free trade agreement, made sense. For both countries.

The Canadians weren't initially part of these talks. They were pretty upset. They kept pounding on the door. We already had a major auto agreement with Canada which accounted for much of our bilateral trade. But Canada wanted to be part of the negotiations to protect their interests but also secure increased access to the U.S. market. USTR relented and let them join the negotiations. I attended the initial meeting of all three countries in Houston. Jules Katz led the U.S. team. Do you remember him Stu?

Q: Oh very much so.

WALLAR: He had been the assistant secretary of State and now was a Deputy USTR. At the Houston meeting we set up the negotiating framework, negotiating groups, and established a provisional time line. In the end the negotiations probably took a little over three years.

In structure of the negotiations reflected rules of the GATT and paralleled the on-going Uruguay Round negotiations. As I mentioned, the Uruguay Round was stalled. Talks on NAFTA were a kind of a flanking maneuver to try to move a broader range of countries and the European Union off their positions. If these countries were unwilling to move, then rather than wait it made sense for the U.S. to pursue a separate agreement with its largest trading partners. NAFTA might get their attention and provoke them to get serious about winding up the Uruguay Round.

I have mentioned the apparent conflict between economic theory and practical trade negotiations in the case of Chile. A similar situation arose in NAFTA. We were discussing including a balance of payments provision in NAFTA to mirror that contained in the GATT. This provision permits a country to restrict imports if the country is running a balance of payments deficit. The Mexicans sort of scratched their heads. "Why would we want to have a balance of payments provision to restrict imports?" they asked.

The Mexican negotiators on the other side of our table had been educated in economics at USC and Rice. They knew that if a country were experiencing a balance of payments deficit it meant that its savings were less than its investments and it had to borrow from abroad to cover the difference. A trade deficit was a symptom of broad economic imbalances, not a result of trade policy. The Mexican response followed the economic textbooks. They explained if they had a trade deficit it would be the product of low savings, say a fiscal budget deficit, or a monetary policy pursuing low interest rates. We naturally agreed. Upon reflection, they did agree to a balance of payment provision. Since it was in the GATT not having it in the NAFTA would appear to be weakening the rules and reducing Mexico's options to impose trade restrictions.

Another interesting topic was the approach to foreign direct investment. I mentioned that the services negotiations in the Uruguay Round required countries to make a positive list of commitments to allow a service provider to establish in the host country. In NAFTA Treasury led the U.S. negotiations on the investment provisions. We insisted that instead of a positive list, listing industries or sectors that would be allowed to invest in the host country, that all sectors would be open to investment, including banking, manufacturing, and natural resources. However, each country could take exceptions for certain services or industries. These would be included in a list of exceptions.

This was different from the Uruguay Round's approach of having a positive list of commitments. Requiring the country to be open to all foreign direct investment, then carving out exceptions was more effective and maximized coverage. Much better than waiting for countries to submit a list of positive commitments to open their markets. Certainly each country, including the U.S., listed all sorts of exceptions. Coverage of investment in services was much broader in NAFTA than in the Uruguay Round. I should point out that the Uruguay Round did not cover rules on direct investment in manufacturing or natural resources.

Q: Were the Canadians, did they have a desire to include Mexico as far as a trading partner?

WALLAR: Well I don't think that they sold much to Mexico bilaterally although the auto parts trade was robust. The Canadians' wanted a deeper relationship with the United States, its largest trade partner, and protect its interests that could be affected by a U.S. trade deal with Mexico alone.

Q: How did you find interaction of the three countries sitting down together?

WALLAR: Were the countries working together?

Q: In other words, when they are working on the NAFTA, the Mexicans and Canadians and some Americans sit down in a room together.

WALLAR: Yes. The negotiations were generally trilateral. Some meetings were bilateral. For example, the Mexicans wanted to explore our positions face-to-face first. They were new to bilateral trade deals. We pretty much knew the Canadians' positions. We all had to work a little bit harder with the Mexicans. Generally the trilateral negotiations were amicable. Tough negotiations, but the Mexicans were very forward looking. They wanted to adopt stricter, more open trade rules to stimulate their own economic development.

Q: Were there any particular objects or products or issues that particularly that got you hung up at all?

WALLAR: Agriculture is always an issue but I didn't participate in those negotiations. We have some pretty strict marketing regulations on the size of tomatoes. These are pretty technical, but it worked out.

One of the more contentious issues was new provisions with respect to labor and labor rights, including the right to organize. This was contentious not only with Mexico but also within the administration. The USTR at this time was Mickey Kantor, a friend of President Clinton's. He had replaced Carla Hills. Cantor was a labor lawyer and had worked with migrant workers. He was very keen on having labor provisions in the NAFTA which would be a first for an agreement regulating trade.

Secretary of Treasury Benson didn't want labor provisions in a trade agreement. Prior to being the Secretary he had been a Senator from Texas on the Finance Committee. He had seen many trade agreements and felt that expanding them beyond the basic elements of trade would cause problems. He resisted. Cantor went directly to Clinton. Clinton did not come into office a big fan of trade. He had made some disparaging comments about trade and particularly the idea of NAFTA during the presidential campaign. I guess he figured that inserting labor provisions would take some of the edge off a purely commercial agreement, demonstrating an interest in workers' welfare. He agreed with Mickey. This was the beginning of labor provisions in U.S. free trade agreements. Now they are commonplace.

Q: Looking at our work with the Mexicans and Canadians were you sort of realizing that you were setting a standard that is probably going to be used in dealing with other countries too?

WALLAR: Yes indeed. That was part of the strategy in launching NAFTA. Not only securing a trade agreement with our largest trading partners but also giving a shove to the stagnating Uruguay Round. The feeling was if Mexico could agree to high standard, quality NAFTA provisions as a developing country, then other developing countries could do the same in the Uruguay Round. More important was the fact that NAFTA would give Canada and Mexico preferential access to the U.S. market. This would stimulate other countries who wanted better access to the U.S. market to get on with the Uruguay Round.

Q: Were there any particular problems with all these negotiations?

WALLAR: In terms of overall politics, not so much. Not as easy to secure Congressional approval of Tokyo Round agreements, but trade had largely bipartisan support. The U.S. was still the major trading nation and economic benefits of more open trade were significant. Some industries or workers would suffer some dislocations, but the U.S. economy was still dynamic and could reabsorb those resources in other sectors. This would change later. The U.S. had a trade adjustment assistance program to help workers affected by imports to retrain. And anti-dumping and countervailing duties, the so-called "safety values," could be imposed on dumped or subsidized exports if they injured a U.S. industry.

We didn't appreciate that with the fall of the Iron Curtain, the breakup of the Soviet Union, and China starting to follow a more market oriented economic approach to its economy would change fundamental trade dynamics. A new, large source of inexpensive labor was released on the world market. Less expensive labor meant cheaper imports and cheaper production costs, enticing some firms to outsource production or invest in these new markets. But in the early 90s it was still pretty much accepted that opening up trade was good economic policy. It stimulated competition, gave consumers more choices, and kept prices down.

Q: What about was China an observer at the time but not really in the game.

WALLAR: Not really in the game at the time. China's trade was very modest. That changed quickly. From the mid-1990s China's policy of export led growth would expand its trade around the world rather dramatically, a higher rate of growth than any other country had achieved. Really new territory.

Q: So China didn't really have any effect on your negotiation?.

WALLAR: No, not at the time. The negotiations for China to join the WTO started around toward the end of the Uruguay Round and were concluded I think in the late 1990s. I wasn't part of those discussions that were led from the U.S. side by my former boss in Geneva, Doug Newkirk. Those were difficult discussions as China thought it deserved special rules. Doug would say that negotiations were about China joining the WTO, not about the WTO joining China.

Q: Trade is under Congress; the trade office is under congress, isn't it?

WALLAR: Congress has to approve trade agreements. They are like treaties that become part of U.S. law. The actual negotiations are conducted by the US Special Trade Representative which is part of the administration. The USTR office was created in 1961 by the same guy who created SAIS.

Q: Paul Nitze?

WALLAR: Paul Nitze and Christian Herter. Christian Herter was a Congressman and Paul Nitze was involved in war planning in the administration. I think I mentioned before that they agreed that the United States needed to have an international graduate studies program that emphasized languages and international economics and politics. They created SAIS which was later absorbed into Johns Hopkins.

Christian Herter later was the Secretary of State, and, as an advisor to the administration, created USTR. He knew State and took in the criticism that State, who led trade negotiations, was considered soft on their foreigner counterparts, perhaps not getting the best overall deal for American interests. On the other hand, the Commerce Department was always looking out for U.S. industry, not broader U.S. economic or political interests. The concept of USTR as part of the Executive Branch at Cabinet level would be even more handed in trade negotiations. USTR lead trade negotiations but its negotiating positions were developed by an inter-agency Trade Policy Group and Trade Policy Review Group - TPRG. Sometimes, members of other agencies would participate in the negotiations and undertake analysis for USTR.

Q: What was your role in these?

WALLAR: I was Treasury's representative to the Trade Policy Group and TPRG – a bit above my pay grade since other agencies were often represented by assistant secretaries or deputy assistant secretaries. I also was a member of USTR's delegations in some negotiations.

In the Treasury, our office prepared briefing papers and decision memos for our assistant secretary on trade issues. For example, a potential attractive aspect of NAFTA could be job creation in the U.S. Gary Hufbauer, who had been my boss as Treasury deputy assistant secretary and was now conducting private research, did a study for a Washington think tank, the Institute for International Economics, that suggested NAFTA would have a positive effect job creation. USTR decided that was the best argument for selling NAFTA on the Hill. It was very attractive. I disagreed. Our Treasury experts explained that any economic study, including Hufbauer's, make certain assumptions. The conclusions are more like an educated guess. Nothing is certain. In the end USTR used Hufbauer's numbers and the job creation argument to push NAFTA through the Hill.

Another new element of a trade agreement introduced by NAFTA were provisions on the environment. Charlie Reis was seconded from State to USTR to lead those negotiations. Charlie and I had met as students at SAIS. These were new provisions and set the foundation for environmental provisions in subsequent U.S. free trade agreements.

Q: Did you find that the Mexicans had a different attitude than the Canadians? Putting three countries together is always a problem.

WALLAR: The Canadians had sectors that they wanted to protect. The Mexicans weren't as defensive because they were looking at the agreement to change their policies toward more openness and competition as well as strengthening governance institutions and the rule of law to spur their economic development. Our Mexican counterparts were economists and were focused on growth-generating effects of increased investment and trade. Mexico was becoming a processing and assembling center for goods coming in from around the world destined for the U.S. market under NAFTA. They counted on trade and investment increasing not only with the U.S. but the world.

Q: Well in a way didn't all of the negotiators go to the same schools?

WALLAR: I don't know about the Canadians, but, yes, our Mexican counterparts had attended schools in the United States. We didn't need translators. They spoke English as well as any of us or better than me. They were generally young and very intellectually engaged and very conversant on current events and fads.

Q: Was there an observer or somebody keeping an eye on you from Congress?

WALLAR: There were no observers in the negotiation sessions. USTR regularly reported to the staff of the relevant congressional committees, the Finance Committee on the Senate side and the Ways and Means Committee on the House side. USTR kept them apprised every step of the way.

Trade rules agreed to in NAFTA and the Uruguay Round were subject to Congressional approval under the so-called fast track process. This process was part of the trade negotiating authority passed by Congress for USTR to begin formal negotiations. The fast track process meant that Congress had to vote the entire package of trade agreements in either NAFTA or the Uruguay Round up or down, without any amendments.

This approach was designed to give the executive branch, in this case USTR, latitude to negotiate a deal and not have Congress nitpick and say change this or that provision once other countries had agreed and all participants thought the deal was balanced. For this to work, Congress had to be kept apprised at every step of the way, understanding elements of the agreement and trade-offs. We could make changes during the negotiations but once the deal was agreed to, then Congress had to vote on it, either up or down, in its entirety. The fast track process still exists. The revised NAFTA, the U.S. Mexican Canadian free trade agreement(USMCA) was voted on an up or down; fortunately it was approved.

Q: Well who was monitoring what you did?

WALLAR: In addition to Congressional staff, we had input and discussed ideas with three private advisory committees and their subgroups covering industry, agriculture, and labor. This was a formal network of private sector experts who followed the negotiations closely. Some industries were very active, like the textile industry.

Textiles you can appreciate, Stu, is a very sensitive sector. They had products they wanted to protect but appreciated that developing countries had a cost advantage in this sector. Rather than combatting lowering tariffs head on, the textile sector used rules of origin to afford protection. I remember Strauss when he was in USTR, was asked during testimony on the Hill: “What are rules of origin? Can you explain that Bob?” Strauss was not a trade technician and wasn’t about to explain the very, very technical aspect of trade rules. So he just looked them in the eye and said something like: “Rules of origin are how you take away concessions you have given in a tariff reductions!”

Say you cut the tariffs on a textile product from 30% to 5%. That’s a huge reduction. The other country is very happy. Then you write up rules of origin that provide that this textile product could benefit from this reduced tariff if it was completely made in the country of origin – yarn forward to dyeing, cutting, sewing, packaging. Few countries do that for particular textile products.

For example, they might have to import the cotton to make yarn and thread. I recall that the textile rules of origin in NAFTA ran around 50 pages. Very complicated Where does the cotton come from? Where is the yarn made? Who sewed it? Where was it finished? Who puts the buttons on? All these different stages of manufacturing and production can have different rules attached to them. So whether it was yarn forward or cotton forward or if you just simply put in button holes, that is just simply processing. Anyway there are very complicated rules by product and fabric. Only if the particular textile good satisfies the relevant rule will it attract the reduced tariff. As Strauss said, rules of origin are how you take away what you gave up in tariff negotiations.

Q: How about the Canadians and wood? I mean it seems to me, I mean I am not an economist but every once in a while the Canadians seem to get upset about wood products or actually raw timber.

WALLAR: Yes. That is a sensitive sector. The United States imposed anti-dumping duties on logs and lumber from Canada. I don't recall any specifics on the NAFTA negotiations on these products.

Q: Were you there at the end when it was signed and all?

WALLAR: No, I wasn't there when it was signed. After three years in Washington we missed family life overseas. I had spoken to my assistant secretary, Olin Wethington in the Bush administration, about filling an upcoming vacancy in Paris in the OECD, the Organization for Economic Cooperation and Development. Treasury had one position in the U.S. Mission to the OECD for many years. It was a senior position, Minister Counsellor level. Wethington agreed to appoint me to that position if State agreed. When I was attending a meeting at the OECD I interviewed with the current U.S. Ambassador to the OECD, Al Larson. He and State approved my appointment. I left Treasury's trade office before both the Uruguay Round and NAFTA were signed.

Q: Before we leave NAFTA when you look at the final product, what was your impression of how it worked and all?

WALLAR: My impression is that it worked pretty well. Some of the dispute settlement provisions were controversial because they allowed companies to directly challenge restrictions on investment. This caused some complications. Rather than having government-to-government dispute settlement which can be diplomatic, private firms could directly challenge the government, a more legalistic approach.

Trade and investment did blossom and U.S. firms created production turntables and supply chains under NAFTA which contributed to higher U.S. economic growth. There is much talk about job losses. But trade doesn't create or lose jobs; those are determined by overall economic activity. If the U.S. economy is growing faster than otherwise, more jobs are being created. Very few jobs as a percent of the total were displaced because of NAFTA. There was no great "sucking sound" of firms heading south, although some did invest in Mexico to support their U.S. operations.

I think there was disappointment that while Mexico did benefit, it was not as much as hoped. I have heard that the free trade zones in Mexico seemed to be like manufacturing slums. Living conditions and wages were as high as anticipated. The expectation was that Mexico would continue to grow and this would raise their wage structure, offer alternative employment to keep people at home, in Mexico. That didn't work out, more for other reasons than NAFTA.

Q: Let's move on to Paris.

WALLAR: Let me just finish up a little bit with Washington.

Q: Sure.

WALLAR: You had asked about the inter-agency process on trade and in the 70s when I first started working on the trade area and in the early 1980s when I came back from Geneva. The inter-agency process was working pretty well. It seemed like a real team, joint effort.

In the early 90s when I was in Treasury's trade office the situation had changed. Jules Katz chaired the Trade Policy Review Group, TPRG. He was very even handed but had his work cut out for him. There was strong rivalries, much different than before. Conflicts or disagreements between the Department of Commerce and Treasury, OMB and CEA and sometimes State were very intense. Commerce and Labor looking towards more restrictive trade provisions, and Treasury and CEA looking for economic benefits from more open trade.

At this time the U.S. had adopted a more activist, interventionist trade policy. Rather than relying on anti-dumping or countervailing duties as "safety valves" to let off industry's steam, the administration was negotiating trade restrictions, such as quantitative restrictions on cars, machine tools, and semi-conductors. Industry lobbying was intense. This was new, not just a few trade lawyers. The lobbying industry had grown and was making itself felt in the trade area.

There was a lobbying battle about creating free trade zones for auto manufacturing facilities. Japanese automobile manufactures wanted to get behind the U.S. quantitative restrictions, "QR's." These QR's set a limit on the number of cars that the U.S. would allow to be imported from Japan.

At that time the U.S. Bureau of Customs was still under the Treasury Department. Customs was responsible for collecting duties on imports. Japanese producers wanted to assemble cars in the U.S. in free trade zones using parts manufactured in Japan. The advantage of free trade zones is that rather than having all the parts be assessed the tariff when they come into the United States, the parts would come in duty free into the free trade zone. When the finished car leaves the free trade zone and enters U.S. commerce it would be assessed a duty on the value of the car, not its parts. Treasury liked this idea.

More investment, more jobs, Commerce did not like it, bowing to the lobbying efforts of U.S. auto producers.

Honda was the first automobile company to take advantage of a free trade manufacturing zone. They set up a facility in Marysville, Ohio because it had a supply of good, hard-working labor and because it was located close to auto parts manufacturers who supplied U.S. producers in Detroit. However, the parts suppliers had to meet Honda's quality standards. Some did not, so Honda worked with them to produce better goods. At first it was batteries and windshield wipers. But overtime an increasing share of Honda parts were manufactured in the U.S.

At Treasury we considered this very positive for the U.S. auto industry. There was greater competition between the big three or big four and new producers in free trade zones. Consumers had more choices. Honda advertised that its Accord model was "built with pride in Ohio." Other auto makers followed suit. Toyota in Kentucky, Nissan in Tennessee, and Mazda in Illinois. Pretty soon there were seven auto manufacturers in the United States rather than just our big three or four. This meant more jobs and higher quality automobiles across the board. The big three had to step up their games.

I recount this history and the conflict between Treasury and Commerce because these automobile free trade manufacturing zones are now part of the U.S. industrial landscape. BMW in South Carolina, Mercedes and Hundai in Alabama, VW in Tennessee. The local communities have benefited enormously. Honda and BMW even export models to their home markets. U.S. has proven that given the right investment and training it can produce world class, high quality automobiles.

There was also strong inter-agency disagreement on the administration of the anti-dumping countervailing duty laws. When I joined Treasury in 1972 it had the responsibility to do the price and subsidy investigations. In the mid-1980s this responsibility was given to the Department of Commerce. Naturally, Commerce served their constituency, U.S. industry. In my view, they tilted the outcome of these investigations and administrative rules to favor its constituency.

In inter agency discussions Commerce would say they were just following the law, reminding us that the proceedings were quasi-judicial and not subject to any inter-agency review. I knew this line well because we had used it at Treasury. But, in my view, Treasury had been even-handed in administering the law. Not so Commerce.

Some of its decisions were pretty questionable. For example they were going to impose countervailing duties on imports of steel from Mexico after the Mexican government had privatized its steel company. Commerce argued that the Mexican steel company wouldn't have existed if it hadn't been for government subsidies. We argued that the private investor who purchased the company paid the government for all prior subsidies. It was now a fully commercial entity. We couldn't change their thinking.

Some of Commerce's decisions were challenged in U.S. courts and overturned and challenged in the WTO where the U.S. lost. Some say the current disenchantment with the World Trade Organization dispute settlement mechanism and its appeal mechanism is because the WTO judgements against U.S. anti-dumping countervailing duty cases. So this is pretty small minded, trying to undermine the role of an international organization for the sake of a narrow legal interest.

One last trade issue was the Enterprise for the Americas initiative. The administration was giving a lot of attention to North America, Central Europe and negotiations on China's entry into the WTO. Dr. Mulford wanted to give Latin America some attention. He devised the "Enterprise for Americas" that could entail a series of free trade agreements. Chile, which had gone through reforms to make its economy more market-oriented ,was his first target.

USTR had their hands full and were not interested. Dr. Mulford took me with him to meet Chilean finance minister Foxley at the Blair house to give him the bad news. Both Mulford and Foxley were very disappointed. Years later USTR finally did come around and negotiate a free trade agreement with Chile, but the Enterprise for Americas initiative had fallen by the wayside. USTR also negotiated trade agreements with Peru, Colombia and Central America.

The three and a half years in the trade office went by quickly. Long hours and commute so I only got to have quality family time on the weekends. That was not as satisfying as the family life we had enjoyed in Bonn and Bern. In August of 1993 we moved out of our house in Fairfax and arrived in Paris. Now we move on to the U.S. Mission to the Organization for Economic Cooperation and Development (OECD) in Paris.

Q: OK. What was the office doing there?

WALLAR: The Treasury office in the U.S. Mission to the OECD was responsible for financial, macroeconomic, and investment issues. The OECD was is an outgrowth of the Organization for European Economic Cooperation and Coordination. The OEEC was created to help manage the development and recovery of Europe from the WWII. One of their activities was to allocate funds from the U.S. Marshall Plan. The U.S. government was an observer or, better said, an adviser.

As the Europeans started moving toward tighter economic integration and creating the European Economic Community, the OEEC was converted to the Organization for Economic Cooperation and Development in 1961. European countries continued to be the core members. The U.S. and Canada joined the new organization as charter members. Later, Japan, Finland, Australia, and New Zealand joined. During my time from 1993 to 1996 there were 24 member countries.

The OECD had rules, or maybe standards is a better term because there is no real enforcement other than peer pressure, on cross border financial flows, short-term capital flows, and long-term direct investment. The excellent economic staff undertook studies on particular topics as well as biannual reviews of each member country economy. The OECD is part think tank, part policy recommendation shop, and part disciplinarian on cross border capital flows. The two principal rules with which I was involved were the Code on Capital Movements and the Code on Invisible Transactions, the latter are basically cross-border services. My two colleagues in the officer were State Department officers, J. Paul Reed and Kathleen Reddy. There was no Treasury assistant as in Bonn.

Q: Were you responsible both to State and to Treasury?

WALLAR: Yes, I was responsible to both State and Treasury. As before, I was seconded to State as a limited appointment FSN with the rank of minister counselor. I was subject to State's personnel evaluation process. My performance review was drafted by the State Department – the deputy head of mission – and signed off by the ambassador. Treasury accepted this review as its own. State could recommend that I receive an award, which happened. However, if there were any cash associated with the award, Treasury had to pay for it. This never happened, that I recall. In sum, I was accountable to both Treasury and the State Department.

Q: What did you work on?

WALLAR: There were several interesting issues. Let we set the stage by mentioning other key players at the mission. When I arrived Al Larson had just left post and David Aron, a political appointee, was our new Ambassador. He had been a foreign service officer in the Carter administration and had been on Vice President Mondale's staff. His wife, Chloe who just passed away last week, had been a producer for Public Broadcast Service (PBS) and a news person. Our deputy chief of mission was Ann Berry. Bill Weingarten was the other minister counselor. I don't know of any of those names ring a bell to you, but Ann and Bill were distinguished FSN's specializing in economics.

One of the major, and important activities was negotiating the accession of new members. The OECD had 24 members when I arrived. With the fall of the Iron Curtain, European countries that had missed out on post war European economic cooperation now had an opportunity to join in. The OECD had a program to assist certain central European countries to transition from their socialist model imposed by the Soviet Union to a more market-oriented one. This transition also meant that they could become members of the OECD. Applications to join soon arrived from Poland, the Czech Republic, and Hungary.

Mexico and South Korea also submitted applications. Mexico was opening its capital markets as a result of NAFTA. Treasury Secretary Bentsen supported their application to join. He believed that their economic and finance leadership was competent and that OECD membership would encourage Mexico to open its market even more, particularly for financial services.

South Korea was a success story. It had moved from the ranks of a developing to the ranks of an industrialized country, the first to do so and openly declare it. Since Japan was a member of the OECD, they supported having another member from Asia.

However, Korea would have to work harder on opening their capital markets since their system was rather restrictive and had not been subject to liberalization like those in Europe and Mexico under the NAFTA.

This was the first major enlargement of the OECD. The criteria for joining are not very strict. Democracy and economic policies based on strong institutions, governance, and market orientation are very important in principal. But the only specific criteria were in the codes on capital movements and invisible transaction. Both were the responsibility of the Treasury office. To a significant extent, more than I imagined, I became a lead negotiator for the U.S. in the accession of these countries to join the OECD.

There was no set target or standard by which to measure whether they had fulfilled obligations under these codes. All OECD members had some restrictions. The task was to reduce the number but without depriving them of necessary restrictions. Given their state of economic and financial market development. These codes covered measures affecting the flow of capital, long term and short term, as well as cross border banking, securities sales, and direct investment.

Their markets had been totally closed. Opening up too quickly would overwhelm domestic financial service providers and entities and create havoc with their monetary policy and foreign exchange regimes. The fact that they had very low foreign reserves meant they couldn't defend a fixed exchange rate for very long. But having a stable macroeconomic framework was essential for their economic development. On the other hand, if they waited too long, intrenched interests would exploit the continued insulation of the economy. Economic growth to benefit the people would not be as great as it otherwise could have been and integration into the broader European market, a vital market for exports and source of imports, would be delayed.

Negotiations often went long into the night. We had several rounds of meetings with each country, then a break of several months when the applicant countries would work in their respective capitals to draft or enact laws or regulations to ease some restrictions. We received rather vague instructions from Washington, leaving details to us. In the end Poland, the Czech Republic, Hungary, Mexico and South Korea all became members of the OECD. This happened on my watch. The successful accession process unleashed new interest in the OECD. I believe there are now 37 members. But '94 and '95, was the first big wave of new members and the conduct of negotiations that made memberships meaningful.

Q: You say meaningful. Did you find that this was really adding expertise outside, outside experience really to these countries?

WALLAR: Absolutely. The OECD does excellent analysis and provides sound, reasonable economic policy advice. OECD staff researched each of the applicant country markets, legal regimes, regulations, and economic performance. They examined each country's capital market regime. It was a very rigorous, thoughtful process.

In trade negotiations I was used to political as well as economic trade-offs and analyzing potential consequences for imports and economic performance. The OECD negotiations were different. There were no trade off with current members, like the U.S. Rather, the OECD was assessing structural issues. Capital markets in each of these countries had been stifled. What was needed for their development? How fast should it go? What would be a proper sequencing for opening a market? There was an in-depth review of what these countries could accommodate with their current institutional structures and their personnel capacity to manage and introduce major changes. When the market is closed, there is not much to be done. An open market brings economic advantages but requires tools to make it work properly and to take action if things go wrong.

Q: Did you find that you had a particular piece of the expertise action?

WALLAR: Excuse me?

Q: In other words did you have a specialty?

WALLAR: My specialty was banking and capital markets, looking at what kind of flows could be useful for these countries, such as foreign direct investment, and not too disruptive. Allowing foreign direct investment in banking could have a demonstration effect, promoting good banking practices by domestic entities. Looking at short term flows and whether their domestic securities markets could absorb capital or whether policies in place would result in short-term speculative flows, “hot money,” that would be disruptive.

Q: How did you find Paris?

WALLAR: Paris is a delightful city. One aspect that I didn’t fully appreciate is that each section of the city is like a village. All the food stores – bakery, butcher, green grocery, fish monger – are within a block or two of our apartment. Great fun. Wonderful architecture, lovely tree-lined streets, and excellent museums, particularly the small ones that capture the life of a single artist or artistic group.

We lived in the 16th *arrondissement* on a narrow little street called the Rue Deschamps, named after a Parisian painter, and just a few houses from the Place de Mexico. If you stood in the middle of Place de Mexico and looked straight down Avenue d’Eylau you saw the open space framed by the two walls of the Trocadero memorial which perfectly frame the Eiffel Tower. My morning jog would be through the Trocadero, across the Seine River, under the massive steel beams of the Eiffel Tower, and up the park to the Champs de Mars, the military academy, and then turn around and jog back home. That was kind of my 2 ½-3 mile jog in the morning.

I had a very pleasant 20 minute walk to work. The OECD’s main offices were in the Chateau Muette on the edge of the Bois du Boulogne. To get there I would walk down the Avenue Georges Mandel, a very broad, quiet tree-lined avenue. For variety I would sometimes stroll through the smaller streets where the shops were located and maybe pick up a baguette and cheese for diner. When buying cheese at a cheese shop the typical question was whether you wanted to eat the cheese today or tomorrow. The shop keeper could tell that a little bit of extra ripeness makes a difference. The hours at the OECD were long. I would leave the house around 7 or 7:30 am and leave the office about twelve hours later.

Gale took full advantage of the city. She joined the Women's Institute for Continuing Education, WICE. WICE was created to help ex-pat women integrate into Parisian society. My wife, being an artist, taught art at WICE. One of her classes was evening drawing lessons in the Louvre. She was permitted to bring her class into the museum after hours so they could sit in front of a piece of famous artwork and draw for a couple of hours.

When walking around the city she would always be looking up, examining architectural details and taking pictures. She captured these details in her drawings and paintings. She had her own art show at WICE (I bought and poured the wine). Her paintings were voted the best two years in a row at the wonderful U.S. Embassy art show that was displayed in the Talleyrand Building next to the chancery. One time ambassador Pamela Harriman personally presented the award to Gale.

The kids attended Marymount School in Neuilly, the suburb on the west side of the city, about a 20 minute bus ride away. The teachers were fantastic. My son was becoming a teenager and ventured out on the subway with his buddies. My daughter is three years younger and she had great fun visiting her friends in other parts of the city. They all liked Paris and the holidays and weekend drives in the countryside. We arrived in August nobody is in Paris in August because it is hot. But September 1 arrived, and it was like a light switch. The city just lit up. People and cars all around. The family really enjoyed Paris.

Q: How was the embassy? Pamela Harriman was quite a figure in diplomacy at the time. Did you feel that?

WALLAR: Yes. The U.S. Mission to the OECD was separate, halfway across town from the embassy and chancery. But yes, Ambassador Harriman made her presence known. We had a Treasury attaché in the embassy who interacted with her. One of my first official acts in August was to attend the funeral of a former U.S. Treasury attaché to France. His name was Dan McGrew and was attaché from 1947 to the mid 1970s. He was quite a figure and knew everyone in Paris. Very well-connected.

Q: Don't mind that phone. I am not going to answer it.

WALLAR: I did meet Pamela Harriman a couple of times. One time was when I was waiting for Larry Summers, the Treasury undersecretary, when he was visiting. I picked up at the airport early in the morning, around 6:00 in the morning and took him to Harriman's residence to freshen up before a 10 o'clock meeting. I was waiting in the study, staring at one of the famous paintings she had on the wall. I think it was a Van

Gogh. I was thinking here I am alone with such a renowned painting, just taking it in. Then she was breezed in the room looking so awake and lively. It was early for Paris, maybe 8 o'clock. She was so gracious and introduced herself: "Oh my name is Pamela Harriman," and asked "And who might you be?" She asked "Is there anything I can do for you? Would you like some coffee?" She just made me feel like I was a king. She was just walking through, but she just took that extra few seconds to be so gracious. She was quite a figure.

Q: The French were the hosts of this. What sort of role did they play?

WALLAR: The French were hosts to the OECD's predecessor that was set up to organize post WWII recovery. Having its headquarters in Paris was perhaps France's way of asserting themselves. One funny aspect of the French being host is that they insisted that French be one of the two languages spoken at the OECD. Most all delegations spoke English. All documents had to be in French and English, but most were written in English so had to be translated.

French delegates would always speak in French even if they spoke perfect English. One time I recall I having a heated exchange with the French delegate. He was agitated and blurted out a short statement in English. As he was speaking it dawned on him that he was not supposed to speak in English. He could only speak in French at the OECD, according to his delegation's rules. So he abruptly stopped speaking in English, switched to French and confessed that he should not speak in English and therefore he withdrew his comment. It seemed he punished himself because he had made his intervention in English.

Q: What were other issues you got involved with?

WALLAR: One was the anti-bribery convention. The OECD had rules, or rather guidelines, for multinational corporations. These were developed in close consultation with the private sector. The OECD had a network of private sector organizations throughout Europe, such as national chambers of commerce. The U.S. was keen to develop another, very specific code to mirror the U.S. Foreign Corrupt Practices Act, so that all OECD members would be prohibited or deterred from bribing officials. More precisely, not offer or give bribes to foreign governments or entities in order to win bids for sales or favorable investment terms. Firms like General Electric were very supportive of this effort. I helped start up a working group on anti-bribery and then participated in negotiations of the anti-bribery code which were led by the State Department.

I worked with Treasury tax experts at the OECD Tax Committee to end the practice of permitting bribes to be considered a business expense and deducted from income for tax purposes. Germany, for example, allowed firms not only to extend bribes to win contracts, they also allowed firms to deduct their cost from their taxable income. It was above board. The Germans thought bribes were the way of the world. We and other countries finally convinced the Germans to curb this practice, a big breakthrough.

German firms wanted to compete and have a good international reputation. It was in their self-interest to accept this new code.

A Swiss professor from Basle, Mark Peith, who I met when I was in Switzerland was the driving intellectual force behind these negotiations. He helped with getting a big breakthrough when the Swiss government said they were also on board with these provisions. I was at the final negotiating session. The State representative was an assistant secretary, Dan Turillo. He always wanted more, that is tougher standards. He turned to me and asked whether the draft we were discussing was as good as we could get, recognizing that I had worked on the issue for several years, I said, "Yeah, this is as good as it is going to get." He agreed to the final text that was eventually signed.

Q: It has been quite effective hasn't it?

WALLAR: I think it has had some influence, particularly in Europe. I think developing countries appreciate it very much because they want to pay for the goods. They don't want to pay for the bribes and the goods. So this keeps costs down.

A negotiation in the OECD that didn't work out was on a multilateral agreement on investment. Al Larson was very keen that the OECD should take the lead. They had experience and background since the capital movements code covered direct investment. The World Trade Organization did not have rules on direct investment except for specific commitments countries made on the provision of services by being on location, that is by direct investment, establishing a physical presence.

USTR was on board and took the lead. The UK was also very keen and actively participated in laying the groundwork for the negotiations. The OECD negotiating committee was chaired by the Dutch, very even-handed. As negotiations gathered momentum, developing countries began to lash out against international rules being developed by a small group of countries in a "rich man's club." It was not fair, in their opinion, for such rules to be developed without their participation. When I left the OECD the negotiations were still ongoing, but they eventually ran out of steam and collapsed. Some OECD members accepted the criticism and thought negotiations would be a waste of time if, in the end, developing countries would not sign on to the resulting obligations.

I participated in the OECD's Economic Development and Review Committee, the EDRC. OECD staff would undertake an in-depth assessment of each member's economy every two years. They would examine macroeconomic conditions and selected structural issues, such as health, education, or labor markets. Member countries would take turns leading the discussion. When it was the U.S.'s turn either J. Paul Reed or I would sit at the front of the room and be the lead questioners. The chairman of this committee was Bernhard Molitor who I had met briefly in the Economic Ministry back in Bonn.

These reports were very interesting. The OECD had extremely competent economists and subject matter experts on structural issues. They usually put together a solid report of 80 to 90 pages. Very pointed and readable, with recommended policy prescriptions. The chairmen of the President's Council of Economic Advisors, Alan Blinder, came for the review of the U.S. economy. I led the review of Germany.

Some countries genuinely welcomed the OECD's constructive criticism. The Dutch in particular were keen to get their report out in advance of their national elections . The analysis was usually picked up by local papers. Others were less enthusiastic about criticism. Germany didn't take it well and the Japanese wanted draft reports to be smoothed out, not too pointed. By and large, I think the reports were useful in at least in opening or advancing discussion on important issues.

One of those issues was employment. The OECD put a major effort into a study of obstacles to employment and how to increase labor participation rates and productivity. Another important area of OECD research was competition and competition policy. They were one of the first think tanks to link increased productivity to competition, including competition from international trade. That aspect is often lost in today's discussions about trade.

Q: I was wondering about employment. The French at the time had this very difficult to hire people and it was somewhat of a closed market for employment. How were the French on employment matters at this relatively early stage?

WALLAR: You are right. The OECD suggested that France's public sector is too big and maybe its pensions too generous. They suggested that France raise the age for retirement and promote employment in the private sector. These were topics that we could debate for hours on end. As I said, OECD studies provided an excellent intellectual framework for discussion while being cognizant of the political difficulties. They advocated changes in stages, not all at once, a big bang.

Q: Is there anything more we should talk about Paris?

WALLAR: Just a few more topics. One is money laundering. Money laundering was becoming a major international issue but wasn't' covered by any international organization. The OECD's rules did not apply, but they did have experts on banking and cross border financial flows. This lead to the Financial Action Task Force, FATF, being established in the OECD, but as a separate group. FATF developed recommendations, akin to those of the OECD, that were voluntary and enforced through reviews and peer pressure to adhere to the principles. FATF would develop a black list of countries that didn't meet its principles.

I first joined Treasury on the enforcement side of the house with Customs, the Coast Guard, Alcohol, Tobacco and Firearms, and the Secret Service. Next to my office was one person working on anti-money laundering. Banks were required to report on any transactions over $10,000. The office was overflowing with reports that he could not analyze. That has changed. In 1990 Treasury created FinCen, the Financial Crimes

Enforcement Network. They collect and track financial transaction reports and patterns. FinCen plays a major role in the FATF meetings.

The Swiss were also helpful. Daniel Zuberbuhler had been a staffer at the Swiss Banking Commission when I was in Bern. Our kids had gone to school together at the local Montessori School. Now he was in charge of the Commission and very keen on combatting money laundering in Switzerland. He was very helpful in FATF too.

Q: I want to stop you just a minute until this fire engine or whatever it is gets by.

WALLAR: OK?

Q: Yeah.

WALLAR: Naturally, we had many official visitors in Paris. It is Paris, after all. Larry Summers came to the OECD at least twice a year. He was the U.S. government delegate to the OECD's Working Party 3, then became chair of that group. Working Party 3 covered international economic issues. It was very prestigious group that included Mervyn King, who eventually became head of the Bank of England, Mario Draggi who became president of the European Central Bank (ECB), Tomas Padu Scopia from Italy who became a member of the board of the ECB, Jean Claude Trichet who became the president of the ECB, Christian Noyer from the French Finance Ministry became the deputy head of the ECB, and Hans Teitmeyer whom I had known in Germany became president of the Bundesbank. These were all titans of international economic policy. And they all crowded into a small salon in the OECD's Chateau de la Muette.

Larry Summers succeeded Teitmeyer as Working Party 3 chair and sat at the head of the table. Being his staff aide for this portion of his visit, I sat behind him to pass him documents for items on the agenda and his opening remarks and to take notes. To his immediate right sat Jean Claude Paye, the secretary general, the top official of the OECD.

One time I picked up Larry Summers at the airport when his plane was late. We navigated the dense Parisian rush hour traffic and had to go directly to the OECD, skipping any brief stop at the embassy. We rushed into the room a bit late, past the 10 am designated start time. Summers shook a few hands, sat down and opened the session. He turned to me and asked, "Do you have a Coke?"

The night before I had the presence of mind to put a couple of cans of Coca Cola in my briefcase. I knew that Summers thrived on Coca Cola, morning, noon, and night. "Sure," I said. I reached into my briefcase and for some reason I bobbled the can and dropped it on the carpeted floor. It bounced ever so slightly and I scooped it up before it could hit the floor again. I passed it in one fluid motion to Summers who gratefully accepted the beverage.

I had my head down, looking for documents in my briefcase when the room went frightfully silent and still. I looked up. In front of Larry Summers was a pool of fizzing

Coca Cola. He had opened the can which had been slightly agitated and the contents had exploded all over the table and seeped over to Jean Claude Paye's side. desk. Paye, being a very proper Frenchman, raised his hands up in mock shock and horror. I ran outside and quickly found the concierge to clean up the mess.

After all dignity was restored, Summers resumed the meeting. He turned to me and asked, "Do you have another Coke?" I gave him the other can of coke. This time he pointed the top toward me as he popped the tab, in case it would explode. It didn't. He asked for another copy of his opening remarks because he had used them to help mop up the mess. Fortunately, I had a duplicate.

Summers was a good tennis player. He would say that for a big guy I move quickly. He would pay tennis after hours with Joe Yun who was the deputy Treasury Attaché at the embassy. Joe was career foreign service. He later became ambassador to Malaysia and then lead negotiator for North Korea.

Another frequent visitor was Joe Stiglitz. He eventually went on to win a Nobel Prize, but at this time he was a member of and then chair of the President's Council of Economic Advisors. Lara Tyson was his predecessor. She had chaired the OECD's Working Party 1 which covered domestic economic issues.

After Tyson left, Joe was keen on becoming the chairmanship of Working Party 1. We had to do some negotiating to make this happen. It was not typical for one country to chair both of these working parties or have the chairmanship back-to-bac. But Summers and Stiglitz were exceptional economists with outstanding reputations. It eventually worked out, and Stiglitz got the chairmanship.

While the two represented the U.S. government, sometimes they took different positions. Larry Summers favored open markets and assumed rational economic behavior. Stiglitz was more circumspect and examined microeconomic factors. He surmised that financial incentives do not always explain or influence consumer behavior. For example, he favored "speed bumps" for short-term capital flows – some restrictions – rather than open capital markets which was the formal U.S. position as well as that of the International Monetary Fund.

Stiglitz was interested in competition policy and asked the OECD Competition Policy Committee to study U.S. anti-dumping actions from an anti-trust perspective. The original theory of dumping was that a producer would sell goods in a foreign market below the price it sold in its home market in order to run competitors out of business. Once the field was open, that is there were no more competitors, the producer would raise prices. The study found that U.S. anti-dumping cases did not represent potential market monopolization. They were just simple trade relief measures. USTR was not pleased with that study and ensured that it was never published.

OECD annual meetings brought in senior officials from all member countries. Treasury Secretary Bensten, USTR Mickey Kantor, Labor Secretary Robert Reich and others.

Delegations would spend months in advance negotiating a communique. The top officials and their aides would bridge any outstanding issues for the final release during their visit. Tim Geithner was now assistant secretary of Treasury and came to the OECD to work on the final communiqué. He was not very impressed with the negotiations over language that would soon be forgotten. Under Geithner, the Treasury position at the OECD would be abolished. But this was in the future.

You had asked whether we entertained . Our flat in Paris was in an old turn of the century building. It was spacious. The wooden floors creaked but it had high ceilings and floor to ceiling windows. We hosted cocktail parties for visiting delegations. Since our apartment was within walking distance of the OECD, we could host a small gathering of 40 to 50 people and avoid the cost of holding it in expensive restaurant. We had caterers from the OECD to set up, serve, and clean up. Very efficient. We hosted receptions for delegations of the tax, investment, competition, and FAFT committees. Our kids were often greeters at the door so visitors wouldn't have to ring a code. They thought it was great fun to meet all of these foreigners.

Q: My kids learned to be great peanut passers.

WALLAR: They benefited from the left overs. It was a lot of fun. I think that is it on Paris unless you have some questions.

Q: Yes I do, Jim Looking on these oral histories as something not to be read in our time particularly but really in the future. I am just not sure if everybody understood what money laundering meant. Would you explain what the problem was with money laundering?

WALLAR: Sure. Money laundering as basically moving money that was obtained illegally through other transactions so that it appears to be derived from or associated with a legal activity. Washing the dirty money so it was clean, to complete the analogy. For example, Al Capone earned money from the illegal sales of alcohol but he could invest the cash in a casino and then the casino turned a profit the money appeared to be proceeds from legal betting. Or the money could be invested in real estate and when the property was sold, the proceeds appeared to legal profits. The money came in dirty and came out looking clean

Switzerland was viewed as the money laundering capital of the world. But other countries, including the United States, are used to launder money. Delaware corporations that are just "name plates" on a wall with no physical business operations could be hiding transactions used to launder money. The so-called offshore centers like the Cayman Islands, Cyprus, Vantu, a small Pacific island, are known for hosting thousands of entities that are merely fronts for financial transactions, some of which might be laundering money from an illegal transaction and transferring it through a fictitious transaction to a bank, so the funds would enter the formal banking system.

More recently, this is back in the 80s, there was a big push to subject high profile public officials to scrutiny. Like Marcos in the Philippines or dictators in other countries who got their money through corruption, diverting public funds to their private purse or receiving bribes for official acts. The U.S. and FATF would label them "politically exposed persons." It wouldn't mean that these individuals necessarily were laundering money, but it did require banks taking deposits from these individuals to be especially vigilant. Large banks set up special units to ensure that they know the source of funds that they accept and that they know the true beneficial owner of these funds. If it turned out that the money was being laundered, the banks could be fined.

I mentioned that policing money laundering started out as a pretty simple operation. Any cash transition of $10,000 or more had to be reported by a bank. This led to an explosion of reports that nobody could analyze. In the 70s computers weren't in operation for this kind of thing. When FinCen was stood up in the 1990s they could track these cash operations, look for suspicious patterns of transactions, and ask detailed questions about the origins of these moneys.

Q: Well thank you very much for speaking to that. Are you finished with the OECD?

WALLAR: Yes, finished with the OECD. I was there for years and learned much. I had another year for my assignment when I got a phone call from my deputy assistant secretary Mark Sobel. Out of the blue he asked whether I might be interested to be the treasury attaché in Moscow, Russia. Bill Murden, who was my deputy in Bonn, had opened the post in 1993. His three year assignment was nearly over and he, his wife, and two children were ready to return to the states. Mark said I would keep my rank as minister counselor, although I would be working in the Embassy's economic section, as I had done in Bonn and Bern. He asked me to think seriously about it.

Life and work were good in Paris. The family was happy. We took great holidays together, ski holidays in France, Austria and Switzerland. Gale as I mentioned was heavily involved with her artwork and WICE. Through no fault of my own I had become president of the Embassy Wine Committee. We would meet once a month to taste and select wines that would be sold in the Embassy's commissary. I would occasionally take research missions, at my own expense, to wine regions. It just so happened that the coming weekend we were planning to go to Beaujolais. The harvest season was in full swing and there was a producer in Morgon who I wanted to visited. So our family discussion about moving to Russia took place in a small hotel and restaurant in the Beaujolais countryside.

We talked about history was in the making in Russia. This was a time of Perestroika, the opening up of the country. The first time since the founding of the Soviet Union. Young economic reformers were trying to re-shape the economy from state controlled to market-driven. Everyone was having a great time in Paris. But the family had experienced Bern, Bonn, and now Paris. There was more to see. A posting to Russia during this time of change was a once in a life time opportunity. We really didn't know what we were getting into, but we were game. My young daughter blurted out, “We live an interesting life.” So we decided to go.

I went to the Russian embassy in Paris to meet the Minister Counselor for economics. I asked him in all seriousness how I could prepare for this new assignment. I thought he would recommend this or that study. The OECD had done an analysis on the Russian investment climate. He looked at me seriously and said, “Read the classics. Nothing has changed.” His message that the country still operates as it always had. It may look a little different this cycle, but the mentality hadn’t changed.

Having had a liberal arts education, which included a course in Russian literature, I was enthusiastic to read Russian classics. A far cry from dull economic papers. In the event, the Russian Minister Counsellor was right.

Gale and the kids went to back to the states early for home leave. Treasury was kind enough to give six weeks of language training in Garmish, south of Munich in Germany. The Defense Department’s Marshall Center offers Russian and other foreign language training. Treasury thought the price was right – low. It turned out, the session was a refresher course for enlisted military linguists. When they enlisted they had taken a test that had revealed that they had an aptitude for foreign languages even though they had never studied one. They mastered Russian, Chinese, or Arabic. They would come to Garmish for a refresher course and pass a proficiency test so they could earn a couple hundred dollars more each month. They already knew Russian. For me, it was like drinking water from a fire hose. My head hurt from the study.

After six weeks I joined Gale and the kids in the states for home leave. We visited my 99 year old grandmother. I told her I had been assigned to Russia. Her eye brows rose, and he asked, “Jim what did you do wrong? Why are you being sent to Russia?” That was our send-off. In mid-August 1996, we landed in Moscow.

Q: Well do you want to just cover that now or later?

WALLAR: Well I can start off. Do you want to go for another half hour?

Q: Sure.

WALLAR: Bill Murden met us at the airport. We piled into a mini-van, bags and all, to head for the city. The embassy, chancery, and housing compound are in the heart of downtown. We passed old, decrepit, drab apartment buildings clustered as was the socialist style. Fields were barren or had odd rows of tired grain. Old concrete tank traps, not removed after WWII, were crumbling. The landscape was quite a contrast the neat, tidy, verdant Beaujolais countryside where we had made the fateful decision to come to Moscow. My son, Nicholas, turned to me and said, “Dad, we have landed on the moon.”

As we approached downtown we came to the main loop road called the Garden Ring. It was a ring road, but I don’t recall any gardens. There were many small cars, Ladas, that were knock offs of the Italian Fiat. The Russians had gotten a license to make them. These cars were zipping around at a dangerously high speed and looked ill-kept. Nothing like driving in Germany. There was the occasional large SUVs black and shiny. That was oil money. Or corruption. Or the new rich.

The chancery was directly on the Garden Ring. Behind it was the brick walled compound with red brick apartment and townhouses on either side of a grassy square. The grass was a play area in the summer; in the winter it was flooded with water to make an ice skating rink.

At south end of the compound was the new chancery building. I don't know if you remember the story, Stu, but in '77 there was a fire in the old building. The old building, which was rather classy in the turn of the century style, was a fire hazard. And small. The State Department decided to build a new chancery. Half way through the construction in 1985 they discovered that listening devices had been embedded in the concrete rebars. The building was honeycombed with Soviet, now, Russian, listening devices. State halted construction and deliberated whether to raze the entire structure or use the floors that had been built for offices that handled non-classified material and build the classified rooms on top.

As fate would have it, State made the decision the year that we arrived. They decided to raze the old structure and build a new one. During our entire tour we were living in a construction zone. State brought in construction workers from all over, but not Russia. The workers had their own dormitory, mess hall, and barbecue smoker right beside the housing compound. All the building materials were imported and x-rayed before they could be used. Construction took a long time. The chancery was completed four years later. I moved into my new office in June 2000 and departed post in July.

Across the street from half completed chancery was an Orthodox Church. On the top of its steeple many antennae poked out, like quills on a porcupine. The church was dubbed "Our Lady of Perpetual Listening" because we assumed the antennae were attached to listening devices to enable the Russians to listen conversations in the compound, public and private. At our in-briefing we were advised by the regional security officers (RSO) that if we felt a domestic dispute rising we should book the bubble, the secure, classified room, then have our verbal feud so it couldn't be recorded by the Russians.

On the opposite end of the compound was the Anglo-American High School where my son, Nick, and daughter, Emily went to school. And Gale taught art, a first for her. By happenstance, the art teacher just left and the school needed a replacement. Gale responded to an advertisement, was accepted, and taught for four years. The school was conveniently located just steps away from our apartment.

On the other side of the compound wall from the school was one of the Stalin Seven sister buildings. These are huge skyscrapers that Stalin had commissioned after WWII. When he traveled to other capitals during the war he saw skyscrapers. But Moscow had none. He commissioned seven sky scrapers which is why they call them Stalin Seven

Sisters. The one was right outside of our wall, was the Kurdinsky Building. I think it had housed a famous spy who provided valuable information to the U.S.

Across the street on the west side of the compound was the Russian White House, the government building where the prime minister and the deputy prime minister have their offices. The President lives in the Kremlin. The White House had previously housed the parliament. Remember when Gorbachev was out of town and the parliamentarian hard liners who didn't like Perestroika were going to stage a coup? This is the building that Boris Yeltsin took aim at while sitting on top of a tank in 1991.

The White House was on the banks of the Moscow River and just across the river was another Stalin Seven Sisters building, the Hotel Ukraine. This is where CNN set up their cameras so they could film the White House. My Russian assistant, Andre Petresky, lived in that building with his parents. His father was a notable film director.

The U.S. ambassador at the time was Tom Pickering. I don't know if you have met him Stu.

Q: Tom is a resident of my building I don't see him very much but we nod and knocked off a set of eight hour oral history interviews.

WALLAR: Oh you did? That must have been fascinating. I knew his daughter, Meg. She was a lawyer in the State Department and worked on OECD issues.

Q: He is obviously about 90, and he is still active as hell.

WALLAR: Yes, I think I sent a message to him a couple of years ago on a topic related to India. He has been all around. He was very gracious.

The DCM was John Teftt. I don't know if you have met John. He became ambassador to Latvia later. The economic minister counsellor was Michael Matera who was later replaced by Cliff Bond whose wife, Michele, was the consul general.

Q: The deputy under Tom Pickering, what was his name again?

WALLAR: John Tefft. He is now over at the Rand corporation with Jim Dobbins and Charlie Reis.

Q: Yeah, I have interviewed those two.

WALLAR: John Tefft was very good. He was DCM and chargé for a long time after Pickering left until Jim Collins arrived as ambassador. John returned to Moscow as ambassador years later. I have seen him recently. He said that in the 90s there was a spirit of cooperation. When he went back he said it was a totally different feel, more of confrontation.

The Treasury office was small, just myself, a State Department Foreign Service Office, an indispensable Russian assistant who I mentioned, and a highly competent office manager who knew how the embassy functioned and could get things done. The State officer when I arrived was Pam Quanrud who later would return to embassy Moscow as the Economic Minister Counselor. She was replaced by Chever Voltmer who served for two years. Dale Eppler took over from her during my last year. They had two year assignments, and I was there for four; that's the reason I had three different FSOs.

All of the housing compound's commercial facilities, including the embassy cafeteria, were underground, probably given the climate and space considerations. Rows of townhouses and apartments ringed the perimeter of the compound, the grassy field was in the center, and under the grassy field were a dry cleaner, barbershop, small commissary, movie rental, and a lounge.

At the time we arrived there was only one store in Moscow that carried western style goods, Stockman's, a Finnish outfit. Soviet era stores generally were single goods stores – bakery, grocery. We went into a grocery and saw a row of brown paper bags: one with the words "sugar" stamped on it, another with the word "flour," another with "kasha." No color except brown. Markets for fresh produce and meats were sprinkled throughout the city and rows of women would pedal their home made pickles with lots of garlic. GUM was the large department store at Red Square or rather more like a series of small stores like a mall in the U.S. That was the exception. By the time we departed many stores, brand new, carried western goods and a few upscale malls were opened.

As an art teacher Gale would organize field trips with her Russian colleagues and accompany the class as a chaperone. One trip was north of St. Petersburg to Karelia. In Moscow she took the class to the Tretyakov Museum and discovered Russian art that she was seldom taught in U.S. universities. Gale has a master's in fine arts and was really pleased to discover exquisite Russian art and high quality collections. Did you know that a major collector of Matisse paintings was a Russian?

My son Nicholas connected with some good friends, played soccer, ran track, and earned an Eagle Scout badge. The high school offered only advance placement courses which was good. It made him develop good study habits which served him well in college. Emily, my daughter, became a tenacious soccer and basketball player.

We went to the Bolshoi theatre, operas and particularly enjoyed the Helikon which had modern takes of classics, and concerts. Cultural life was outstanding. We could walk a couple of blocks to the Old Arbat, a major shopping district with Arbat Street leading to Red Square and the Kremlin.

Life in the city was something like the wild west. It was the oil boom. News recounted shootouts between gangs. Large, black SUVs roamed the streets ominously. Big, tough, grim-faced men in leather jackets were given wide berth on the sidewalks. Few restaurants and bars but those that existed and catered to ex-pats did very well. The city was pulsating. Money to be made and fortunes to be had and lost as the commercial system transformed.

But some things hadn't changed for the ordinary people. The old barter system still functioned and talented individuals still focused on developing their unique skills, whether in the conservatory or gymnasium. To close off this session I tell a couple of stories, anecdotes if you wouldn't mind Stu, to illustrate.

Q: No, absolutely not.

WALLAR: I coached my daughter's soccer team the first year we arrived. Some ex-pats, embassy and private sector families, had developed a league under the auspices of American Youth Soccer (AYS). The matches were about a half hour's drive from the housing compound, in an old Olympic village which had seen better days. Grass was more the exception than the rule on the four soccer fields. Several age groups played matches at the same time.

AYS rules specified that cleats had to be plastic, not metal. Clearly this was for safety reasons. After all, these were 10-12-year-olds. A Russian girl was assigned to our team. She arrived at the first match with steel cleats. The referee wouldn't let her on the field. Her mother was distraught, and the girl cried. I had her swap shoes with another girl so she could get some playing time. After the match her mother told me that she thought all soccer shoes were the same because they could only find one kind of shoe in the stores. Trying to be helpful, I said I would take care of it. How hard could it be to go to a sports store and change metal for plastic cleats?

I went to a half dozen sporting goods stores. No luck. They were starting to carry some Addis shoes from the west but otherwise the supplies were Soviet era. None of them had plastic cleats. My Russian colleague, Andre Petresky, offered to help. He was a Godsend in many different ways: my translator, meeting organizer, interpreter, and analyst of the Russian economy. A few days later he told me that he had connected with someone who might have plastic cleats, and I should meet him in the parking lot of his apartment at the hotel Ukraine at 7:00 pm in my car on Friday evening. .

It was a snowy Friday night. I drove our sure-footed Saab 9000 across the Moscow River bridge in front of the White House and picked up Andre. We drove down a main street to the point where the street lights became far and few between. We turned on to a street with only one street light. Under the light's glow was stationed a traffic cop, GAI. He waved me over and asked for "documente". Very serious guy . Andre took over and explained I was a diplomat and we were on a diplomatic mission so to speak. Unhappy he couldn't get a bribe out of me, he waved us on with his baton.

We drove to a metro stop, the last stop on the line. There was only one light hanging over the doorway to the metro station. It was swinging in the blowing snow. People were disgorging from the metro, moving from the warmth of the underground to the bracing cold, their breaths showing in the frosty night air. I had the girls' soccer shoes in a plastic bag.

A man came over to Andre and asked in Russian. "Are you the guy looking for plastic cleats?" "Da." He asked for one of the girl's shoes which I gave him. He reached into his bag and pulled out a plastic cleat and a small wrench. He unscrewed the metal cleat and screwed on the new plastic cleat. "It fits," he declared. I asked, "What do we owe you?" "Nothing," was his response. The man walked off into the night." I asked, "Andre how does this work? He replied, "This is how we always work. It is a barter system. Someday I will be asked to something for him." The Russian girl got her plastic cleats and played soccer with the team, thanks not to the new Russian economic system, but the old one.

I have lots of stories like that but I don't want to on with too many of them. Do you want one more?

Q: Yes.

WALLAR: This one is about basketball. As I mentioned, Emily, my daughter, became a very good basketball player. The Anglo-American School was part of a basketball consortium of basketball schools throughout central Europe. When I grew up we would play a basketball game a few miles away or across town at most. The Anglo-American School would play in a tournament in Warsaw or a soccer tournament in Prague. Quite an adventure.

Emily's team wanted to do their best in the international tournament scheduled for late winter in Warsaw. The local competition in Moscow wasn't very challenging. The teams of the Christian School and German School were overwhelmed by the Anglo-American team. Emily and her coach believed they needed a stiffer test to prepare.

Again I asked my comrade Andre if he could organize a basketball game with a local Russian girls team. We would clear them into the embassy compound and the game would be played at the Anglo-American School. I think maybe we promised to treat them to ice cream afterwards, a bit of an incentive. A few days later he got back to me and said: "Mr. Wallar, I think I found a good team to play against the American team. They are an eighth grade team." I was a bit surprised and responded: "Andre? Eighth graders? The American girls are in high school girls. They have 12th graders. These are big girls" Ever calm and clear-eyed, Andre said: "No, Mr. Wallar, I think this is the right level of competition." I trusted his judgement in all things Russian. This would be no exception.

The Russian team arrived and put their bags through the scanning machine to enter the compound. They seemed bashful and apparently had never seen anything like an embassy compound. They googled around the building and hallways and really liked the basketball court – newly varnished and clean.

Yes, they were eight graders, but it turns out that they were eight graders in a basketball high school. Playing basketball is what they did between studies. They practiced seriously for hours every day. Yes, they had academics, but they were training to become Olympic caliber basketball players. Some of them were tall. They were not as sturdy as our high schoolers for the most part, but they were quick and highly skilled. They shot the daylights out of the hoop. At half time the score was 42 to 2 in favor of the Russians. And still the woman coach of the Russian team was yelling at them to do better. My daughter was commended by that coach for her tenacity. That was an experience. A Russian eighth grade basketball team against the American varsity team. It just shows the intensity of focus that some Russians have on becoming highly proficient at a skill.

I will stop with the stories. We can move on to the substantive issues in the next session.

Q: Save some of these stories to put in later. Make note of it. I don't want to miss too many of these stories.

WALLAR: All right. I have talked almost two hours here. Do you have another session this afternoon?

Q: No. But we will pick up on the substantive issues next time.

WALLAR: How are you Stu?

Q: Fine. I had trouble with my phone and now was having trouble with my computer. It doesn't seem to be picking up emails for some reason. So, I did it on my phone and here I am.

WALLAR: The last time I had just started to talk about my experience in Russia.

Q: All right. Today is 20 April 2020. So, let's have it.

WALLAR: I have reviewed our arrival and settling at our previous session and told a few stories. Now I will talk about some of the issues in which I was involved.

One of the highest-profile issues was the introduction of the new U.S. $50 bill. This was October of 1997, after we had been at post for just over a year. Bill Murden, my predecessor, had been in charge of introducing the new $100 bill in March of 1996. You might recall that these new bills have new security features to thwart counterfeiting. Treasury kept the color green for the bills, because that was traditional. American bills are known as "greenbacks," so a change of color might have undermined confidence in the new as well as old bills. The new bills have a security thread, different kinds of lettering, a hologram, and a watermark. These features would make counterfeiting more difficult if not impossible. Crooks couldn't use cotton-based paper and a printing press. They would need much higher technology to produce counterfeits.

Our experts in Treasury and the U.S. Federal Reserve Bank were concerned that Russians might not trust the new currency or believe rumors that old U.S. currency bills would no longer be honored when in fact they would. This concern wasn't just a nicety. The U.S.

dollar was used by many Russians as a store of value and even for transactions. In part this was because many Russians didn't trust their own currency, the ruble. The ruble had been devalued several times and, in the not too distant past, had been redenominated by lopping off a couple of zeroes. Just like that, a person's wealth diminished.

In building a new economy, the Russian authorities wanted to promote the use of the ruble. The Russian Central Bank intervened in the foreign exchange market to keep its value in line with the U.S. dollar. They mandated that all transactions in Russia had to be performed in rubles because it was the only currency that was legal tender, not the U.S. dollars.

Nonetheless, many Russians had accumulated U.S. dollars in so- called "mattress savings." They would keep them tucked away someplace safely in their apartments. Whenever they went to the grocery store they would take their dollars. Every grocery story had an exchange booth with a small cashier window called a "valuta," like a small ticket sales window at a theater. Shoppers would tally up the cost of their goods in rubles then slip the corresponding amount of U.S. dollars beneath the window and receive rubles in exchange and use them to pay for the goods.

To shore up confidence in the new U.S. $50 bill, Treasury funded a big media campaign. Treasury's Bureau of Printing and Engraving gave me briefings, sent over materials – handouts, posters - and hired a PR firm to give me media training and organize public appearances. The PR firm coached me to stay on topic and not respond to provocations – rumors about using U.S. dollars to fund Yelstin's presidential campaign or that old U.S. $50 bills would no longer be accepted as cash. I was on television and radio answering reporters' questions. I presented lectures to bank tellers and executives. It was a very big deal. In the end the transition went smoothly. Maybe it was the media campaign or the fact that Russian's trusted the U.S. government, or a combination of both.

In the process I heard some fascinating stories. One teller told me that a man had come up to her window with a one-dollar bill with an extra zero hand-drawn next to the one. He tried to convince her that it was a ten dollar bill. Obviously, it was a one dollar bill. A person called and asked whether the United States had issued a million-dollar bill. He was quite certain that such a bill had been issued. I disappointed him by saying that was not the case. He was really nervous and confessed that he had just accepted one. I guess someone had made off with a trunkful of change that was more valuable than the bill they has passed off on him. I assume his supervisor was not pleased.

Q: How did the Soviets treat this, was it still the Soviets?

WALLAR: No this was the new Russia. The new regime. Yeltsin and the reformers.

Q: How did they treat this situation. Were the banks accepting these things or did they have to do it sort of on the black market.

WALLAR: Yes, there was a black market. But now Russian banks would legally exchange dollars for rubles so the black market was not as prevalent as before. As I mentioned, the central bank was trying to maintain the value of the ruble in relation to the U.S. dollar to bolster confidence in the ruble. This was a time when new economic reforms were being launched that we will talk about. It was important to build confidence that these reforms would lead to a more dynamic economy and higher incomes for all. The benefits of the reforms was in the distant future. The value of the ruble was here, now, and very visible. The ruble's stability was a bell-weather of confidence in the government's policies. The central bank happily exchanged rubles for dollars to steady its value and to encourage people to only use rubles for transactions.

Q: Well how did this thing sort of sort itself out?

WALLAR: It didn't work out. The ruble collapsed. U.S. dollar mattress savings continue to be a good strategy. I imagine it still is to this day.

Another issue was the securities market, stocks and bonds, stocks representing shares of companies and bonds being debt issuance of the government and private companies. A centerpiece of the economic reforms was privatization of many state enterprises. Under the Soviet regime, as you could imagine Stu, most enterprises were state owned and run, from making tractors to gas masks.

In the big privatization push, one approach was to give employees shares of the company where they worked. Many of these workers didn't appreciate what shares represented. They had grown up in the state society, state-owned system. And most of them needed money, so they would sell the shares. There were operators in the market who would buy these shares and accumulate large holdings, sometimes for a group of investors buying into their investment strategy.

When the firm's shares were later listed the new stock exchanges, those operators would make a lot of money selling their shares a much higher prices. This was true particularly for state oil companies that were privatized. Foreign investors snapped up these shares even at high prices thinking that Russia's economic future was bright and the value of the firm could only grow as it modernized. They wanted in on the ground floor. Many millionaires were created seemingly overnight.

Treasury was interested in the Russian economic reforms. Larry Summers, now Under Secretary of Treasury, was very involved and knew some of the young Russian economic reformers whom he had met in Russia and in Washington. He was very keen on privatization and getting the securities markets up and running. The new Russian Securities and Exchange Commission was being advised by Harvard's International Institute for Development run by Jeffery Sachs, author of the "big bang" theory. The reformer in charge of the Commission was Sergey Vasiliev.

The big foreign investment banks were also giving the commission advice. Banks like Credit Suisse, Deutsche Bank, Citibank, State Street Bank. The rush toward money spawned new, boutique financial houses like Renaissance Capital started by Boris Jordan. Boris was American born with Russian parents. He came to Moscow with a foreign bank, maybe Credit Suisse, saw an opportunity, and started up his own securities firm. His brother was the manager of Deutsche Bank in Moscow, Nicholas Jordan.

Because Summers was keen on the establishment and growth of an efficient, well-operated Russian securities market, he included the topic under the Gore-Chernomyrdin Commission. The Commission was chaired by Vice President Gore and Russian Prime Minister Chernomyrdin and was tasked with providing technical advice on issues of mutual interest, from foreign trade to licensing. The U.S. and Russians, Summers and Vasiliev, created the Capital Markets Forum under the auspices of the Commission.

Participants included government officials and representatives of the private sector, both Russian and American. Participants would chose topics for exploration and an expert would write a short, practical paper on the topic. Trading, registering the ownership of shares, and the creation and operation of depositories for the safe keeping of shares were a few of the topics, as I recall. I became a secretary of this forum and guided traffic on the exchange of papers by the experts.

I had one funny experience as a secretary of the forum. I forget the topic, but we negotiated the text of a report to the Commission. There was one outstanding issue. I had a discussion with the deputy head of the commission and we both agreed on language to address the issue. I met him in his office to sign the agreed document. He pulled it out the typed text and presented it to me. “You can sign it, Mr. Wallar.”

My experience in negotiations taught me to be careful. The exact language of agreed text is important, particularly when there had been a point of contention. I brought my copy of the draft document and read them side by side. Lo and behold the change we had agreed to was not incorporated in what he called the final document. I pointed this out to him. He said, “Oh, that is my mistake.” He took away this final text that he had already signed, reached into his briefcase, and pulled out another final document that he already had signed. This one did have the language that we had agreed on. I don’t know whether he had made a mistake or he was hoping I would just sign the document that didn’t have the change, which would have been to the Russian’s advantage. It was an interesting ploy. We both shared a chuckle over it, but, of course, it just made me ever more cautious in the future.

Q: Yes.

WALLAR: There was an unhappy experience in the securities market. The Harvard Institute for International Development (HIID) had a contract awarded by USAID, the U.S. Agency for International Development, to advise the new Russian Securities and Exchange Commission. As I pointed out, the Commission was regulating the development of stock exchanges and trading of securities, stocks and bonds including government Treasury bills, short-term debt instruments. The Commission also would approve mutual funds that bundle stocks and bonds into an investment instrument. The

Treasury bills were important to finance any budget deficit and smooth revenues so the government could cover expenditures even if tax receipts were temporarily low.

Q: You say neutral bonds?

WALLAR: Mutual funds. Mutual funds are funds that have a pool of shares, or bonds, or a mix of both. They invest in a wide array of instruments to spread risk. This means, in theory, that mutual funds less volatile. The value of a particular share might soar or drop sharply. The pool of shares in a mutual fund won't soar or drop precipitously, but have much less volatility because there is a wider distribution risks.

Q: Aha, thank you.

WALLAR: HIID had some excellent advisors who were sacrificing time in lucrative careers to help Russia transform. Unfortunately, it turned out that a couple of these advisors apparently could not resist the temptation of investing themselves. Everyone thought that Russia's economic future was bright. Money was to be made for those who jumped in early. These advisors invested in the T-bill market. Also the first mutual fund approved by the Russian SEC was managed by or owned by the girlfriend of one of the advisors. This all came to light in an investigation conducted by USAID. Investing in these instruments while giving advice to the institution that regulates this market was contrary to HID's contract with USAID. They were taking advantage of inside information for personal profit.

This was a major setback. HIID was relieved of its responsibilities. Ambassador Jim Collins was called in by the deputy prime minister, Anatoly Chubyas, one of the economic reformers form St. Petersburg. Ambassador Collins asked me to accompany him to the White House for the meeting. Chubyas, a big fellow with light red hair and a smiling face, was uncharacteristically grim. In a very calm tone, while stirring sugar in his coffee, he told the ambassador that Russia didn't want U.S. assistance to develop the securities market anymore. They were not happy because HIID's assistance was very important to them. Chubyas was a big promoter of privatization and advocate for a modern securities market.

The HIID case was investigated by the U.S. Justice Department. The case came to court in 2000. By this time I had departed Moscow. But the Justice Department caught up with me in Frankfurt for a deposition. Not a fun exercise. In the end, the accused were found guilty. HIID paid a big fine and faded away. This was a most unfortunate experience. USAID was hoping to give good advice for the creation of transparent, well-regulated securities market, but the advisors did just the opposite of what USAID wanted to convey.

U.S. Treasury had a significant program of technical assistance to Russia. Treasury's model of technical assistance was very different from USAID's. Treasury brought in experts to live in Moscow and work directly and daily with their counterparts. USAID contracted firms to provide assistance which could involve several experts on temporary assignment.

Providing technical assistance was relatively new for Treasury. After the Iron Curtain fell, Treasury, State, and the President's Council for Economic advisors didn't think USAID had the expertise in areas of Treasury's competence, such as banking, tax administration and policy, customs administration and enforcement, anti-money laundering, and treasury and budgeting functions. Treasury stood up an Office of Technical Assistance, got funding from Congress – actually in the beginning Congress diverted some USAID funding to Treasury - and began sending experts to central Europe and Russia.

I was involved in setting up the terms of reference for Treasury's banking expert to come to Moscow. Treasury's technical assistance office believed it important to have the potential counterpart's agreement to work with the expert before they would commit to fund the assistance. This makes a lot of sense. I would learn in the future that sometimes the U.S. government provides assistance without notifying the counterpart in advance. In Moscow we wanted to make sure that Treasury's banking expert would be well received, would have access to the people he needed to and have an office space either close to their counterpart or have good access to their counterpart so he could do what he was brought in to do.

Andre Kozlov, a deputy to the Governor of the Central Bank of Russia, was to be the counterpart of Treasury's banking expert. Kozlov was young, educated in market economics, smart, and very engaging. I negotiated the terms of reference for technical assistance with him. After some back and forth we agreed on a framework. He was sincere in his desire for a well-supervised banking system, not a system used to launder funds or to prop up questionable businesses. His stance was novel for a system accustomed to accommodating the interests of the powerful and rich. Koslov made a number of enemies of operators who valued relationships rather than balance sheet assessments.

I saw Kozlov on many other occasions. He was generous with his time and critical with his insights. He was a very good professional colleague. He attended my farewell and gave me a silver GKO. A GKO is a Russian T-bill and a silver T-bill is basically a decorative coin because GKO's are not physical, just book entry debt instruments. I gave him a book on the U.S. Civil War which was one of his hobbies. It is hard to imagine a young man growing up in Russia taking such strong interest in the U.S. Civil War.

We would talk about Russia's economic transition that created opportunities to make money like never before. There was a mad dash to cash in on the transformation, sometimes in not completely ethical ways. Kozlov quietly suggested that I should re-read American history, like Theodore Dreiser's An American Tragedy. Our transition to an industrial economy also had given rise to corporate titans who shunned ethical norms.

His advice put Russia's trajectory into context. Transformation to a market economy wasn't going to happen overnight. Russia should not be held to standards as though it had strong, well-established laws and legal institutions. But the reality was that the west expected quick results and adherence to its legal norms in short order. Even in the best of circumstances, such a transformation would take time, even a generation. Kozlov reminded me of that history. After I left Moscow I was saddened to learn that Kozlov was assassinated while leaving a soccer match. Some didn't like his aggressive effort to clean up the banking sector. It was a very big loss for his family, the Russian Central Bank, and the economy.

Q: Did you have a problem dealing with Russian bankers and others in Russian society because they had not been trained like Samuelsson and company as our economists?

WALLAR: Not really a problem, but a certain naivete. There were some who had been trained in the Russian School for Higher Economics that was founded by Professor Yasin who now was the Minister of the Economy. He believed in market mechanism. It is one thing to learn in the class room, but quite another to live and operate in a market economy. The concepts were known, but there was precious little experience with implementation.

The largest bank was Sberbank, a huge state savings bank with branches all over the country. Being Soviet, Sberbank didn't believe in making money or much money on their investments, largely government debt. They just took deposits and paid a small interest. Deposit insurance did not exist.

There were small private banks basically set up for specific purposes. Some of these banks were headed by individuals who became known as "oligarchs." Vladimir Potanin ran Onexim Bank, basically a bank for Norilsk Nickel. Boris Berezovsky owned a television station and was influential with reformers. Mikhail Khorkovsky headed Yukos Bank and made his money in oil privatization. Peter Avon, a former trade minister, ran Alpha Bank. These banks were banks in some ways, but relied on relationships. Alpha Bank would branch into new areas, but the others faded away. Rubin Vardanyan started Troika Dialog, a securities firm that analyzed and traded stocks and bonds. They were one of the first to issue regular news letters on market developments and prospects.

Q: Did that complicate thigs for you?

WALLAR: These players complicated things for me but not as much as they complicated Kozlov's job. I met with these oligarchs and their staff, but my job was to understand the setting and report. Treasury's technical experts, working with Kozlov, got access to bank reports, performed diagnostics, and made recommendations for some of them to be rolled into other, larger banks. None of the banks owned by oligarchs were subject to this review. To the extent they were not well-run, they would eventually faded away. Nonetheless, the process of cleaning up had started, however modest. It would take a generation. I don't know if it has proceeded given the changes in Russia's leadership.

Another area where Treasury provided technical assistance was tax administration and tax policy. Treasury had two technical experts resident in Moscow. USAID had a large program first run by Duke and then by Georgia State University. I was a liaison between the Treasury advisors and the USAID program to make sure they were on the same wavelength and not duplicating efforts. This may seem to be a straightforward task. However, Georgia State had to meet the requirements of the USAID contract while Treasury advisors were responsive to the needs of their Russian counterparts. Sometimes overlap, sometimes not. Sometimes purposeful duplication.

The tax police were notorious from shaking down Western firms. It reminded me of the old story about Willie Sutton, a robbery. When asked the question "Why do you rob banks?" Willie apparently responded, "Because that is where the money is." Well the tax police would shake down western firms because they knew they knew these firms had money and that they could scare the bejesus out of them. Western firms weren't used to having tax police, government officials, knocking on their door saying show me your books or pay me $10,000. These firms had nothing to hide but the tax police would always find something amiss.

Some complaints about the behavior of tax police came my way. I would contact the tax authorities and express the need for an open, transparent, predictable tax regime, not impromptu visits. Sometimes the problem for the firm in question just vanished because the tax police would go find other prey. This type of behavior didn't put the Russian tax administration in the best light, particularly for foreign investors unaccustomed to Russian ways.

Russian tax authorities were understandably interested in increasing revenues. However, harassing firms was not a solution. I suggested looking at the bigger, long-term picture. If the tax police were paid higher salaries they wouldn't have to solicit bribes. They could make out better financially with a good career and a pension than they could by shaking down a few firms and staying one step ahead of the law or being sacked if in fact the institution would become more rigorous in tracking down the bad actors.

One of the experiences our tax technical advisors had was with respect to collecting delinquent revenue. Making a self-declaration of income tax, like we do in the U.S. was a new feature of Russian tax law. They had a PR campaign on the radio and television about paying taxes. Some of the ads were very funny. One was a man waking up in the middle of the night full of guilt lamenting, "Oh I haven't paid my taxes yet. ," and getting up out of bed to pay his taxes.

Previously, rather than self-assessment, taxpayers would go to the tax office with their documents, sit down with a government tax official and work together to fill in the tax declaration. Of course, the tax burden could be eased somewhat if the tax authority got paid something "under the table." That is one reason our advisors recommended switching to self-assessment, to avoid what we called UFO's – unauthorized funding opportunities.

Anyway, to encourage delinquent tax payers to make their payments, the Treasury tax advisor suggested that the Moscow tax authority send out a letter reminding them to pay their taxes by such and such a date. They sent out 100 letters, and they received a great response, like about an 80% payment rate. The Moscow tax authorities were flabbergasted. The idea that people would be shamed into paying their taxes never occurred to them. Jail time and fines, yes. But those took time and didn't get the state any money.

With this successful pilot, our advisor suggested that they expand the experiment and send out a thousand dunning letters. The tax advisor came back a couple of weeks later and asked about the results. The Moscow tax authority looked at him meekly and confessed that they hadn't sent out the letters because we didn't have enough stamps. It was one of those instances where the Russians understood the new concept, but couldn't cope with a practical obstacle that prevented putting the theory into practice. They hoped for better but it just turned out to be the same way once again.

One of my duties was to discuss tax policy with parliamentarians. One of those parliamentarians was Mikhail Zadornov. He was very engaged, and Treasury provided him technical advice. He became finance minister.

Treasury also had technical advisors on economic policy. They worked with Russian economists to develop a consumer sentiment index. I don't know of you remember this Stu, but after WWII the University of Michigan devised a consumer sentiment index. There was so much pent up demand that the Federal Reserve Bank and Treasury wanted to have a good sense of what people were going to do with their money. How good were they feeling about their current financial situation and what they thought they were going to buy sooner rather than later like a new car, or new refrigerator or washing machine. This consumer sentiment index would be a "leading indicator" of economic activity.

Treasury thought it would be a good idea to have a Russian consumer sentiment index. This index was designed and implemented by Albina Berman. She was Russian born but had been living in the States. Her husband, Igor Berman, was famous for challenging CIA estimates on the size of the Soviet economy. He argued that the agency was overestimating the size of the Soviet economy. He turned out to be correct. The Soviet economy basically collapsed. But the CIA estimates stoked the defense budget.

The Russian government client for the consumer sentiment index was Oleg Vuygin, an assistant secretary in the Finance Ministry. He was very dedicated and knowledgeable and worked in the best interest of Russian. He later became the head of the Russian SEC. Treasury also supported a macro economic team that prepared forecasts and reported to Vuygin. The head of that team was a young man by the name of Arkady Djokovic. He is the deputy prime minister in the current government.

Q: You keep saying what we were doing. What about the Germans and the British for example on economic policy? Were they in the game too?

WALLAR: Not that much. Russia was not the scene of many donors as would appear later in Afghanistan or Iraq or Southeast Asia. The U.S. was the major bilateral player.

The World Bank and International Monetary Fund, at U.S. urging, had a very significant presence. USAID had a very large team in Moscow. There were a few other players like the British. I don't remember much of a German technical assistance presence. The EU had some presence on the political side, such as monitoring elections, but not on the economic side.

Treasury also had a technical advisor working on finance ministry treasury operations and budgeting. We also kept track of Russia's debt rescheduling being negotiated in the Paris Club, I had close contact with the lead Russian negotiator, an assistant secretary of finance by the name of Mikhail Kasyanov. He later became finance minister and then deputy prime minister under Putin

Q: So, you were pretty much it weren't you? I mean you and your apparatus were pretty much it as far as advice?

WALLAR: On the economic policy side, the U.S. government, USAID and Treasury, were pretty much it. The IMF gave policy advice and recommendations and did analysis but didn't give "hands on" technical assistance. The World Bank was doing some technical work on the banking side, but they did more work on sectors and industry.

One tidbit about meetings at the Finance Ministry. My assistant Andre told me that we should bring cookies. I asked, "Why should we bring cookies?" He replied that the Finance Ministry's protocol office doesn't have a budget to buy cookies. They prided themselves on being good hosts and would always serve tea at meetings. And cookies if they had them. We would show up at the visitors entrance to the Finance Ministry which had a small waiting room with a couple of old sofas and chairs. We would give our cookies to the liaison officer. We were escorted to the office or meeting room and be served tea and very familiar looking cookies.

The young economic reformers were given a lot of leeway by President Yeltsin to transform the Russian economy from a state-controlled economy to a market-oriented one. Alexander Livschitz was the finance minister when I arrived. He was an academic and not very effective. The next minister was the parliamentarian I mentioned, Zadornov. He didn't have experience running a large bureaucracy but he was good on tax policy. I had contact with him in setting up terms of reference for Treasury technical assistance.

I had contact with many of the intellectual pillars of economic reform like Sergei Vasiliev, Vladimir Mau, and Leonid Gozman. They were all smart, dedicated. They had come to Moscow from St. Petersburg where they studied market economics and were giving advice to the reformers like Yegor Gaidar and Chubyas.

There was another young economist, Andre Illyanarov who was somewhat contrary to mainstream thinking, more like a libertarian. His analyses were data driven and he spoke with great confidence. He had studied in Boston, married an American woman, and returned to Moscow to set up his own economic institute. Discussions on economic reforms were lively, but, in the end, practical decisions had to be taken. This was no longer a parlor game or speaking as an opposition group. They were now in charge with consequences as a result of their decisions.

David Lipton was now Treasury's undersecretary for international affairs. He had studied under Jeffery Sachs and was a proponent of the big bang theory I mentioned earlier, that is to undertake as many reforms as possible all at once and see what happens. This was contrary to the pragmatic approach of sequencing reforms. First you take this step, then the next, then the next. You build on reforms from the simple to the more sophisticated. This need not be laid out in a rigid plan, but more like "feeling your way across the stones in a stream," type of approach. Go with what works.

Sequencing, however, assumes that political will for reform continues to exist. I think Sachs and Lipton had the view that if political will for reform was present, use it. Get as much reform as you possibly can as fast as you can. You only have one clear shot to push through dramatic reforms. Slow and steady might not get the job done as political fatigue is fed by disappointment that reforms are not producing results immediately. There was clear impatience for reforms to take hold and show improvement in overall economic performance and higher per capita incomes.

When Larry Summers would come to Moscow meeting times or locations would shift due to the hectic schedules of his high-level Russian counterparts. One time between meeting Summers was hungry. We drove to the one McDonalds in Moscow because it was the only place serving fast food and, not too surprising at that time, was one of the only places that had decent food. We ordered hamburgers and French fries to go and ate in the car on the way to a meeting at the Kremlin. The security guards waved us through, and we drove into the Kremlin compound and rolled up to the main building. As we got out of the car French fries tumbled off of Larry Summers' lap onto the sidewalk where the official hosts were greeting us. Pretty funny. Summers smiled and proceeded as though nothing had happened. On to the meeting!

Russia was pushing to become a member of the WTO. They had applied to become a member in 1993. I think I mentioned when I was the director of the Treasury Trade Office in Washington I had participated in the negotiations for an agreement with Russian so they could have normal trade relations with the U.S. Now they wanted to move up to WTO membership.

Representatives of USTR would visit Moscow as part of these negotiations. I knew the lead U.S. negotiator, Dorothy Dwoskin, from my time at USTR. I would attend some of the sessions in Moscow on financial services. Kozlov at the Central Bank was on the Russian delegation. I would talk to him about reducing restrictions on American banks doing business in Russia.

Kozlov was skeptical. He didn't think Russian banks were in a position to compete effectively with western banks. I argued that while that might be true, western banks would bring competition that would benefit customers and bring better practices that would elevate banking practices of Russian banks, a positive development for the market.

Maybe such an opening up could be done cautiously, in stages, but it was something he should think about. We never did reach agreement. The Russian lead negotiator passed away. He had a heart attack. He was not that old. He liked to play soccer and had a heart attack after one of his matches I believe. The negotiations dragged on. Russia didn't become member a WTO member until 2012.

The major, if not historic event while I was in Moscow was the financial collapse. When we arrived in August of 1993 the town was a bustle of activity There were big, expensive, black SUVs cruising around town. "Oil money," we called them. Members of the American Chamber of Commerce – AmCham - were very enthusiastic about Russian's economic future. Their companies were positioning themselves for a dramatic upswing in commercial activity. AmCham established expert committees on topics like taxes and customs. They would point out what was working and what was not. I attended AmCham meetings and often raised issues they presented with my Russian counterparts.

Foreign investors were streaming into the country. Members of the AmCham generally were with firms who had established a physical presence. Others were indirect, financial investors, buying Russian shares. New Russian investment houses starting up like Troika Dialog. It was the wild west. Money to be made. No one saw storm clouds in Asia or think they would dampen Russia's prospects.

In 1997 a financial crisis took hold in Asia. Korea and Thailand couldn't finance their debt and suffered massive currency devaluations. Investors became leery of countries that appeared to be living beyond their means. The financial crises creeped into Russia the subsequent year, 1998. At first it was just a general concern that the Russian government was issuing a lot of debt but not collecting a lot of revenue. Their deficit was ballooning. So long as Russian's real rate of economic growth exceeded its real interest rate, the government would be able to meet its obligations.

Then some investors started to question whether Russia could hold the value of the ruble steady against the dollar. As I mentioned earlier, one of the objectives of Russia's economic reformers was to instill confidence by keeping the ruble stable. Not only was this psychological but also practical because so many goods had to be imported, especially foods. In the winter fresh produce was imported from hot houses in Holland because Russia didn't have the infrastructure to grow a variety of fresh produce in the winter. If you craved potatoes and cabbage you were fine. Otherwise you relied on imports.

As some investors started to withdraw their funds from Russia, the central bank tried to stem the flow by raising interest rates. Investors could earn a higher rate of return to compensate for higher risk. It didn't work. The trickle of outflows turned into a stream as confidence in Russia's economic future began to recede. The real interest rate began to exceed the rate of real economic growth. Russia was falling into a hole.

The Russian Central Bank was forced to intervene in the foreign exchange market to hold the ruble study. They had a limited amount of foreign exchange reserves, maybe 13-15 billion dollars. That sounds like a lot. But they used half of it in 1998 to hold the foreign exchange rate steady. I asked the Central Bank's head of the foreign exchange office what would happen if the ruble were to be devalued. His response was: " The consequences would be too terrible to contemplate."

The Russians have pithy, poignant sayings like that. Another is :"If you ask a Russian, 'How are you today?"' the classic response is : "I am worse today than I was yesterday, but better than I will be tomorrow. " There is a certain fatalism, the notion that things don't get better but worse.

Some foreign investors thought the U.S. government would bail out Russia because of the strong relationship Treasury had with the Russian reformers and Russia's geopolitical significance. After all, it was in the U.S.'s and west's interest that Russia should succeed in becoming a dynamic, market-oriented economy. Treasury had worked with the IMF to provide financial support to Korea to help it fend off their currency crisis. On the other hand, Thailand and Malaysia didn't get as much support. The Thai baht had collapsed.

A group from Russell Investments were visiting in the late spring/early summer of 1998. This was a high rolling group, serious, influential investors. I was among those who gave a talk to them about Russia's economy. They asked whether the U.S. government would prop up Russia because of its political importance. They reasoned that Russia was more important than Korea and should get more money. I knew that Russia was working with the IMF on a package of reforms to close the budget deficit. Funds to help Russia would be tied to economic reforms that presented a path to stability. Political considerations were not part of the equation. I told them that in so many words. I could sense a very negative mood in the room. It was the only time I called Larry Summers directly, to warn him of this negative investor sentiment.

The Central Bank had raised interest rates to an astounding 150%, clearly well above Russia's real economic growth rate. The fiscal hole was getting deeper and the ruble was under siege. The Governor of the Central Bank, Sergei Dubinin invited Ambassador Collins to lunch. The Ambassador asked me to accompany him. Dubinin looked extremely pale and nervous. His forecast wasn't promising. He didn't think the Central Bank had the wherewithal to hold the ruble steady against the dollar.

Dubinin was one of the first people I met when I arrived in Russia. I heard him give a speech in which he said something that was clearly not true. I was astounded. I asked Andre, how can the governor of the Central Bank say such a thing. His response was that because the governor said something it doesn't mean he thinks it is true. This was another one of those lessons in Russian culture. I learned that there is a difference between subjective facts and objective facts.

Q: Ha, we have that now.

WALLAR: Yeah. In Moscow the IMF had a substantial presence. Stanley Fisher who was with the IMF visited Moscow to help put a rescue package together. I met with him to discuss steps the Finance Ministry had to take to increase the revenue. Some seemed unrealistic. However, these would be preconditions that Russia had to meet to get funds from the IMF. The package was announced in July. The good news didn't last long. Foreign investors were now betting on a ruble collapse.

David Lipton visited Moscow in August, I think it was the 11th and 12th, a Thursday and Friday. I accompanied him to the Central Bank to meet with a deputy to the governor, Sergei Aleksashenko. Sergei was not happy. He was overseeing foreign exchange operations. He said that they were running out of foreign exchange reserves to buy rubles and prop up its value. They were drawing down reserves at a rapid rate. He was not optimistic at all.

Lipton had meetings with other government officials and some of the economic reformers. I wrote up a summary of his visit to report back to Washington. We reviewed the conclusions on the way to the airport as he was leaving. Given the U.S. government involvement there was a sense that the Russians would do what the U.S. advised. The U.S. advice was to work with the IMF. That didn't solve their problem. The Russians had to make their own choices. When I returned to the office the phone was ringing off the hook. Bankers were keen to learn about the meetings and next steps. I couldn't tell them anything as all the meetings were closed, non-public. I could sense sheer panic.

On Monday the Russians announced the devaluation of the ruble. From a range of five to seven to a dollar to a range of six to 9.5 to the dollar. The government also defaulted on its GKO debt. They would not be paying investors who had purchased their T-bills. The third decision was to grant commercial banks a 90-day moratorium to pay their debts. Fundamentally, Russian commercial banks used this as an excuse to walk away from their debts. All those finely worded legal documents drafted by top Wall Street lawyers meant nothing.

Aleksashenko presided over a meeting to explain these decisions to the ex-pat financial community in Moscow. We convened in the Central Bank's auditorium. There was a sense of disbelief. Even after these measures the Central Bank could not hold the ruble's value against the dollar. Toward the end of September the ruble slid to 25/30 to the U.S. dollar. Devaluation typically is sufficient to stem such a crisis. Painful but necessary. Russia's decision to default on debt was extraordinary. There is a Russian saying: "God created Russia so other countries would see what not to do." Just saying.

Q: Jim, hold on for a minute.

WALLAR: The era of the hard charging investors who had come to Moscow to make their fortunes was setback if not coming to an end. The measures also discredited the reformers. Despite their promise of a new, dynamic economy, the devaluation of the ruble reinforced Russian citizen's belief that the reformers would not change anything and that they were wise to store their wealth in a stable currency like the U.S. dollar.

Sergei Vasiliev, a leading reformer, confided that they should have paid attention to the basics of debt. This was something that had been the downfall of other reforming countries. The Russian reformers had their eyes set on big ideas, and they just lost sight of the fundamentals of debt. He was grief stricken and recommended that in the future Russia create a rainy day fund, putting aside some revenue when oil prices are high that could be drawn on when oil price would be low. Indeed, Russia has such a fund now that has allowed it to get through periods of low oil prices.

Yevgeny Primakov became the new prime minister, taking over from a young reformer, Sergey Kiriyenko who had replaced Chernomyrdin. Primakov was old school, a former Soviet foreign minister. There was a feeling that the grey Soviet days returning. But Yeltsin was still very much in charge and, relying heavily on advice, appointed a young unknown by the name of Vladimir Putin as a deputy prime minister, then made him prime minister in August of 1999.

Q: What was your impression of Yeltsin as the leader?

WALLAR: By the time we arrived Yeltsin was pretty much the figurehead of the government. He was frequently incapacitated. The euphemism was that he was "working with papers" in his office. The common impression was that he was either working off a hangover or working on a hangover. To be fair, he was seriously ill. He was just holding on, his heydays behind him. He had been elected president in 1996, a relatively short but important run. By the summer of 1996 he was on his way out physically mentally and politically. He knew he wasn't going to last so to ensure a smooth, peaceful transition he appointed Putin as prime minister so he could be elected president in March 2000.

Q: Were you and your colleagues in the financial world concerned about the leadership with Yeltsin and Putin?

WALLAR: No. At the time Putin was an unknown. He was from St. Petersburg, the home of many of reformers, and he was friends with some of them. When he became prime minister, he appointed Mikhail Kasyanov a compete official from the Finance Ministry as a deputy prime minister and then prime minister. He appointed Alexander Kudrin, also from St. Petersburg, as finance minister. Kudrin had worked in Yeltsin's office earlier and was friends with reformers and Putin.

Putin also appointed Andre Illyanorov as his personal economic advisor. As I mentioned earlier, Illyanorov was a free market, libertarian who took issue with the traditional prescriptions from the IMF and World Bank. Illyanorov is now with the CATO Institute in Washington, D.C. USAID brought in a group of economists who had worked on reforms in Chile and Peru to meet with Russian experts. I arranged a meeting for them with Kasyanov. There was a sense that the team would be OK. They would not be able to pursue the reforms as ambitiously as the young reformers but would still move the economy toward more private ownership and be guided by market principals.

A Treasury Deputy Assistant Secretary, Mark Medish, visited the new team as a member of a large U.S. government delegation. He emerged from the meeting with Putin and pronounced that “we could work with Putin.” The resident representative of the World Bank, Michael Carter, was also impressed with Putin and the team believed that the policy would get back on the reform track.

A month before I departed post the new economic team had assembled the outlines of a practical economic program. The administration described it as a common sense approach. The main elements were to shore up social protections, allow for private property rights, competition, and promote de-regulation, but also giving the government a firm hand in enforcing compliance. Education and labor reforms, a flat tax, and a balanced budget. The new economics minister, Herman Gref, a native of St. Petersburg, drafted the plan together with Kasyanov. Negotiations were underway with the parliament – the Duma – to modify laws. Some of the oligarchs had faded away, but others still tried to influence the debate. Their perceived power would be their undoing.

Q: What other experiences did you have in Russia?

WALLAR: In the spring of ’99 NATO’s bombing of Serbia had reverberations with their Slavic brothers and sisters in Moscow. A large group of protestors showed up in front of the chancery, the old, yellow building on the Ring road. They threw bricks and sticks and paint cans that rocked the old structure. I was in the building when the protestors were pelting it. The building actually felt like it was swaying by the force of the blows. Kind of spooky. Embassy personnel were harassed.

Ambassador Collins complained to the Russian government officials whom he knew well. I think the Russians were embarrassed that they let the protests get out of hand. The government cracked down and put barriers well away from the chancery to protect the building and personnel.

Unfortunately, there was a downside to this protection. The guards would harass U.S. government officials and family when they tried to enter the compound. Gale, my wife, remembers how she was carrying an armful of groceries and the Russian guard stopped her from using the main entrance to the compound through the chancery, the shortest distance to our apartment. She would not stand for it, told the guard she lived in the compound, and walked right by him.

A friend’s wife left the compound in her car and was pulled over by the guards and subjected to a document check. Some said this was in retaliation for the New York City Police cracking down on Russian diplomats not paying their parking tickets and being pulled over. This was an uncomfortable period.

On a Sunday afternoon during this time of protest I was walking our dog Riji, a Labrador Retriever, between the compound and the chancery when someone in a car on the Ring Road drove by opening fire with a machine gun. I heard the bullets ricochet in the narrow passageway between the chancery and the neighboring building next to the parking lot where I was walking. I wouldn't say it was a narrow escape but I did hear the bullets fly by. The Marines sounded the alarm to duck and cover. I guess I was lucky.

In December of 1999 Gale and I volunteered to be official observers for the parliamentary elections. We went out on the countryside to observe different voting locations like schools and hospitals. It was touching in some ways because for some Russian citizens voting was a new experience. We would see eight pairs of shoes behind a curtain because the whole family was in the voting booth. The kids wanted to watch mom and dad vote. Sometimes it was just two pair, couples watching over each other. We had to fill in an assessment form noting any unusual activities or whether polling stations were orderly. Overall, we gave good marks on what we witnessed.

Q: I was observer in the elections in Bosnia twice.

WALLAR: You were? Well it was an interesting experience to see another slice of society. Andre with us translating. We went to the local precinct captain's office to watch them count the votes until 1:00 A.M. The precinct captain was just beside himself with joy. He blurted out that , "This was just like the old days. We had 100% turnout to vote back then." That was when the communists were in charge and voting was obligatory. Naturally, there wasn't any choice in who you could vote for but turnout was 100%.

I was in Moscow during the Y2K scare, when the new millennium began on January 1, 2000. Recall that in the run up to 2000 there was a concern that all the computers that hadn't been programmed for the new millennium would shut down or malfunction. Our assessment in the embassy was that Russian industry and the financial sector were not heavily digitized. Not heavily wired or computerized. They were still relying heavily on old technology.

The hype in the press generated a very deep concern that embassy families could be at risk. The ambassador was put in a very difficult position. Personally and professionally he thought the risk of chaos low, but his primary responsibility was to ensure the safety of all embassy personnel. After consulting with the Department, the decision was made for non-essential personnel and all families to evacuate post. Gale, Nicholas, and Emily went to Florida to stay with her parents.

I checked in with commercial banks and the central bank on preparations and any issues. We agreed to consult on developments shortly after midnight. The deputy chief of mission was John Ordway. He invited all the few officers still at post for dinner including the ambassador. We all fit around a large table and had a good time. When it was 10:30 or 11:00 pm, ambassador Collins suggested that we all go to Red Square for the countdown to midnight. He said something like: "If we are going to go, let's go out on Red Square."

We piled into two cars and quickly reached Red Square where the usual New Year's crowd was making merry. Fireworks and vodka bottles were in abundance. Singers performed on a large stage. We counted down to midnight. Held our collective breaths.

And nothing happened. I took calls from the central bank and commercial banks. All clear. It was all a bit of nothing.

Q: Oh, yes.

WALLAR: Post financial collapse there was a rude awakening of many young professionals who had returned to Russia as lawyers, bankers, and business people to make their fortunes in their homeland. Some of them created a group called 20-20. These young professionals had been trained in the west, were ethical, and wanted Russia to return to the path of reform and to create strong, rule-based, trustworthy institutions.

Involved in this effort but operating in parallel was Ludmilla Alexeyeva. She was a renown human rights activist. She made a reputation by standing up against the communist. She had to leave for the U.S. but returned to the new, transforming Russia. Ludmilla lead the Helsinki group promoting human rights. She believed that economic rights were also human rights. She pointed out that restrictions interfering with young entrepreneurs and farmers getting their goods to market deprived them of their economic rights. Typically such restrictions were imposed by provincial government officials. For example, one prohibited farmers from taking their potatoes out of the province and selling elsewhere at a better price.

I organized a group of 20-20 members to join Alexeyeva for a dinner discussion at DCM Ordway's residence. One of the attendees was an antitrust expert who was setting up the Russian anti-monopoly regime. Members of the OECD Competition Policy Committee had worked with him in Paris and then visited Moscow to provide hands-on, practical advice. His analysis was that in Russia most actions to dominate or control a market were not exercised by companies but by government actions such as the one Ludmilla had mentioned. I thought that was an interesting development, bringing the ethical and human rights side of reforms together with the economic ones.

Treasury and the Justice Department focused on combatting money laundering in Russia. Capital flight from Russia was massive. The FBI had come to Moscow to investigate money laundering by the Bank of New York. They hadn't done much homework because they were surprised there were so many U.S. dollar bills – in large denominations – that is the $100 bill - in circulation and that bars accepted U.S. dollars as payment. I explained to them that Russians didn't trust the ruble but did trust the greenback as a store of value and for transactions. This was a revelation to them.

We organized meetings for visiting Department of Justice money laundering experts with the Russian police and Interior Ministry. The U.S. experts explained reforms that would facilitate the detection of money laundering. One reform would be to spot large cash transactions of over $10,000, identify the beneficial owner of the associated bank accounts, and track further activity. The two officials we were meeting with looked at each other, then at us and said something like: "Wow! Is that what you do in democracies? You look at these private bank accounts?" The fellow from the Justice Department responded, "Yeah we trace these large transactions in bank accounts." The

Russians retorted: “We used to do in the old days. We can do that again.” Back to the future.

We spent four years in Moscow. My son had graduated from high school and became an Eagle Scout. Larry Summers ,who was the Secretary of the Treasury, was to present the award at the ambassador’s residence but he was snowed-in in Washington and sent a signed U.S. dollar bill). My daughter was an excellent athlete, a creative artist like her mother, and a dedicated student. Gale had developed an excellent curriculum for high school art. Four years was a long time in Moscow where no two days are alike. It was time to move on.

We were there during the boom and the bust. More prosperity was evident everywhere. There were newer cars and the roads were more crowded. There were more shopping malls and the large department store GUM featured upmarket goods. New construction sites littered the cityscape. The Russian stock exchange was in a new building. More selection of better goods was available at all stores. Big box stores opened by international vendors, such as Migros out of Turkey, were very popular.

Some things, of course, hadn’t changed. I started this Russian segment with a story, and I will end with one. One way to catch a ride in Moscow was to stand at the side of the road and raise your hand. Yes, there were taxis but it was a hassle to get them. Uber and Lyft didn’t exist yet. When you raised your hand, drivers who wanted to make a little extra money would pull over and offer you a ride to your destination. It was relatively safe. You had to pay cash. And if you were savvy you agreed on the price before you got in the car. This was a perfectly normal, generally accepted way to get around. I did it myself several times if a car in the motor pool was unavailable for official meetings.

My son, a senior in high school, and his friend were going to a soccer match in the south part of Moscow. They put their hands up to hail a ride. A new black Audi pulled over and asked for their destination. The boys said they were running late and it was rush hour but the soccer match started soon. The driver said, “No problem” to get to the stadium.

The driver goes down to the major boulevard that runs next to the Moscow River in front of the White House. Sure enough, traffic was backed up. The driver then pulled on to the very broad sidewalk between the street and the river. The sidewalk had a balustrade on the riverside. A nice walk on a quiet day. Well, he started driving down the sidewalk, and a traffic cop waved him down. He stopped, rolled down the window, had a heated exchange in Russian, then reached into his pocket and pulled out an ID card and showed it to the traffic cop. The traffic cop backed up from the car, straightened to attention, saluted, and said, “please proceed!”

When they arrived at the stadium with its large fence some distance from the entrance, the driver told the boys he would drive them to the entrance. Of course, at the main gate there were security guards, always fierce looking. Again, he flashed the guards his ID, and they saluted him and waved him on. He took Nick and his friend right up to the stadium entrance. They said, “Well thank very much, sir. Here is your money and a tip.

What did you show these guys to let you come all the way of the front door of the soccer stadium?" He replied, " You know that guy Putin? I am his personal driver." What an experience.

That was our time in Russia. My family have different views about their personal experiences but all agreed it was a character building and a unique experience. If you asked if they wanted to do it again maybe they wouldn't. We fully expected to return to the states although no position was available for me at main Treasury. Most returning attachés didn't have a smooth re-entry into the Washington bureaucracy. It was more luck and catch as catch can. If there was a vacancy, fine. If there wasn't a vacancy well you did something else for a while or left the Treasury.

My deputy assistant secretary, Mark Sobel, the guy who talked me into going to Moscow from Paris called to ask if I would be interested in becoming the attaché in Frankfurt, Germany. Why Frankfurt? Treasury had closed all of its attaché posts in Europe. No more posts in London or Paris or Bern or Bonn. They established a new post in Frankfurt because the new European Central Bank was located there. Also it would be easy to cover all of Europe from Frankfurt. Berlin was a short four hour train ride away. Big commercial banks were in Frankfurt as well as a dynamic stock exchange, Deutsche Börse. The European Commission was becoming more active in finance and traveling to Brussels from Frankfurt was easier than from Berlin.

Sobel said that the present attaché, who hadn't been in Frankfort too long, wasn't working out. He asked if I would I be interested. Naturally I was. Undersecretary Geithner called and expressed a preference for me to return to Washington but realized the importance of the new Frankfurt post and acquiesced to Sobel's decision to send me to Frankfurt. Again, Treasury's policy of no back-to-back foreign assignments was honored in the breach.

Q: Well was Treasury working on developing an attaché corps?

WALLAR: They had an extensive treasury attaché corps after WWII. Over the years it started to dwindle. Email and the ease of international communications and more meetings between senior officials at the G-7, G-20, or IMF meetings, lessened the need for people on the ground in foreign countries. However, there was an increase in posts where the main focus was on money laundering, not macroeconomic issues or foreign exchange policy

Q: OK, well shall we keep going or do you want to stop?

WALLAR: Well we can keep going for another 20 minutes and just start dipping into Frankfurt if that is OK.

Q: Sure.

WALLAR: That will take us up to around noonish or so.

Gale and Nicholas flew back to the United States. My son graduated with an international baccalaureate and was accepted at William and Mary. He was enrolled in a "global nomads" for students such as himself who had grown up overseas and not that familiar with fads in American popular culture.

Emily and I flew to Frankfurt so she could be enrolled in the 11th grade at the Frankfurt International School. Since this new posting came at the last minute, we didn't have time to make the proper arrangements by email. Being there in personal was more efficient and effective to sign up for the courses she wanted. She tried out for the soccer team and impressed her future teammates with her accurate passing and determination. She made fast friends very quickly.

Our golden lab we had bought in Russia, Riji, was lost at the airport for a day. The tag had fallen off her carrier. She had been locked up in Frankfurt airport for 24 hours with no one knowing where she should go.

We enjoyed temporary housing in the American section or *seidlung* in German. These were the same apartments Gale and I had seen in the 70s when we visited from Geneva, and in the 80s when we lived in Bonn. The area had changed dramatically. About half of the apartments on the *seidlung* had been turned over to the city and converted to private apartments. The U.S. military shopping center had been razed, replaced by a new police building, modern apartments, and shops. The old American high school was now a technical trade school. The high school football field was used by the Frankfort Galaxy a football team – American style football that is. The IG Farben building that had been converted to U.S. Army headquarters after the war was totally renovated.

Q: IG Farben?.

WALLAR: Yes, IG Farben had been a major German chemical producer, a huge firm. Their building was mammoth and relatively modern, constructed in the 30s. Eisenhower used the building as his headquarters after the war. U.S. officials running the Marshall Plan were based in that building, often called the "Pentagon of Europe." The U.S. government had turned the building over to the city of Frankfurt. It is now the west end campus of the Frankfurt University. Very impressive building and grounds.

The IG Farben building was at the northern edge of the massive Grunewald park where the famous family Rothschild had a house that was destroyed in a WWII bombing raid. A solemn grey stone memorial marks where the house had stood. On the south side of the park was the U.S. consulate, next to the Palmengarten, botanical gardens. A very lovely location. It was an easy walk from the *seidlung* across the park to the consulate.

Frankfurt's town center had been totally rebuilt. Some of the old buildings in the town square had been restored very tastefully. I don't know whether you remember Sachen-Hausen, Stu. It was home to old apple wine bars. It was now the "in" place, very chic.

Upmarket boutiques and cafes with young hip couples strolling the sidewalks. You will be happy to know, Stu, that the stores stayed open late every Saturday.

Since our assignment came late we were not assigned housing by the consulate housing committee. It was just as well. We didn't want to live in an American apartment and community in Germany. After a few months and many frustrations, we finally found a house. It was a bit over the usual housing allowance, but the housing market in Frankfurt had taken off. European integration and the new European Central Bank made Frankfurt an even more desirable location for private firms.

The house was in a village called Oberursel, famous for its fountain, a Rolls Royce engine plant, and an old CIA de-briefing center. The location was perfect for Emily, a short a five-minute drive to the international school. The drive to the consulate was an easy 20 minutes on mostly freeway. Gale put her Moscow experience to use and was hired as an art teacher at the international school.

Like in Moscow, sports competitions were international affairs, but much more intense. For soccer and basketball games Emily would travel to Paris or The Hague or Brussels. The team would leave on Friday morning, play an afternoon game on Friday and play another the next morning, do a bit of sightseeing, then hop on the train and be back in Frankfurt late Saturday night. Her teams participated in international school sports tournaments. Frankfurt International School won the basketball tournament at The Hague in Emily's first year, and in Athens when she was a senior. Emily worked hard and graduated with an IB.

Her classmates were from many different countries but also included Germans. Frankfurt attracted bankers and lawyers but also industry. The GM Opel plant was close by. Families from the States, U.K., France, South Africa, Spain and so on lived in villages near the school such as Kronenburg. Very ritzy. Emily had a truly an international experience.

My team at the office was first rate. I had a deputy, Tom Shevlin ,who was studying to become a certified financial advisor. Two excellent German economists and wonderful office managers, military spouses, comprised the rest of the team.

The office situation in the consulate was rather delicate. The previous Treasury attaché had not been open with his reporting or assessments with State Department colleagues. Maybe he resisted when asked to share. His style was more of the Treasury old school.

As I explained to you earlier, Stu, I was very open in my communications. I told the consul general, Ed O'Donnell, that all my economic reporting would be through open channel. He could review anything he wanted. After all, his name appeared at the end of all cables. I also agreed that I would coordinate with the State Department economic unit at the embassy in Berlin. They could clear my cables, and I was willing to comment on drafts of their reports.

Another delicate question arose. Ambassador Kornblum wanted to know "Why isn't the Treasury attaché in the embassy in Berlin rather than in Frankfurt?" I explained about the need to have close contact with the European Central Bank and German and U.S. commercial banks and the German stock exchange in Frankfurt and also the need for train connections to Brussels to track European Commission developments on creating an integrated European Union (EU) wide financial market. The EU angle was becoming more important than the German one since domestic rule-making was in the process of being shifted to Brussels. I promised to work virtually as part of the embassy's economic team and contribute to their reporting and attend country team meetings on a regular basis. Treasury in Washington weighed in as well. The Treasury office stayed in the Frankfurt Consulate.

I made a point that my first trip was to Berlin. The U.S. chancery was in old East Berlin. The large old building that was surrounded by new shops on Friedrickstrasse, new construction, and elegant old restaurants. A revival of old, run down, dirty East Berlin was in full swing. Checkpoint Charlie was no longer a place of terror but a tourist trap. Many of government buildings had been leveled and apartments took their place. Some lots remained empty. Unter den Linden a wide boulevard that runs into old East Berlin from the Brandenburg Gate was lined with cafes and tourist shops.

The Finance Ministry has been the headquarters of the Luftwaffe. It was massive, socialist realist architecture, with wide corridors of white marble and the old paternoster elevators. I don't know if you remember those, Stu. They were small, big enough for only two people. Constantly moving up or down, they didn't stop or have doors on them. You just stepped in and out. Riding them took some getting used to.

Q: Oh yeah.

WALLAR: Yes. You step in to get on and step off to get off.

Q: I always got a little bit nervous when I got towards the top.

WALLAR: I always wondered what happened. They couldn't just tip you upside down. When they reached the top or bottom they moved sideways so your feet were always pointing down.

The Finance Ministry was right next to an old Gestapo headquarters that had been bombed out and turned to a very somber outdoor museum and a memorial. The partially destroyed walls were covered with pictures of some of the former prisoners. It was called the "Topography of Terror." It had bordered the old Berlin wall. Close by was Potsdamer Platz, a commercial center that was wiped out in the war. Now there are high rise apartments, an ultra-modern shopping center, and a network of subways filled the square.

One of my trips to Berlin for a country team meeting was on the afternoon of September 11, 2001. Dan Coates was the new Ambassador. I was boarding the plane around 3:00 pm when the news spread through the airport of the planes crashing into the World Trade

Center towers in New York City. A German gentleman next to me predicated, “This means war.” He turned out to be right. After I landed in Berlin I took a taxi to the hotel. My driver’s name was Mohammed. It was a silent ride into the city.

Q: Yes, very difficult time.

WALLAR: Very difficult times. I stayed at the Westin Hotel in the eastern part of Berlin, a brand-new modern hotel. One of these Jason Bourne movies was filmed at the Westin. One block away from Unter Den Linden and about four blocks away from the chancery. I walked there and saw candles lit next to the barricades that had been erected to prevent any demonstration. Signs pleaded for “Peace, not War.” There was an outpouring of sympathy for the loss of American lives on 9/11 from the German community.

The German economy had gone from boom just after reunification to bust. After 2000 the economy was sputtering, with growth less than the European average. Germany was dubbed “the sick man of Europe.” The economic think tanks I visited in the 1980s were engaged in a robust debate on the need for market, labor, and pension reforms. Jens Weideman at the Council of Economic Advisors, who is now the President of the Bundesbank, developed “Agenda 2010.” This highly controversial agenda included de-regulation of the labor market to make it easier to hire and fire workers depending upon market demand, assistance to train unemployed, and reduced pensions.

Germany’s labor market and economic statistics camouflaged a large, vibrant “black market.” House painters would do the work more cheaply if they did it “off the books,” no paperwork, no taxes. On the books meant that the firm had to pay taxes on the income and make payments to social funds – unemployment, health, pensions – based on its recorded workforce. Weideman’s idea was to bring some of this shadow activity back onto the reported market by making it easier to hire and fire workers. Employers didn’t want to over hire because they had a hard time shedding them if demand dried up. The logic was that the government would gain more revenue. What about the excess workers? “Agenda 2010” called for assistance to help these displaced workers prepare for and find new jobs.

These proposals were highly controversial and hotly debated among political parties and among economists. The Chancellor took a big political risk to push them through. The result was that productivity and economic growth began to pick up. Not immediately, but time as the reality of the reforms took hold. German labor costs rose less than those in France, keeping German exports competitive. Our office prepared detailed quarterly forecasts for the German economy, and we tracked the turnaround. Germany was no longer the “sick man of Europe.”

One of the more poignant events I witnessed in my second year in Frankfurt was saying goodbye to the Deutschmark. When I was in Bonn in the 80s the history of Americans helping create the stable Deutschmark had not yet entirely faded. Yet, at the same time, the groundwork was being laid for creating a European monetary union. In 1999, the new “euro” had become operational. Official exchange rates were fixed between legacy currencies, like the Deutschmark and French franc, and the Euro.

For the Deutschmark the exchange rate was fixed at 1.95 to the Euro. Some argued that this was a low exchange rate and made German exports relatively less expensive, supporting Germany’s preferred export lead growth strategy. But the exchange rate was part of the overall package to create and European monetary union.

The Germans were sacrificing their highly cherished monetary independence to the new, untried and untested European Central Bank (ECB). This was the major concession to the French who desired less strict monetary policy for Europe that the Bundesbank indirectly applied throughout the continent. That is, to keep currencies in line in the European “exchange rate snake” participants had to follow the Bundesbank’s lead to raise or lower interest rates. More likely than not, the Bundesbank followed a tight monetary policy to choke off any signs of potential inflation, even at the cost of holding back economic growth. We used to joke that nirvana for the Bundesbank was zero inflation. The French were hoping that the ECB would adopt a more moderate monetary policy. In fact, a Frenchman would be the ECB’s second president, an agreement reached when the first president, a Dutchman, was named.

Another concession the Germans got for giving up their monetary independence was more strict fiscal discipline by countries adopting the euro. Under the terms of the Maastricht Treaty signed in 1992, countries wishing to join the European Monetary Union (EMU) had to limit the size of their government debt. The deficits could only be 3% of their GDP on an annual basis. The countries also had to have a record of price and interest rate stability.

Not all countries wanted to be in the EMU. The UK opted out. Denmark and Sweden opted out, but 11 countries qualified in 1999 and fixed their exchange rates to the euro. Greece later qualified and adopted the euro in 2001, I think. But it was later discovered that Greece had “cooked the books” and recorded larger deficits than permitted under ECB rules. Greece should not have been allowed to join. But now they were in, reaping benefits of the low interest rate Euro. There was plenty of egg on the faces of ECB officials who didn’t spot the data flaws. Not pretty. Greece’s economy would later suffer and the government squeezed the deficit to right the wrong. They got little sympathy from the Germans – even though it was German banks who had lent them the relatively cheap euros.

All this is the run up to the poignant event in January of 2002, the changeover in physical currency. While in financial markets the exchange rates had been set in 1999 now the Deutschmark currency – paper and coins - was giving way to the Euro currency bill and coins. I went down to square in front of the old Frankfurt Stock Exchange where there was an outdoor public celebration. ECB and Bundesbank officials were talking about the new currency, its design and the images of famous people on the different denominations. The Bundesbank had developed a very colorful poster in the style of Andy Warhol, very sharp, vibrant colors. In large letters, the poster proclaimed it's "Time to say good-by" with pictures of colorful Deutschmark coins.

On January 1, 2002, I went to the ATM in our little village, inserted my plastic card, and out popped spanking new, crisp Euros. We then piled in the car to go to Switzerland for a ski holiday. In southern Germany I pulled into a gas station to fill up and tried to pay for the gas in Euros. The gas station attendant gave me a puzzled look. He didn't know what Euros were and asked for payment in Deutschmarks. That was ok. The Bundesbank had declared that the old Deutschmarks would be good forever. But when you paid in Deutschmarks you were supposed to be given change in Euro currency. This was part of the gradual shift from the Deutschmark to the Euros.

It's getting late. At our next session I can talk about some of the other issues.

Q: Sure, this is going splendidly. I am really pleased with this.

WALLAR: I am glad. I am also glad you ask the questions that jog my memory. When we began Heather thought the process would take three or four sessions. The next time will be our fourth session. Perhaps I should move more briskly. We still have Frankfurt, Afghanistan, and Iraq.

Q: Yeah that is quite a change.

Q: Top of the morning to you. Today is what, the 27th of April.

WALLAR: The 27th, yes it is.

Q: Where did we leave off?

WALLAR: We started to talk about my posting to Frankfurt, the situation in the consulate, the German economy, and the transition from the Deutschmark to the Euro. Now I would like to move on to some of the activities.

Q: Do you have any more to add on the Frankfurt time?

WALLAR: Yes. These topics are a combination of German and European issues. I think I mentioned that Treasury had closed the attaché posts in Europe. The last one was in Frankfurt. It made some sense because Germany was the largest economy and a key player in shaping European economic integration. Also the European Central Bank (ECB) was in Frankfurt, a good window on European-wide economic and financial developments.

One of my first official visits was to the ECB. I met Wim Duisberg, a Dutchman who was the first president of the ECB. He was very distinguished, lots of practical experience. He had been a finance minister, president of the Dutch Central Bank, in the private sector, and in academia. The participants in the European Monetary Union agreed that he was very capable and neutral, siding neither with the Germans or French, favoring a monetary that was neither too tight nor too loose. It was important to have a credible, effective manager at the outset of this new, very important institution.

The vice president was a Frenchman, Christian Noyer, whom I had known from the OECD's Working Party Three. An Italian, Pada-Schioppa, also a former participant in the OECD's Working Party three was on the bank's board. The bank's chief economist was Otto Issing. I had met him when I was in Germany in the 80s. At that time Issing was a pessimist or maybe a realist. He asserted that there could be no EMU without PU, that is no European monetary union without political union. Even when he was on the ECB's board he still referred to the Euro as "an experiment." Without political union, without a centralized governing body for all Europe, an effective monetary policy for Europe would be problematic in tough, stressful times.

There was a Finnish fellow in charge of introducing the new euro currency. Printing the currency bills and minting the coins was de-centralized throughout Europe. This cause a bit of a headache. The slightest variation could be construed as a counterfeit. That is the last thing a new currency needed, undermining its legitimacy. The problem was mostly with coins. A minor difference in the diameter or the weight of the coin could cause problems with automated machines that weighed the coins to accept them as payment. They had people testing euro coins in all kinds of places, including swimming pool lockers that took coins to release the key to secure the locker. They had to be very exact in the way the new coins and bills looked and felt.

I also met the officials responsible for monetary policy and the coordination of member states' central banks and banking supervision as well as those in charge of forecasting and currency operations. They all had experience in performing these same functions in their home country central bank. Very experienced on the technical aspects of the job. Only now they were learning how to coordinate with participating countries' central banks. A new experience.

Q: Jim, was were some of the American reactions to this, the EU and a common currency?

WALLAR: The U.S. government reaction was supportive. We had questions on how it was going to work – one monetary policy for all of the euro countries but 12 different fiscal policies and political priorities. The U.S. Federal Reserve Bank staff was interested in reports of my meetings at the ECB. Naturally, they had their own contacts. My reports supplemented their information or gave them an "on-the-ground" perspective and flavor. While the U.S. government was supportive because of our interest in a prosperous, peaceful, united Europe, we would have conflicts on the financial regulatory side. But not on monetary policy.

The ECB had been created through painstaking groundwork in the European Monetary Institute that set the standards for countries to adopt the euro and poured over the data for qualification. Yet the ECB was brand new and had yet to develop a reputation. Signaling financial markets is an important aspect of a central bankers' job, to guide the market and not cause any surprises or upheavals. The ECB decided that it needed to have more press conferences so it could convey its monetary policy more frequently. This was an innovation that worked well.

Jean Claude Trichet was the second president of the ECB. The French government hoped he would follow a loose monetary policy. In the event, he turned out to be a German in Frenchman's clothing. Maybe that is a little bit too harsh. But he was serious-minded and took a tough approach to quell any signs of emerging inflation, which was very much like the Bundesbank's policy.

The ECB was independent in setting their monetary policy, something that the German's had insisted upon. I recall reading a French financial official's response: "In no country is monetary policy independent of politics." That was their view. But the ECB took its independence seriously. The ECB Board would set their policy. Twice a year the ECB President would make a presentation to the European parliament and take questions. This is similar to how the U.S. Federal Reserve Banks acts with Congress, although the Fed probably appears to answer questions more often.

The ECB had assumed the role of assessing qualifications of possible new entrants to the EMU, such as countries from central Europe. Some of these countries had joined the OECD and had made commitments to open their capital markets. This gave them a track record to demonstrate how, with an open economy, they were able to keep inflation and interest rates low. Also keeping their fiscal deficit within the narrow range of the Maastricht agreement.

Turning back to Germany, Frankfurt was now the financial capital of the country. Recall that when I was there in the 80s Frankfurt was vying with other states – länder – to gain financial supremacy. No longer. The big banks, including Deutsche Bank, did not move back to Berlin once the wall came down. Economic growth generated a larger financial sector, and the Frankfurt Stock Exchange was succeeded by the Frankfurt-based Deutsche Börse (DB) – the German Stock Exchange. It was highly automated. No longer was trading performed on a trading floor with brokers waving bits of paper with bid and ask prices. In the DB all trading is electronic. They had a large facility in the far west side of the city. The Frankfurt Stock Exchange still operated in its old building downtown, but the real action was in the suburbs that, only a few years earlier, were fields and warehouses. You probably remember that part of town, Stu.

Q: I sure do.

WALLAR: Now the West End is populated with sleek buildings that house DB but also the data centers of the major banks. The BD layout was ultramodern. No separate offices, just meeting rooms and open work space. The president, Werner Seifert, was a visionary. His "office" was the corner of a large room with a large table. No one had a walled off space that they could hide behind.

There was a buzz at the time that DB was the leader in trading automation and that it might capture a large chunk of business from London. I recall a study on the issue. Frankfurt's prospects were not that great. Not only did the city have less financial sector turnover, but they also lacked the institutional underpinnings, such as English speaking lawyers and the common law jurisprudence that set precedence in the British courts. But it was a sign of the times that Frankfurt was feeling strong and on the move.

Frankfurt's euphoria was stoked not only by it automation wizardry, but also the dot com bubble. The usually financially cautious Germans were investing in stocks like never before. The market kept going up and up. This was quite a contrast to the past when they preferred to keep their money in low interest savings accounts. Very safe. But the dot com bubble burst, bringing investors down to earth. The market's rise was too good to be true. Some fraud was involved. Humble pie was served.

DB spread its technology beyond Germany's borders by setting up a European clearing system. A clearing system tracks payment requested, received, and registers a change of ownership. When there are millions of trades a day, such a system needs to be efficient every minute. Their system was called Clear Stream and it was gaining market share.

DB started trading bonds at the Chicago Mercantile Exchange on an electronic platform called Eurex. They sought the authorization of the U.S. Securities and Exchange Commission (SEC) to trade stocks using this platform. The SEC put up a lot of roadblocks. While the big exchanges, like the New York Stock Exchange, had such platforms, they were "in-house," that is within the exchange. At this point there was no competition where traders could use a competing electronic platform. DB would be breaking new ground.

The SEC was skeptical. They asserted that they were concerned about their ability to gain appropriate data from DB because it would be stored in the DB computers in Germany. The SEC also raised questions of whether DB was adequately supervised by German authorities.

The DB team was young, on the move, and very clever. They offered access to their data and to be subject to additional oversight by the SEC to supplement supervision in Germany. They were not playing hard to get, quite the opposite. They were willing to address all of the SEC's concerns. I would piece together later that the SEC's foot-dragging was, as far as I could tell, to protect the New York Stock Exchange from competition. Here the country that prides itself on innovation and competition was closing out the market to a new upstart.

The market didn't stay that way for long. New electronic platforms emerged in the U.S. that could directly compete with stock exchanges. DB joined that group, but it wasn't the first with all the advantages that being a first mover entails. Now with Brexit, Frankfurt is feeling it might have a chance to pick up London's financial business, although Paris will give them a run for their money.

Q: Was there a concern at the time that if it got overly automated, things would get out of control. I understand now that the stock market will have an automatic halt of it gets too hot, if the market takes a quick, deep dive.

WALLAR: You are absolutely right. In 2000 automated trading was not as prevalent. The rise of electronic trading platforms gave it a push. But what a push. The algorithms at work now do have a tendency to go in a certain direction and accelerate market moves. I don't think there was as full an appreciation of that back in 2000 as there is today. The SEC didn't raise that as a particular concern with respect to DB's application. They were concerned about the technology. What if it broke down? About the clearing systems, about the ability to trace questionable dealings that might be insider trades, and whether the German supervisors were strong and as disciplined as the SEC felt they were.

Q: What role were you playing in all this?

WALLAR: DB officials would make their case to me. I would write it up and send it off with my comments to the Treasury, the SEC, the U.S. Federal Reserve Bank, and State. I was an intermediary, fielding questions and following up answers. DB officers traveled to Washington to make their case directly and gave me a read out. Treasury's interest in this issue was to have well-regulated, efficient capital markets that channeled funds to investments that would have the highest return.

Q: Did Treasury supervise you? I mean what sort of instructions did you have?

WALLAR: I didn't have any specific instructions. I listened, reported, and commented. The SEC was the agency that would make the decision or negotiate any conditions. I spoke frequently with the head of enforcement for SEC and his staff about these issues. These contacts came in handy when we began to have discussions with the European Commission staff about a European-wide securities market.

Two other German issues: money laundering and privacy laws. We talked about money laundering when I was serving in Switzerland and in Russia. Recall that the Financial Action Task Force, an international anti-money laundering organization was housed at the OECD. The large German banks like Deutsche Bank, said they understood the need to combat money laundering. Treasury's office to combat money laundering had developed a list of individuals whom they suspected might be connected with illegal activities and corruption. They put them on a list of " politically exposed persons." Banks were instructed to be extremely vigilant when opening an account for these people or performing any transactions on their behalf.

Attention to money laundering increased significantly after 9/11. The same tools to uncover money laundering were now used to detect terrorist financing – which often involved money laundering. Treasury issued regulations that could exclude any bank from participating in the New York Federal Reserve U.S. dollar clearing system if they were found to be aiding terrorist financing. This got the attention of German commercial banks. Investing in new computer systems to track individuals and issuing alerts about suspicious transactions and review them was costly. The return on that investment was the mitigation of risks to their reputation if they were caught with a bad actor on their books.

In October 2001, just a month after 9/11 I was invited to give a talk to the Luxembourg Banker's Association. I drafted remarks and had them cleared in Washington. Basically, I made a pitch for the banks in Luxembourg to cooperate with Treasury in tracking terrorist financing. The reception was not overwhelmingly positive. Not surprising. Luxembourg, like Switzerland, is known for its banking secrecy. And there are many foreign bank branches in Luxembourg. While the association officials claimed that they were keen on helping the United States, they did not want to scare business away. Not that they are known for money laundering, but they were known for their discretion.

Germans enforcement officials were interested in helping the U.S. government to combat terrorist finance. Large Muslim communities were scattered around the country, part of a wave of immigration to supply workers to German factories. I recall a case when the German authorities asked U.S. government authorities to provide details about the alleged crime committed by a person suspected of funneling money to support terrorists. Unfortunately, the U.S. government officials would not reveal evidence of the alleged crime because it was classified. Drawing upon their negative experiences in WWII, German officials were not keen on instituting legal actions against individuals in Germany if there is no evidence of a crime that they can read. They were very leery about providing information on someone if U.S. government authorities would not indicate the basis for seeking information.

This leads to the second issue of some delicacy: data privacy. Another legacy of WWII is that Germany has very strict privacy laws. Personal information, such as that held by an employer, has to be kept confidential and protected. In the 1980s in Germany the bank regulators insisted that a person's banking data had to remain in Germany. U.S. banks with a large, data processing centers in the UK, resisted. Data privacy also became an issue at the EU level. International banks based in London would want to share client information, including investment preferences, with their New York headquarters. They said that sharing such information would allow them to better serve their clients.

The Germans weren't pleased. The EU, probably at German insistence, had passed a data privacy directive that applied to all member states. Member states that transposed the directive into national law could transmit personal data to each other. U.S. banks wanted to share such information with their headquarters. The EU enquired about the U.S. data privacy law. Of course they knew that the U.S. does not have one.

The U.S. has data privacy laws regarding certain activities, such as bank accounts and credit cards. But there is no separate, overarching law that applies to data privacy – what should be confidential, how it should be stored securely, who can access it, and how a person has a right to control his/her own data. This became a major issue between U.S. banks and the EU. The EU directive specified that personal data could be transmitted only to a country that had privacy laws equivalent to those of the EU. The U.S. argued that its laws, taken together were equivalent. In the end both sides agreed to a "safe haven" understanding that permitted cross-border flow of data. Later this took the form of the U.S.-EU Privacy Shield. But that won't last forever. This issue has not gone away.

Let's move on to a broader, and in some ways, a landmark issue, the EU integrated financial market. The European Commission, that is the civil servants of the EU, launched the financial markets initiative. The concept was to have EU directives on banking, securities, and insurance, to create a seamless financial space. My German colleagues at the Finance Ministry revealed that they were posting more German officials to their mission in Brussels, the headquarters of the European Commission (EC), because the EC was the driving force shaping new financial regulations.

The idea for an integrated financial market was based on a 2001 report in by Alexandre Lamfalussy. He had been the Director General of the Bank for International Settlement when I was in Switzerland in the 70s. Later he was at the European Monetary Institute with Duisberg, the first ECB president.

The Lamfalussy report underscored the importance of all member states having the same financial laws to create a unified market. Such a market would give banks greater opportunities of scale, promote efficiency and economic growth, and allow the ECB to have a better handle on money developments and implement monetary policy more effectively. The unification of financial markets would also complement the European Common Market or what was now called the European Single Market for goods. One of the early European steps for economic integration was to abolish national tariffs and other restrictions, allowing goods to flow freely across borders. Lamfalussy wanted the same for financial transactions.

To transform this idea into reality, officials in the EC would draft a directive. It was important to understand the direction and details of what was being drafted before it was released publicly which is why the Germans sent their technical staff to Brussels to keep close touch with the EC. After publication of the draft, the EC would hold hearings and receive comments. After revisions the draft would be sent to Finance Ministries of EU member states. After approval by member states, with any modifications, the draft directive would be sent for final approval to the European Parliament.

Once passed by the Parliament, each member state would transpose the content of the directive into national law. You can see how financial regulations in Germany, for example, were now being shaped by the EC in Brussels. National implementation was essential – and could vary according to local laws, regulation, and tradition. But, in principal, not by much. The EU Financial Market Initiative was a massive undertaking. As I mentioned it covered banking, securities, and insurance. Each of these sectors were regulated by many laws and other provisions.

Phone rings

Q: Could you hold for a moment? Ok.

WALLAR: The European Commission was formulating detailed legislation for each of these sectors. I will give you a few examples. Rules on the provision of investment services spelled out regulation and supervision of investment service providers. The draft directive on prospectuses for stocks listed what information should be included and how often it should be updated. Transparency for listed companies listed the data to be provided on a regular basis.

The Commission was drafting directives on banking supervision and capital adequacy. At that time, the bank supervisory committee of the Bank for international Settlements in Basel was developing new standards on capital adequacy, called Basel II. All of these details had been in the jurisdiction of member states. Control was now migrating to the EU.

U.S. banks in Europe were heavily entrenched in the European market and were directly affected by these new rules. Their representatives would lobby the Commission in Brussels as well as their home market Finance Ministry officials. Sometimes they thought the new approach was good, other times they thought the approach would cause problems, whether intentional or unintentional. While the Commission had experts drafting these directives, as an institution they were new to this activity and, of course, the activity was ground breaking – bringing all EU countries under uniform financial regulation.

Sometimes representatives of U.S. financial companies sought my help, or I should say U.S. Treasury's help, to influence the draft legislation. I think I told you before that being a U.S. Treasury attaché was excellent to gain access to high level officials that provide different perspectives of the market. I could approach not only finance ministries but also to bank and securities regulators, national central banks, and the European Central Bank as well as private firms and associations. These different perspectives were enormously helpful to appreciate how particular provisions in a draft directive could affect different segments of the market for good or ill. These perspectives also gave me a good feel whether the European Commission was going off on an unproven or uncharted path or was just trying to consolidate established practices.

In each of these sectors – banking, securities, and insurance – new European level committees were established to help coordinate national implementation and ensure consistency across countries. As I mentioned, each European directive had to be transposed into national law and regulation. A directive could have good intentions but those intentions could be thwarted by shoddy or inconsistent implementation.

The Committee for the European Authority for Securities Regulation – CEASR- was set up in Paris. The banking regulation office, Committee European Banking Supervision – CEBS was set up in London. The one for insurance and occupational pensions was set up in Frankfurt. A nice dispersion around Europe. These committees were the foundation for the European supervisory bodies that emerged after the financial turmoil of 2008 and

2009 and still exist today. Brexit has caused the banking supervision office to be re-located to Paris.

The regulatory situation was dynamic. The European Commission staff were drafting, soliciting public comments on, and revising several financial directives simultaneously. The private sector and European member country authorities were trying to keep up, reviewing the Commission's work in great detail. Now there were three new committees in the act drawing up guidelines for implementation – filling in gaps that, by necessity, broad legislation was not meant to fill. This was an explosion of regulatory activity shaping all of Europe.

U.S. regulators naturally became very interested. I sent reports on each of these draft directives and provided comments based upon my discussions. These reports were used as the basis for briefing papers the U.S. delegation a newly created U.S.-EU Financial Markets Regulatory Dialogue. The idea for this dialogue had been hatched in a meeting with myself, Matthew Goodman who had worked for me at Treasury and now was at Goldman Sachs in London, and Anne Derese, the economic minister councilor at the US Mission to the European Union. The delegation was led by deputy assistant secretary Mark Sobel and included representatives of the Securities and Exchange Commission and the U.S. Federal Reserve Bank. Other U.S. regulatory officials would participate on special topics.

I drafted briefing papers and answered questions to help prepare the U.S. representatives and attended all of the meetings in Brussels and in Washington, D.C. After these sessions I would meet with European Commission authorities to review the outcome and next steps.

A fundamental question arose: whether supervision in one market should be accepted as valid in another market. That is, should SEC supervision of a U.S. firm be adequate so no additional supervision should be needed for a branch of that firm by a European supervisor? Put another way, could there be mutual recognition of the supervision of an entity say in Europe by U.S. authorities and vice versa. For example, if a firm was approved to be listed on the stock exchange of the EU why couldn't the SEC just accept it for listing in the United States? Especially if the U.S. and EU regulations were comparable or equivalent or substantially equivalent. The same principal could be applied to the supervision of banks. This would apply only to branches. Subsidiaries were European entities and therefore had to be supervised by European authorities.

The EU didn't just want to accept the supervision of branches by U.S. authorities because they had serious questions. Unlike European countries, banking supervision is split up among several different agencies in the United States. For example, the EC asked who supervises non-bank financial services in the United States, like GE Capital? The formal response was the Office of Thrift Supervision under the U.S. Treasury. However, that was a very small agency with limited resources. The Europeans wondered whether that office could truly get its supervisory arms around such a large institution like GE Capital. Just a note: the Office of Thrift Supervision was abolished after the financial crisis of 2008.

There were divergences between the U.S. and the EU in accounting standards. By the terms of a directive, in order to be listed on a stock exchange firms in the had to keep their accounts according to the International Accounting Standards or what became the International Financial Reporting Standards, IFRS. In the states companies were required to report using U.S. GAAP, Generally Accepted Accounting Practices. U.S. GAAP was more strict in its rules whereas IFRS allowed some flexibility.

The Financial Market Regulatory Dialogue sought to uncover points of agreement and disagreement and seek areas of common ground. After all, it was in the interest of both that financial markets on both sides of the Atlantic function smoothly and efficiently and to the extent possible, operate the same way for trans-Atlantic transactions.

The equivalency debate was the hottest issue. An autopsy after the burst of the dot.com bubble in 2001 and 2002 revealed a serious inadequacy of the audits performed by the large accounting firm which had asserted that these overexposed companies were just fine. This inadequacy was one of the reasons for the Sarbanes Oxley Act. This Act provided for the creation of the U.S. Public Accounting Oversight Board, PACOB, under the jurisdiction of the Securities and Exchange Commission. It's nickname was "peek-a-boo." Did you ever hear of peek-a-boo?

Q: Can't say that I have.

WALLAR: The PACOB set its own standards for audits and then sought to ensure that companies were adequately audited, according to its standards, before they could be listed on a U.S. stock exchange. PACOB asserted that this rule applied to firms from the EU listed on U.S. stock exchanges. In essence, PACOB wanted to have those European firms re-audited.

The EC was not very happy. The PACOB position would mean that EU companies listed on U.S. exchanges would have to spend the time and the money to have a second audit because they had already been audited to be listed on European stock exchanges. The EU pointed out, with some truth, that the dot.com bubble was the result of U.S. auditing practices, not European ones. In their view, European auditing was fine, thank you very much. The EU asked U.S. authorities to accept auditing performed by a British accounting firm on a company that was listed on the London stock exchange for listing on a U.S. stock exchange.

The first head of PACOB was William McDonough. He had started his career as a foreign service officer and ended up as the President of the New York Federal Reserve Bank. He was tough-minded and commanded respect. One of his first official acts was to meet with the EU commissioner on the question of PACOB's mandate to ensure all firms listed on U.S. stock exchanges had been properly audited. I attended the working level meeting with McDonough. He found a compromise solution where they would accept some European information but do it side by side with the European authorities, then fill in any gaps, if necessary.

Reporting on the EU's financial market initiative gave me an opportunity to travel to those member states who assumed the EU presidency which rotated every six months. At the end of that six month period the member state would host a summit and push for agreements on specific measures, including contentious issues in the financial market initiative. I visited each member state that held the EU presidency – Spain, Denmark, Ireland - and worked with the econ person at the U.S. embassy. We would pay courtesy calls at the Finance Ministry to discuss their agenda on financial issues leading up to their summit. These contacts gave me an opportunity to create a network of econ officers who were interested in these issues. We could share perspectives and clear each other's cables on EU-wide issues.

Q: Was there concern while you were doing that about some of the counties in the EU? I am thinking particularly about Greece and perhaps Italy, that they were not really quite as strong as other members.

WALLAR: You are absolutely right. This was a concern which is why the EC wanted to have regulation at the European level, to raise all member states to the same high standard. German banks were concerned that Italian banks would say, ok, we have met the EU standard now we are going to set up in Germany without the need to be supervised by the German authorities. Or we can begin operations to take deposits from Germans electronically in Italy. This concern was one reason Germans paid close attention to the EU draft directives and the guidance issued by the three regulatory committees to oversee implementation. These regulatory committees could look at details at what a member state was proposing as regulations and raise questions or provide comments so that all would have a high level of confidence that the directive was being implemented properly and all countries were measuring up to the same or similar standard.

Q: Did the absence of Great Britain cause problems?

WALLAR: At this time, the British were fully in the EU and deeply engaged in these discussions. The political level commissioner handling these issue – Director General Market – was a Dutch fellow, Frits Bolkestein. His deputy, the career person, was a German and one of his deputies on the securities side was British. He had excellent contacts with British banks and regulatory authorities. The deputy in charge of banking was a Dutchman, but he also had great connections around the EU, including the UK. Given the large size of the British financial market – which really was the EU financial market - the Brits had a significant influence on the draft directives.

With Brexit, this will change. Some of the market will migrate to the continent. Banks doing business throughout the EU want to have a headquarters governed by EU regulations so there can be no question of their ability to operate throughout the EU. I mentioned early that the regulatory forum for EU banking has moved from London to Paris.

A less serious but entertaining event happened in late spring of 2002. Treasury Secretary Paul O'Neil had agreed to travel to several countries in Africa with Bono, the lead singer of U2, an Irish rock band. Bono was interested in African economic development and had studied in his spare time with Jeferey Sachs of Harvard. He was serious minded and, through persistence, secured an appointment with Secretary O'Neil. The meeting was supposed to last for 10 minutes but it went much longer. O'Neil enjoyed fresh thinking, and Bono gave him plenty to think about. O'Neil was also interested in development so they agreed on a joint fact-finding trip.

I was told to meet Bono at the Frankfurt airport and take him to meet the Secretary. Bono arrived early in the morning, on an overnight flight. He bounced off the plane. We introduced ourselves – my deputy who was a fan – and I who didn't know Bono from bananas. He had gone straight from a party to the airplane in New York City. A bit disheveled, he declared, "I might not smell great but I feel great."

We took him to meet Secretary O'Neil a few hours later. Bono dashed up to the Secretary and embraced him like a lost uncle. This is going to be a great trip. They really were an odd couple. O'Neil short, white-haired, reserved in a suit and tie and young Bono, outgoing, sun glasses, and black leather jacket. I wasn't on the trip, but I understand it went well. Good press coverage highlighted economic development challenges.

In November 2003 I was walking our dog – Riji from Russia – on a path behind our house when I received a telephone call from the undersecretary of Treasury, John Taylor. He asked me if I would spend six months in Afghanistan.

Q: Thank God.

WALLAR: Not so sure about that. These were really interesting times in the EU and Germany. I was travelling around Europe and taking monthly trips to Berlin. I had no background in Afghanistan. Taylor explained that I would be the chief economist for the Afghan Reconstruction Group (ARG) based in the embassy. I would report to the head of the ARG who, in turn, would be accountable to the Ambassador, Zalmay Khalilzad. The DCM was David Sidney. Have you met David Sidney, Stu?

Q: No, I haven't.

WALLAR: Sidney is a really top rate foreign service officer. He had been DCM in China. After Afghanistan he went back to State and several years later went over to the Defense Department. In fact, my son worked for him around 2007.

The concept of the ARG was to have private sector specialists advise Afghan government officials on reforms that would boost economic activity. Khalilzad and Taylor and others in their group at the Defense Department believed that assistance provided by the US Agency for International Development (USAID) was too slow moving and would take years to have any discernable effect. The State Department officers in the embassy reported on development but had no to little role in providing technical assistance, with a few exceptions. ARG private sector specialists were to provide assistance directly to the ministers and ministries and have a more immediate effect. At least in theory.

I said that the post sounded interesting but asked, “What happens when I came back from Afghanistan?’ He answered with a question, “What would I like to have happen?” I said I would like to spend two more years in Frankfurt. He responded with an, “OK, done. After you return from Afghanistan you can spend two more years in Frankfurt.”

Several days later I had a telephone interview with the head of ARG, a fellow by the name of Jack Bell who was the former CFO of American Airlines. I was having lunch with a German Bundesbank official and had to excuse myself and step outside. The weather was cold but the interview was short but went well. I was offered the position on the spot.

Gale and I discussed the situation. Our daughter Emily had graduated from Frankfurt International High School with an IB and was now at Bates College in Maine. Our son was in his senior year at William and Mary. Gale would be alone in Frankfurt, but as an artist, she always had plenty to do.

I felt that many men and women had been asked to serve and had done so. I didn’t feel that I was exceptional. That is, “Why should I not serve? Is there anything that makes me special to avoid service at a hardship post?” The answer was no. It was only six months. I would have one trip home, Frankfurt, and one trip for my son’s graduation. I agreed to go. Gale filled in her time by becoming heading up the Community Liaison Office at the Consulate, a CLO, which was quite a challenge.

Q: What does that mean?

WALLAR: CLO?

Q: In my time we didn’t have CLOs.

WALLAR: CLOs help U.S. personnel get settled in the local community, giving tips on schools, doctors, shopping, and holding social events. Gale found it a challenging experience because Frankfurt, as you probably know better than most, is not exclusively a foreign service post. It has more non-foreign service families who are agents for their associated agencies, such as providing regional support to embassies in Europe and Africa. These families had not expected to live overseas and were not particularly keen on learning German ways. They were more interested in shopping at the military commissary than learning about German grocery stores and bakeries. It was a big challenge for her with many frustrations. She did an excellent job and worked closely with the consul general and his deputy.

I departed Frankfurt in mid-January 2004, flying to Baku, Azerbaijan. There I met Bill Taylor. I don’t know if that name rings a bell to you or not, Stu. Have you talked with him?

Q: I don't think so. I know the name.

WALLAR: He was in the news recently because he was the U.S. ambassador to the Ukraine. The first time I met Bill was in Moscow where he visited in his capacity of coordinator of U.S. assistance to former Soviet states. He would discuss how Treasury's technical assistance completed work by USAID.

We flew from Baku to Kabul together on an Air Azerbaijan flight, the only commercial carrier servicing Kabul. Bill was coordinating U.S. assistance to Afghanistan. He was very kind to take me around town on his whirlwind two day visit to meet the UK and Canadian ambassadors and Afghan government contacts, including Ashraf Ghani, the finance minister. Ghani is now the president of Afghanistan. Ghani had worked at the World Bank and applied his experience and considerable intellect to help move Afghanistan up the development ladder.

Flying into Kabul was a unique experience. Snowcapped mountains bordered parts of the city, but the predominate color of the landscape, including the city, was brown. Dark brown, light brown, medium shade brown. Deep valleys with slight slips of green along the banks of a stream or river, and the white of the snow-capped mountains. Otherwise brown. Kabul was different shades of brown, different shapes of brown, some square, some round, some low, some high. No high-rise buildings like you might see in other modern cities. It was like the whole city was camouflaged to blend in with the flat tan plains that merged with tan mountains capped in white - snow. This first imagine cemented the reality that Afghanistan is a mountain desert.

We landed and taxied down the runway where on either side of the tarmac were burnt out planes and tanks. It looked like a junkyard. There was no fence around the landing strips or airport. The reason: the whole area had been boobytrapped with land mines by the Taliban. The government hadn't had time to clear out the land mines. The mines also provided the benefit of deterring terrorists, so funding and building a fence was not a high priority. That probably isn't the case anymore now that Kabul gets more international air traffic and needs to comply with international standards.

The ride to the chancery in a mini-van was fast and bumpy. We had to wear helmets and bullet-proof vests, my first such experience. The driver sped through narrow streets in the settlement close to the airport to avoid being waylaid by terrorists. The chancery was old and was rather beat up, dusty and scarred with bullet pockmarks. The Taliban apparently never occupied the building and left it deserted. Old pictures were hanging on the wall, dusty and untouched: President Clinton and Secretary of State Christopher. The rose bed along the front of the chancellery was intact. Apparently, the chancery's gardener stayed on duty, tending the grounds during the time of the Taliban.

The chancery housed all the offices of regular foreign service officers, including the Ambassador and DCM, some military, and was the temporary headquarters for the ARG. The large foyer on the ground floor had been carved up into small offices with movable petitions. Old tables and desks had computers that the military had wired up. The entryway was dusty and cold because there was no central heating. My desk was in a dark corner of the entryway.

The grounds surrounding the chancery were covered with "hooches." A "hooch" is a long metal freight container, essentially a metal box that could be hauled as trailer or placed on a flatbed railroad car. These trailers had been divided down the middle and converted into two single unit living quarters. Each living unit had a toilet and a shower that had one minute of hot water, a bed, chest of drawers, a table, a bed and a microwave. Every Saturday morning, I would clean it from top to bottom. It took about an hour. That is how small it was. After a week every flat surface and the floor was covered with fine dust. The ambassador also lived in a "hooch," but his was a full double wide with a seating area where he hosted visitors.

Hooches surrounded the chancery. Within a couple of weeks a few new hooches were built directly in front, next to the rose gardens. One was our office about twenty paces from my living unit. Shortest commute I ever had.

The hooches behind the chancery were basically bunk houses with communal showers occupied by a Marine company. In Kabul we didn't have the usual Marine honor guard, the very nicely dressed Marines with pressed shirts and trousers and shiny shoes. These were real grunts, 18 and 19 year old men in well-worn battle fatigues They were guarding the chancery grounds that were walled off, in part with large barriers filled with dirt or sand. The Marines had a unit on the roof that was rimmed with sandbags with openings for their guns. It was like Fort Apache in the movies. One night they snuck a space heater onto the roof, but they blew a main fuse when they plugged it in. That night all of us went without electricity – which meant no heat. It was a cold night.

We all ate, that is Marines and civilian staff, in a common mess hall. The Marines would stack their rifles inside the door and stand in line with the rest of us. They downed large portions of food. I was not a fan of the food, but it kept us going. The Asia dishes – curries - were the best as the cooks were largely from India or Pakistan.

I reported to Jack Bell. A few other members of the new ARG had arrived and more would trickle in over the coming days. One was an Afghan geologist. He had worked in the Ministry of Mines and Petroleum, been a friend of the king, and had been imprisoned by the Russians. He was Paris-educated and as a young man had traveled the length and breadth of the country on mule back making an inventory of potential minerals deposits.

Another ARG member was an American-born Iranian doctor. His father was Iranian, his mother was American from New Jersey. His father was the physician to the Shah. He was educated in the states and had a New Jersey accent, but his professional career started in Iran where he created a health care system in the countryside. He was a very popular and an energetic. Naturally he spoke Farsi but could understand and speak Dari which he was close in sounds and meanings. He was extremely competent and sensitive to what could be expected in Afghanistan.

A lawyer from New York City, a judge from Florida who was an army reservist, an education administrator, and a public affairs specialist who had recently retired from the Pentagon rounded out the team. I was the only U.S. government employee in the group.

I didn't fully appreciate at first that the group had been fashioned by more conservative elements of the U.S. government in the Defense Department. As I explained, the concept was to have an experienced, agile group to give advice and achieve quicker results than the typical technical assistance methods. The ARG was given logistical support by the Pentagon, a team headed up by a former Secretary of the Army. The concept of the ARG later morphed into the Task Force for Business Stability Operations created a few years later to work in Iraq.

The ARG office was just tables side-by-side against the long wall of two hooches joined together. Jack sat at one end and the rest of us filled in. I sat between the judge and the geologist. Since we were in an arid climate, a mountain desert, we had to make sure we stayed hydrated. Every other day a case of bottled water was delivered to our desks. We knew that we were drinking enough water by how many bottles were missing from the case.

I attended country team meetings chaired by the ambassador with Jack Bell. Ambassador Khalilzad and finance minister Ghani were both from Afghanistan but were as different as night and day. Both had attended the American University in Beirut. Khalilzad, I heard, was the head of a conservative student group, and Ghani the leader of a liberal one. Khalilzad was tall and sturdy, prone to wear sun glasses and walk with a movie star swagger. Ghani was slight of build, very precise in his words and mannerisms that were almost monk-like. Not to say that finance was his religion, but he regarded people and ideas with reverence. Khalilzad had taken up with conservative members of the Republican party and specialized in national security matters. Ghani pursued a career at the World Bank, including a posting to Russia during the time of its attempted economic transformation.

I met and worked with some of the advisors who reported directly to Ghani. One was Zima Ghani, no relation to the Ashraf. Zima Ghani, I had worked for one of the big accounting firms in London and had returned to the country after the fall of the Taliban. Ashraf Ghani appointed her to be the head of the budget department. She was a very engaging and devoted individual. She ran an orphanage for Afghan children which she supported from money she earned from a rustic restaurant called Caravanserai. She gave her all to try to get the country on a more solid budgetary footing.

Several Afghan experts in the finance ministry were from the California state government in Sacramento. The largest expat Afghan community in the United States at the time was in Sacramento. When these experts returned some were shocked at the devastation that Kabul had suffered during the reign of the Taliban and the civil wars. For example, the western part of Kabul that had been the hot night spot with movie theaters and restaurants. Now is was largely rubble. The old, elegantly-domed parliament building at the foot of a mountain in west Kable, at the end of a wide, tree-lined boulevard regarded as one of the most beautiful in Asia was now just a skeleton of the building, and all the trees had been cut down by the Soviets scavenging for firewood. Just tree stumps and rubble.

To be able to leave the U.S. compound I had to get permission from the regional security officer, the RSO. I had to sign out and sign in, so they know my goings and comings. Fortunately, I could travel with an Afghan driver and without an armed guard, "shooters," they were called. The ambassador always had armed guards. A few years later all embassy personnel would have to have armed guards or couldn't leave the compound all together. 2004 were still early days. We could go in and out pretty easily, giving 24 hour advanced notice to the RSO. The only time I needed shooters was when I was with a group traveling by car through the countryside to Bagram Air Base. Anything could happen.

Treasury had a few technical assistance advisors. Several were working on customs law and regulation, another on the budget process, and a third on debt management. Initially I spent time on customs issues with which I was familiar from my first job in the U.S. Customs Bureau and from my trade policy experience. One of the first important issues was to secure customs points of entry along the border. That was important so customs experts could classify and ascertain the value of goods coming into the country so they could levy the appropriate customs duty.

One of the border crossings in the north was controlled by a local war lord and his militia who refused to let the government set up offices at the border. To solve the problem, the government customs officials offered to give the militia customs uniforms, a hut to protect them from the elements, and a salary. To my surprise, they accepted. Official customs operations at that border crossing could begin.

One of the reforms in the new customs law was to levy customs duties on an a*d valorum* basis, that is on the value of the goods. If the imported goods were valued at $100 and the duty rate was 10%, the duty would be $10. If the tariff were 5% the duty would be $5. Another feature of the new law was to set the currency conversion rate at the official daily exchange rate set by the Afghan Central Bank. If an imported good was valued at $1,000 the official exchange rate would be used to convert that value to Afghanis. A third reform was to adopt international product classification rules set by the World Customs Organization. These reforms made duty classification, valuation, and duty assessment crystal clear, transparent.

These reforms differed greatly from the traditional method of customs operations. You can imagine Stu, merchants arriving at the border with trucks heavily laden with tires from Pakistan or Iran, or camels with goods strapped to their backs, which were still used to cross the high desert. These merchants would sit down with a customs agent, sip tea, and talk about their families and the weather. Eventually they would get around to discussing the goods they were importing and what duty they should pay. It was a very informal system. The new system established a totally transparent and easily predictable way to set duties. This was uncomfortable because it allowed for no negotiation.

The chamber of commerce in Kabul complained to ambassador Khalilzad who agreed to meet with them. I briefed Khalilzad on the new customs law while en route to the meeting. He was a fast study and understood the advantages of the new law but also was sensitive to the old ways. We arrived at the meeting that the chamber held in a tent. They had many representatives who wanted to attend and needed a large space. Tents were often used for such large gatherings.

We walked into the tent and the site was out of a picture book. The ground was covered with overlapping rugs, beautiful rugs, fine rugs. Most of the men were seated cross legged on the rugs and wore robes and turbans of all shapes and colors. A few wore business suits. Ambassador Khalilzad strode in, a local Kabul boy now wearing a business suit, white shirt and tie and his signature sunglasses. He spoke to them in Dari.

His basic message was that as a conservative Republican he too didn't much like taxes. He understood their hesitancy to embrace these new rules that would make paying customs duty automatic. Then he pointed out that the Afghan government is very small, and it needs to take care of some of the real needs of the country like roads, like telecommunications, like telephones, like schools. The government needs some money, he argued, so that it can meet these needs of the population.

He went on to explain that the new customs law will help generate revenue and provide certainty in the marketplace so the government can plan and merchants can plan. I wouldn't say he was so convincing that they were eating out of his hand because they posed tough, critical questions. But by supporting the new law and the Finance Ministry, he lowered the temperature on the issue. The new law eventually went into effect.

One time I accompanied the ambassador where the surroundings were not as friendly. The Minister of Commerce had imposed an extra tariff on tank rail cars filled with petroleum. The funds were used for whatever he wanted, it seemed. His intentions didn't seem dishonorable. He wanted more funding for his ministry than allotted in the budget. Since the Commerce Ministry was responsible for the petroleum transport market, the rail tankers presented a target of opportunity. But the tariff was not authorized by law.

Ambassador Khalilzad took up the cause. I accompanied him to a meeting with the Commerce Minister. Even though it was dusk the ambassador donned his trademark sunglasses. We had the ambassadors armed guard, but the minister had many, many more. Guns in every hand it seemed. We walked across a parking space with trucks and SUV, lined up, men smoking, holding their guns casually. There was a certain tension in the air, I am not sure why. I recall feeling a bit uncomfortable, wondering what would happen if the wrong word was said. After the meeting the minister dropped the tariff in exchange for getting more funding from the budget, as I recall.

We also worked with customs on streamlining the payment of customs duties, so there would be a quicker turnaround between the time the merchandise was officially imported and the duties actually paid. The old system involved taking official documents – import manifest, customs duty assessment, payment forms - to several different offices. Then the receipt from the local branch of the central bank was taken back to a customs office to show that the duty had been paid. We helped streamline this process so only one office was involved to review the documents and receive payments duly deposited in the government's central bank account.

U.S. Treasury technical assistance experts also instituted a single treasury account so that all monies would flow into one account. Since Afghanistan was a federal government, this meant that revenue generated at the regional level would be sent to this single account at the federal level. The Finance Ministry could draw up a budget based on estimated revenues from all government sources, federal and regional.

Some of the regional governors or warlords, as some were known, resisted transferring adequate revenue to the federal government. The Finance Ministry wasn't very strong and the president, Karzai, did not want to make trouble with war lords because he depended upon them to keep peace.

There was a particularly notorious or infamous governor in Herat, Ismail Khan, who transferred some money to the federal treasury but kept a portion for his region. He used some of the funds to improve or widen streets, erect street lamps, and build schools. He was a wily character, a friend of Iran's since his region bordered that country. But he got good marks from the local population for taking care of their needs. Kabul was so far away ruled by faceless bureaucrats. Folks in the region were not certain that if they sent the money to the federal government whether they would ever see any money flowing back to the region as envisaged in the federal budget. So best just hold on to the money. Karzai kept the peace by making Khan's son the aviation minister.

Treasury experts worked on budgeting issues with Seema Ghani. One of the budgeting principles in countries that receive substantial foreign assistance, such as for education or health, is that the value of that assistance should be reflected in the government's own budget. If the government budgets 100 for health and then foreign assistance comes into the tune of 500, then the country is really spending 600 is on health. If all is being spent wisely and meeting genuine needs, the government would need to consider how to ramp up from 100 to 600.

Of course this process could undermine federal funding. If an agency proposed 200 for its budget and 600 flowed into the agency through foreign assistance, then the budget director could cut the agency's budget to 100 or 150 if it wasn't used to complement the assistance. The principle is to understand how much money is being devoted to a certain sector to achieve the objectives of the government and its budget.

I attended the first budget hearing held by Seema Ghani. She would ask the relevant minister about budget needs and then invite a representative of foreign assistance agencies on their plans for that sector. She aimed for an integrated approach to get a clear picture of needs, expenditures, and whether assistance agencies were overlapping with each other and were coordinating closely with the relevant government agency. Sometimes a foreign donor's assistance was programmed back in its home capital rather than meeting an immediate local need. This was unfortunate and a potential waste of scarce resources. The budget dialogue between government agency heads and foreign assistance provider was new and much needed.

We worked with a UN group to set up a donors assistance data base, DAD. Agencies could plug in amounts and projects they were programming for a particular sector. This provided transparency and helped in planning. USAID was at first reluctant to provide data but finally did. The military was very reluctant. In part perhaps they lacked detailed knowledge of what commanders were doing in the field.

The commanders in the field had access to CERP money, Commanders Emergency Response Program, that they could use at their discretion. They could install water pumps, build health units, or refurbish schools. The expenditures and projects were a gesture of good will to the local community, and helped to ingratiate the U.S. military command with the local population. CERP projects were controversial because they were one off episodes, not part of any comprehensive development plan nor sustainable. For example, if a commander built a school it was not clear there was money to operate and maintain it, that is to pay teachers and custodians. Or whether it was a priority of the local community. Some of the foreign delegations didn't like the military getting involved in development assistance. The U.S. military didn't provide data for the DAB but did provide computer jockeys to set up and operate the data base.

The World Bank and the IMF had small offices where we often had meetings together with U.S. Treasury technical assistance experts. The Treasury debt management technical advisor was very effective. He set up an office in the Finance Ministry with three young men and taught them about managing debt. The advisor had been in a Wall Street firm then gave it up to provide assistance to developing countries. A more fulfilling line of work. He knew his stuff.

One of the most important debt management issues was dealing with Afghanistan's debt to Russia. Russia had occupied the country for several years and rolled up quite a bill providing resources to their local clients. Russia insisted the bill be paid in full and on time. The Treasury expert explained how that was technically impossible. We met with the Russians in Berlin. They eventually agreed to reschedule the debt.

The meeting in Berlin was on the fringes of a donors conference. It took place in April and was my first trip out of the country since January. I helped prepare the Afghan Finance Ministry for the donor conference, using the DAD and filling gaps. I contacted all of the G-7, that is Group of Seven, country embassies and inventoried their technical assistance, what was underway and what was being planned. The G-7 is composed of the U.S., UK, Germany, France, Italy, Canada, and Japan. I created a spreadsheet and wrote a report that was used at the G-7 deputy finance ministers' meeting running up to the Berlin donor's conference.

I worked with the head of the Central Bank of Afghanistan on operationalizing a clearing account at the New York Federal Reserve Bank. Most central banks have a dollar clearing account where a foreign entity – bank usually – forwards funds destined to another country. The Central Bank was having difficulties getting their clearing account up and running. I made some contacts at the Fed who got the account back on track.
As you can imagine, money laundering and terrorist finance were important subjects. Treasury advisors helped the Central Bank on this, including through teleconferences.

We also worked with micro financing institutions. These are small operations that lend money to a small "mom and pop," or "father and son," or "mother and daughter" operations. This loans were very small, not worth the time or effort of a regular bank. The repayment rate was universally high. A few of these micro finance outfits grew into small commercial banks.

I took a few trips outside of Kabul. I visited the U.S. airbase in Bagram and an U.S. army outpost close to Khost. Both trips were overland by van. On the way to Bagram over hilly terrain I noted a group of men dressed in white coveralls kneeing on the ground and prodding the dirt in front of them. They were searching for land mines! In Khost we met with U.S. Army reservists who were building a school. Their base was in the middle of a wide plain, easy to see any approaching enemy. When the gates opened to allow us in I really did feel like it was a fort on the frontier, sandbags and vehicle barriers for protection.

We traveled to Jalalabad, a town on the eastern side of the Khyber Pass close to the Pakistan border. The town is a major customs point of entry. We were examining how the new customs payment system was working in the field.

Our flight was in a small UN plane, maybe a ten seater. The pilot executed a corkscrew landing which is descending in loops so as not to present a static target for any missiles. Comforting. Immediately after the last loop we touched down. Terra firma! We walked over to a couple of white, pickup trucks that would be our transportation. Each truck had a local driver and a couple of turbaned, rifle-carrying young men as our guards. Not the U.S. contractor shooters that we were used to at the chancellery. They looked like Taliban with white robes and long beards. I joking asked if they were on our team. I just got smiles. We clambered on the bed of the truck and off we went to the heart of Jalalabad.

Downtown is a spider web of narrow streets lined with vendors. Huge transport trucks laden with all manner of goods and bulging at the seams, squeezed through the streets, often backing up to complete a turn. Camel transport had no difficulties. Traffic was very congested around the customs offices. Efficiency suffered and tempers flared.

A senior customs official drove us to a small, new customs compound on the outskirts of town. Own their own initiative, the local customs office levied a small fee on trucks entering the country to pay for the new compound. This was extra-legal because the levy was not authorized by the federal government. But the truckers agreed that driving in downtown Jalalabad was a waste of time and energy. They couldn't easily access the customs office, and parking space was severely limited. They readily paid the assessment.

The new compound was several acres just off the main road. There was an entrance booth for registering trucks, a few offices in a row, and ample parking. The truckers could spend the night. We saw several lighting camp fires to prepare their evening meal. The cost of the compound was modest since they used local labor and materials, mostly bricks of dried clay. This was a wonderful local initiative that reduced traffic congestion in the town, to the relief of the citizens and truckers, and provided for an efficient and less stressful collection of customs duties.

We met with the governor in his spacious, sumptuous mansion. It was like another world. Nestled next to a barren mountain outside of town and in the midst of visible poverty was elegance that would have rivaled that of any millionaire. I had a hard time understanding how the two worlds co-existed. Then again, I was a naïve American and new to the country. It had always been that way.

Another trip was to Kandahar in the south. We flew in a military transport rather than driving on the recently completed Kabul-Kandahar highway. USAID had funded the project and pulled out all the stops to get it completed at the end of 2003. It was a showcase accomplishment, bringing the country closer together, so it speak. The highway was the first segment of a planned road that would ring the country – because the interior was so mountainous. I believe an Indian company did the paving. There were some incidents during construction, intimidation of the workers. While the road was smooth, the distance was long. We decided to fly.

We landed at Kandahar air terminal, a space age looking building like something out of the Jetsons. Very modern appearance. But dusty, old, and being used by the military rather than for commercial purposes. The terminal had been built in the early 70s as a transit point for flights on the Europe – Asia route. At that time propeller powered planes couldn't fly from Europe to Asia without stopping for fuel. The Kandahar terminal was built as a refueling stop. Clever idea, but jet aircraft rendered the idea and the airport obsolete. It was built in modern architectural style overtaken by even more modern aircraft.

In Kandahar we met with the governor in a small office, enjoyed lunch seated on a rugged floor, and drove some distance to visit a peanut crushing facility. Since the area is basically desert, the plants thrived on drip irrigation. We visited a school where preparations were underway for a local election and were showed a water pump installed by the U.S. military. We drove by grape vines and drying shacks where bunches of grape were hanging transforming themselves into raisins. The shacks were narrow, mud brick, rectangular structures with open ends and small holes in the side walls. Slender poles rested in the holes, stretching across the width of the shack. Bunches the grapes rested on the poles, and the wind breezed through to dry the grapes into raisins.

Q: Sort of like tobacco sheds. In the south they hang leaves of tobacco in drying sheds.

WALLAR: That's is right. The drying racks in the south in the states.

Afghanistan has few exports. Rugs are probably the largest in terms of value. Raisins are another. There was a Canadian fellow in Kandahar who had set up a raisin processing operation. He employed war widows, women whose husbands had been killed by the Taliban. They picked the grapes, dried them to raisins, sorted the final product and packaged them for export to Europe. The effort was successful, unfortunately a rarity in this part of the country.

His success bred jealously. Raisins shipped from Kandahar to Russia and Europe had to be transported by rail through Pakistan. Sometimes the Pakistan authorities would put the railcar with raisins on a side spur and let it sit for days in the hot, blistering sun. The raisins would spoil. By the time the raisins arrived in Europe they were inedible. This didn't happen all the time but when it did it was frustrating. The enterprise did well financially and did well socially by employing war widows. As Ashraf Ghani would say, any effort to elevate the population from absolute poverty to poverty with dignity was greatly appreciated.

The Afghan geologist on our team, Murzad, was convinced that the central part of the country contained rich mineral deposits. He was drawing upon his previous experience because it was too dangerous to travel to those remote areas. Years later a new assessment by U.S. geologists confirmed his earlier findings. However, access to those riches was difficult due to the rough, mountainous terrain. The cost of extraction was prohibitive. But I understand some Chinese firms are exploring the prospects.

I worked with the German technical assistance program, GTZ, on developing a technical assistance program to train young men who were discharged from the militia or quit the Taliban. This was part of a demobilization, discharge, disarm, strategy. We wanted training to match skills demanded in the market, such as bricklaying or carpentry or electricians. After the men passed their practical exams, they were given basic tools. There was a non-profit group trying to do the same – providing a training and tools to newly demobilized militia. We tried to get a U.S. firm to donate the tools, but it didn't work out.

At any meeting the Afghan host, whether government or private, high or low level, always served tea and raisins or nuts. No matter how poor the place, they always served a cup of tea and raisins. Very hospitable. I went to a few private upscale homes where they would always serve the local rice pilaf. There were very few restaurants at the time, one or two catered to ex-pats. One of my most memorable meals was when a bought a freshly cooked kabob folded into a freshly baked bread with the local sauce at a roadside stand. Spicy and tasty.

I never felt physically threatened although the risks were everywhere. I never took long walks out of the city because of land minds. A helicopter pilot who had taken USAID officials to a school down south was shot in an ambush at the school. US officials were attending the opening of a new school and he was murdered trying to help the Afghan people. The DCM presided over a memorial service that concluded with a helicopter flyover with one empty position in a four-helicopter formation. Very moving.

The ARG judge, Pat Manney, was injured when his vehicle was damaged by the explosion of an improvised explosive device, IED. He suffered from some complications afterward and was in Walter Reed Hospital for a while.

A missile or two landed across the street from the chancery in an empty field. One might of denotated. But they were not “guided” missiles, more random shots in the air. The field was a construction zone for the new chancery and living and office hooches. Access from our current location would be through a tunnel under the road. We called it the compound across from the American embassy or CAFE.

Jack Bell let me fly back to the states for my son’s graduation from William and Mary. It was a quick trip but wonderful to see my wife, daughter, and Nick was well as relatives who came for the celebration. Witnessing Nick walk through the doors of the chapel, a tradition, was splendid. John Stewart, the comedian, gave a superb commencement address. Within a week I was back in Kabul.

Unfortunately, I received complaints about U.S. security drivers. These were private contractors paid by the Department of Defense or State. Transportation and security were their jobs. They adopted the philosophy that driving as fast as possible and taking up as much space as possible on the road made for good security. But the roads were narrow and used by cars, trucks, bicycles and pedestrians. When U.S. cars or vans came whizzing by, locals with their small cars or mules or just walking would be have to move quickly out of the way. I wouldn’t say it was an official complaint, but it was a complaint that came from advisors close to the Finance Minister. I passed it on to the RSO. The U.S. military brass did not share the same philosophy and pointedly told the RSO that high speed driving was unnecessary.

For the most part, security wasn’t a major issue. I would be driven to the Finance Ministry and around town by a local driver without any issues. Just across from the Finance Ministry a new hotel was being built, the Serena, which would cater to international tourists. I talked with the project manager about security. He was hoping for better times in the future.

On one occasion I walked on Chicken Street famous for its vendors of antiques and curios. Tourists used to flock to the stores. No more. The merchants were glad for our business. Most of my shopping was done on a NATO military base. Local vendors were screened as they came in and set up stalls to sell rugs and local arts and crafts. I purchased a few rugs. When I departed post I gave most of my clothes away and packed my trunk with a couple of rugs.

We worked seven days a week from 7:30 in the morning until 7:30 at night at least. Having spent part of my career working in embassies I had the habit of writing cables to report on significant activities. Most of the ARG staff was in one hooch and attended regular staff meetings so we shared what we were doing . Since I knew what the ARG advisors were engaged in, from time to time I would write a cable on their activities. Jack Bell agreed but wondered why cable reporting was so important. I explained it is the lifeblood of desk officers in the states because it gives them a sense of what we are doing that they put in a broader context of U.S. government engagement.

The ARG was not well accepted by State or USAID. We reported to the ambassador, not through any other chain of command. This made sense to the advisors who were highly respected in their fields. They had never worked in the government nor needed to coordinate so much with others. Later the State Department sent inspectors to examine the operation of the embassy – the ambassador and staff. They particularly queried Jack Bell on what he thought ARG was doing. Jack got a big smile on his face and pulled out my cables and said, “Here this is what the ARG has doing. All in open channel reports. No secrets.” The cables served Jack and the ARG pretty well. Jack told me they “saved his ass.” I’m not sure about that, but they did provide useful records.

Towards the end of my stay I worked with representative of the UN and EU on a checklist of development actions that the government of Afghanistan would take to show that they were delivering on their policy promises and using foreign assistance effectively. The idea for the checklist arose at the donor’s conference. The Afghan government lead for this initiative was the Foreign Ministry. I worked with a young Afghan who had come back from North Carolina to support the government. He was an assistant to Abdullah Abdullah who today is Ghani’s vice president and rival. I think this checklist was effective for a while, giving some assurance that the donors and the Afghan government were on the same page.

The ARG’s medical expert worked with regional clinics. Most were ill-equipped and poorly funded. He helped them prepare budgets that were results-oriented, to demonstrate what they could achieve if they had more funds. USAID was under pressure to build more clinics in the countryside. They contracted out the construction and had a firm check up on the work. Unfortunately, many of the structures were poorly built or were not culturally sensitive, like having one entrance for both female and male patients. It was a scandal. Money and good will wasted.

I agreed to stay for six months and the time went quickly. I returned to Frankfurt around the Fourth of July. When you are working seven days a week on what seems to be important, ever changing issues, the adrenalin keeps pumping and the energy flows. I hadn’t realized that until I returned to Frankfurt and spent my first quiet day in six months how tired I was. My body let go. I had lost 20 pounds and was exhausted. It was good to be back in Frankfurt.

Treasury had sent an acting attaché during my absence so the office work had kept humming along. I resumed my work on the Financial Markets Regulatory Dialogue, tacking draft EU directives, meeting with industry and government representatives, writing reports, and preparing briefing books. I should have mentioned that in addition to country team meetings in Berlin, I also attended meetings that the US Mission to the European Union. The US ambassadors were very interested in financial market integration and the Mission had an excellent economic team. We coordinated very closely, and I cleared my EU subject cables with them.

This also was a time when there was a succession of new member states joining the EU. Poland, the Czech Republic, Hungary, Slovakia, and Slovenia. Their membership flowed from the market liberalizations they had begun with membership in or review by the OECD. The aspiring members had to agree to the aqui communitaire, that is all of the EU legislation that covered trade, finance, economics, the judicial systems, and governance. Some of these countries had aspirations to join the Euro currency, a tougher standard to meet. I discussed membership issues and prospects with officials in the Directorate General of Economics that was led by a German at the time whom I had met in the 80s in Germany, Klaus Regling.

Back in Washington, the State Department thought it was important to remind these aspiring new EU members that the United States would continue to be a solid ally and partner in their quest for political and economic development. Charlie Reis, now DAS for Europe, led an inter-agency trip to visit Poland and the Czech Republic, Hungary, Slovakia, and Slovenia. I was recruited to be the Treasury representative. We met with the U.S. ambassadors and local authorities to give our message of continued U.S. partnership even after they became members of the EU.

I had known Charlie since graduate school. Our career paths overlapped from time to time and our families got together. We got along well during the trip. It was fascinating for me to see the changes from the first time I had visited these countries, some in the 70s others as part of a U.S. trade delegation in 1990. Fourteen years later, the changes had been dramatic. There were no lines to buy oranges. Tourists, modern hotels, shops boutiques, newly paved highways, modern office buildings. Night lights illuminated what had been dark streets. Fancy restaurants and cafes were doing brisk business.

Ljubljana was a delightful small town, not the small village I had seen as a student in 1968. A small world story. The Reis delegation was lunching at the U.S. ambassador's residence with representatives of the Slovenian government. After a few exchanges with an official of the central bank, we discovered that we had been participants in the same American-Yugoslav Seminar in the summer of 1968. Small world, indeed!

In February 2005 President Bush flew into the Rhein Main airport, the last U.S. military airport in the Frankfurt area. Most of the airport had been turned over to the Germans but the U.S. military still had a few hangers. Now the entire airport is owned and operated by civilians.

The President was meeting Chancellor Schroder in Mainz a few miles down on the Rhein River, then stopped by a U.S. army base in Wiesbaden. Consul General Bodde thought it would be a good idea if consulate personnel would show their support. Those who wanted to piled into a bus and within thirty minutes we were sipping hot chocolate at the airport military lounge. It was cold outside.

As the President's motorcade approached, we ventured out into the cold and positioned ourselves along the "rope line." The President's motorcade drove up to Air Force One and circled to a halt. The First Lady emerged, walked up the ramp, and disappeared into the aircraft. The President turned around and saw us waving and shouting our support. I guess being a politician, he couldn't resist shaking a few hands. As I shook his hand he looked me in the eye and said, " I appreciate what you are doing here for our country." Of course he said the same to everyone. I realize it was just something to say, but that eye contact and his apparent earnestness made quite an impression.

I had also shaken the hand of the soon-to-be President of Germany. So after I had arrived in Frankfurt I saw Horst Köhler at a reception. Recall, Stu, I had first met in 1987 in Bonn when he was an office director at the Finance Ministry. We had a nice chat. I only learned later that he was to become the President of Germany.

We had seen each other several times over the years. After he had become the state secretary in the Finance Ministry he was selected as the President of the European Bank for Reconstruction and Development (EBRD) headquartered in London. Gale and I met Horst and his wife at an EBRD reception. He also visited Moscow once. I and other foreign embassy economic officers briefed him on Russian economic developments. We had a short conversation after that meeting. Horst then became the Managing Director of the International Monetary Fund. I asked General Counsel Bodde to invite him to my farewell dinner. I think Bodde didn't take it seriously and didn't extend the invitation.

We are coming to the end of my time in Frankfurt, a shorter time than I had been promised. Undersecretary Taylor had assured me that I could spend another two years in Frankfurt after I returned from Afghanistan. But Taylor had departed and the new undersecretary was Tim Adams. I guess it was his view that the EU's project to integrate member countries' financial markets was Treasury's top priority. He decided to move the Treasury post from Frankfurt to Brussels. Assistant Secretary Randy Quarrels asked whether I would mind moving to Brussels. No problem. I had visited Brussels many times, and Gale and I had enjoyed our travels around Belgium.

But the undersecretary also decided to appoint a Hill staffer from a powerful banking committee to assume the post. This is the first time that a treasury attaché was not a career person. We didn't move to Brussels, and I didn't get that promised second year in Germany after my return from Afghanistan. That is kind of the way things go. I understand the political appointee didn't work out very well. She was accustomed to being her own boss, thought she knew more than anyone else, didn't coordinate with State colleagues or write reporting cables. She was replaced with a career Treasury person.

My last Frankfurt story is about the big move from the consulate that you had served in Stu, that little, square, green and glass building the glass building next to the Palmengarten. It was in a lovely setting, close to the Grüneburg Park and the Frankfurt University in the West End.

Q: Was that the old green building?

WALLAR: You were consul general there, right?

Q: I was the vice consul.

WALLAR: OK, the vice consul but you were in that glass building on the west wing by the Palmengarten.

Q: Yes.

WALLAR: Seismeyerstrasse next to the park, right?

Q: Yes.

WALLAR: For some reason State's Foreign Building Office (FBO) decided they would buy an old hospital that had been built for the German military and then was converted to a U.S. Army hospital. The rumor was that Elvis Presley had his appendix removed in that hospital.

Q: My daughter as born there.

WALLAR: Your daughter was born there! Terrific! I have a high school classmate who was born there. Her father was military; her mother was French. How about that?

You can appreciate the situation, Stu, better than most. It was a real hospital. We toured the vacant building. A round grouping of operating lights was still hanging in the middle of the operating rooms. Every room had a small wall sink. It was a hospital, not an office building. The halls were extra wide to accommodate the two-way traffic of gurneys.

FBO had a real challenge to convert this huge structure into efficient office space. We had identified space for the Treasury attaché office. The grounds were massive. The consulate hosted its traditional 4th of July and the crowd was swallowed up in the grand front lawn. I guess for the consulate overall, particularly the regional offices of different government agencies, the move was a plus. Some of those offices had been in the *seidlung* among the apartment buildings. Now they would have plenty of space. Have you been back to see that consulate building or has your daughter been back?

Q: I haven't been back.

WALLAR: The new consulate is directly east of the *seidlung*, straight across Marbachweg and Frankfurt's main cemetery to Giessenerstrasse. It is a short bus ride. Some ride their bicycles. Frankfurt has bike lanes and drivers are very hospitable to bicyclists. Not a bad situation although the Palmengarten location was perfect because rather that driving, riding, or walking on a city street you could stroll from the *seidlung* through the Grüneburg Park to the old consulate. It was idyllic.

Most returning attachés have a difficult time finding a position because Treasury doesn't have a regular rotation system like State. I had been an office director, but there were no vacancies. There was a deputy assistant secretary position opening up for development assistance. While I thought that would be a good fit, it was awarded to someone who had spent their career in Washington, a very competent fellow who impressed his bosses while working on Iraq.

From October 2005 to the end of the year I continued to work on European financial policy issues. The work was not the same as being in the field, meeting people, getting drafts and commenting on the draft legislation. Writing briefing papers was similar work I had been doing in Frankfurt, but now part of a large bureaucracy. I thought my service to Treasury had been good, but there was no room in the inn, so to speak. After about 32 years at Treasury, I decided that it was time to look around and retire from the government.

An old friend from Geneva days asked if I would be interested in a private sector job. The firm was Nathan Associates, founded by Robert Nathan. He had been a whiz bang economist and helped set up the national accounts system with Simon Kuznets in the Commerce Department in the 30s. He was the head of the Planning Committee of the War Production Board that mobilized the U.S. economy for WWII. At that time Kuznets worked for him.

Nathan established what he called a consulting economists firm after the war, the first of its kind. Now there are dozens. The firm won some of the first U.S. government development assistance contracts, one in Burma, another in Korea, around 1952. They also had a large presence in Afghanistan in the 60s. The firm was known for its economics work and taken seriously by USAID economists. I read Nathan's oral history and was impressed. He really did want to make a difference, promoting market-oriented policies, competition, and democracy. It seemed like a good opportunity.

I retired from the U.S. Treasury in January 2006. They were kind to give me the Albert Gallatin Award, the highest career award for those who have served well for over 20 years. Speaking of awards, in June of 2006 I was awarded the Secretary of Defense Medal for Outstanding Public Service for my duty in Afghanistan. This is the second highest award for civilians, as I understand it. The award was signed and handed out personally by Secretary Rumsfeld. I wasn't in the states at the time so my son, Nicholas, who now worked in the Pentagon, accepted the award on my behalf.

My first assignment for Nathan Associates was in Jakarta, Indonesia to work at the ASEAN Secretariat, that is, the Association for Southeast Asian Nations. I would be running a small technical assistance facility to provide support primarily on trade and investment issues. I still have one more government assignment I could talk about at the next session.

Q: And also, maybe something about Indonesia experience.

WALLAR: OK, I can talk about that. That is private sector. I don't know if you want to get into private sector stuff.

Q: Why not?

WALLAR: OK. The work drew upon my policy experience but was different because it was really hands on. It was working at the ground level, not making policy recommendations, but working with individuals to formulate and implement trade and investment policies for the entire South East Asia region.

Q: I am trying to get the whole experienced of people who get into these oral histories. So, this is important.

WALLAR: All right. I will talk about that private sector experience. While it still was in the economics area, I was now a private contractor, working under a USAID contract and interacting with State Department officials at the embassy who tracked ASEAN developments. This was new for me, a switch from being on the inside to being on the outside, but with funding to implement projects. After talking about my first years at Nathan Associates we can talk about Iraq, my last Treasury assignment.

Q: OK, we'll have another block of time.

Q: Good morning, Jim.

WALLAR: Good morning Stu, how are you?

Q: I am in place; that is all I can say.

WALLAR: Do they let you take a walk outside or around the building?

Q: Oh yeah. So where did we leave off?

WALLAR: You suggested that I talk about my experience between my retirement and my next government post, that is, my work for a private economics consulting firm, Nathan Associates. My first assignment was in Jakarta.

Q: Yes.

WALLAR: I joined Nathan Associates in part because I had a couple of friends working there, Lance Graf who I knew from Geneva days, and Dick Self who worked in the same office I did in my first job at Treasury and who later lead USTR services negotiations. I think I mentioned last time Robert Nathan had been a wonder with statistics. He coordinated planning for war mobilization and was a pioneer in development economics.

The firm specialized in economics. It had a domestic side that specialized in competition cases, doing economic analysis for law firms in anti-trust cases. Nathan usually was on the side of the small firms, the plaintiffs. On the international side, Nathan Associates had an infrastructure practice, assessing roads and ports, and an international development practice. The latter managed USAID and World Bank contracts won in competitive bidding. Sometimes these projects would have requirements beyond economics, for example in health or education or pandemic preparedness. Nathan would contract firms that specialized in those. But most of the economics work Nathan Associates did in house. A firm with a long history and solid reputation.

I retired from Treasury in January of 2006. In March of 2006 I was headed to Jakarta to be a chief of party for the Technical Assistance and Training Facility at the ASEAN Secretariat. Chief of party is what USAID calls the person managing day-to-day activities of the project. It is no party, I can guarantee you.

Q: I was wondering if you could describe the situation both economically and politically as you saw it in Indonesia when you got there.

WALLAR: ASEAN was formed in 1967. It was a political undertaking among the five original members to combat or avoid communism. At this time the Vietnam War was raging. Singapore, Thailand, Indonesia, Malaysia, and the Philippines joined together in their goal to have a peaceful co-existence and formed ASEAN. Five other countries joined later: Vietnam, Brunei, Laos, Myanmar, and Cambodia. As ASEAN activities grew and hired permanent staff seconded from member countries, Indonesia donated a building to house the ASEAN secretariat employees.

Indonesia, Singapore, Thailand, and Malaysia were all part of production turntables where semi-finished goods would processed, say electronics or automobiles, then shipped to other countries for further processing or packaging and shipping. Japanese firms, in particular, used the region as a production turntable. Korea came in later as well.

Indonesia offered less expensive labor and a growing middle class. It's economy was on the rise. Politically it had moved from a military to civilian rule. The mood in the country was positive and the future was bright. The Philippines had moved out of the shadows of some of their more infamous dictators. Thailand was experiencing its longest run of civilian rule. Both countries would suffer setbacks later, but at the time the feeling was that the region was trending toward democracy.

These three countries were champions of working together and promoting human rights and memorializing commitments to democracy in a new ASEAN Charter. They were new democracies, they were fragile, and they were enthusiastic. Singapore was a well-established directed democracy, less excited about ramping up ASEAN in the political arena, but went along out of solidarity so as not to tarnish their reputation in the West.

These regional production turntables were made more efficient when ASEAN member countries gave preferential tariffs, that is lower tariffs for the semi-finished goods and parts moving around the region. Pressure for lower tariffs came from the private sector, particularly Japanese firms that were manufacturing and assembling products in the region. ASEAN implemented a special tariff regime for these goods.

Around the time of the stalled global trade negotiations, the Uruguay Round, ASEAN decided not to wait on the world but pressed ahead to expand preferential tariffs to many other goods and created the ASEAN Free Trade Area. This free trade area meant duty-free access, phased in over time, for goods traded cross border. Then ASEAN expanded the coverage of regional rules to direct investment, trade in services, and product standards. Their objective was not to create different rules from those of the World Trade Organization but to integrate ASEAN more fully into the international, rule-based trading system. 75% of ASEAN trade was outside the region, so they couldn't afford to be a fortress ASEAN.

ASEAN's ambition was given a big push by the secretary general at the time, Ong Keng Yong. He was from the Singaporean foreign ministry and had been an advisor and press secretary to the minister. He helped drive the concept of creating an ASEAN community that would rest on three pillars: An economic pillar, a political pillar, and a social cultural pillar. All the ASEAN member countries worked together with the secretariat to establish a goal of 2015 to create these communities. They laid out precise steps and a time line, the Vientiane Action Plan agreed to in Vientiane, Laos. They set milestones to meet to make sure they were on track to achieve their objectives.

ASEAN also agreed to create the ASEAN Charter. ASEAN had been working as an informal group with no legal status. The ASEAN Charter gave the organization a legal status and thereby accord its staff status of international civil servants. The charter would underscore member countries' commitment to democracy, their commitment to market-oriented economies, and the pursuit of human rights. As I said, there was enthusiasm, particularly in the Philippines, Indonesia, and Thailand on the latter.

ASEAN's progress in creating and implementing its own free trade agreement attracted China's interest. China had started out as a small player in regional trade was now hitting its stride and becoming a major trading partner with many of the ASEAN countries as well as with Japan, Korea, the United States, and Europe. In 2002 China proposed to negotiate a free trade agreement with ASEAN that would phase in over time. ASEAN agreed. Korea and Japan, not wanting to be outdone by China, also negotiated a free trade agreements with ASEAN. Just like that, ASEAN had become the center for regional integration.

ASEAN member countries met with China, Korea, and Japan in a group called "ASEAN Plus Three." Australia and New Zealand, which had substantial trade interests in the region, negotiated FTAs with ASEAN. India also struct up a formal relationship with ASEAN and eventually negotiated a tepid FTA. These three countries met with the ASEAN Plus Three and became the East Asia Summit chaired by ASEAN.

ASEAN also chaired the ASEAN Regional Forum that covered political and military issues. That forum grew to 21 countries that included China, India, North and South Korea, and Russia as well as the United States. This was a very interesting forum for the State Department and the U.S. Department of Defense (DOD). The DOD made good use of this forum because it was the only venue where North and South Korea and Russia and China and India were in the same room. All of those countries were of immense importance to the DOD whose officials could also hold bilateral talks around the time of the forum meetings. DOD officials also participated in the ASEAN Defense Ministers Meeting Plus.

The U.S. had a long relationship with ASEAN. Dick Cooper, I think when he was Assistant Secretary of Economics for State, chaired the first U.S.-ASEAN meeting, in 1977. Over the years the U.S. government provided some assistance, primarily through bilateral programs with ASEAN member countries. In 2005 USAID decided to try a small regional project at the ASEAN secretariat. The strategic vision was for the U.S. to influence the front-line communist states of Vietnam, Laos, Cambodia, and the military dictatorship of Myanmar, to turn them away from or help them resist Chinese overtures and to turn them toward democratic values.

The avenue to exert this influence would be through promoting member state economic development through ASEAN programs, supplementing bilateral assistance projects. It was a stimulating time to watch and assist ASEAN in fashioning its three communities based upon international rules and principles, for example those of the World Trade Organization when it came to trade or the UN when it came to human rights.

U.S. technical assistance projects could help with the technical side, but policies were formulated by ASEAN heads of state and ASEAN economic and foreign ministers. Our task was to help them go to where they wanted to go, which was to be a part of the world economic and political order.

As you know, Stu, I had just come from Europe and thought, "Oh ASEAN, you want to be like the European Union." They quickly and strongly responded that while they are inspired by what the European Union had done to reduce and eliminate borders on trade, investment, capital and people, the member states did not want the secretariat to become as powerful as the European Commission. As I mentioned earlier, much of the economic and financial market integration ground work was driven by the professional staff at the European Commission. The Commission would draft directives, hold public hearings, seek approval of member states and parliament, and then monitor implementation at the national level. ASEAN member states wanted to retain their sovereignty. For some it was newly won, and for others it was a point of principal that they did not want to relinquish their sovereignty to a super national body in the form of the ASEAN secretariat.

In the early days member states seconded experts from their ministries to the secretariat. This made the secretariat a reflection of the ASEAN membership. There were Malaysians, Singaporeans, Filipinos, Vietnamese, experts from Myanmar, and Indonesians. These experts were mostly highly competent and very enthusiastic. They believed in the new ASEAN community building endeavor and applied their talents to achieving its objectives, urged almost daily by the Secretary General who read and commented on the voluminous reports of ASEAN meetings.

This was my first time in Southeast Asia. It was a new world. This is the tropics where the landscape is green and lush and the weather is hot and humid. Aromas fill the air that were new to me. Tropical fruits, spicy curry, clove cigarettes, fried foods, deeply scented canals, air conditioning buzzing through the night. Not a city to walk in with narrow sideways rendered narrower by street vendors and plush, high-end malls accessible mostly by car. Jakarta has a nickname: the "Big Durian." Do you know what Durian is Stu?

Q: It is a food isn't it?

WALLAR: That is right. It is a very large fruit. The outside is spiky and looks very forbidding. When you open up the fruit a stink permeates the air, something like old cheese or stinky socks. But if you can get the soft fruit past your nose, the taste is divine, like blueberry yogurt. A taste treat. But only for the brave. Jakarta was called the "Big Durian" because it looks forbidding on the outside but once you got to know it, it was a very comfortable place. People are gracious, never in a rush. It is an over-crowded city, but people always displayed good manners. Getting upset was considered to lose face so people never got upset at one another. Despite the many cars and traffic jams no one honked. To reach a meeting across town, the best was to depart early and allow plenty of time and take something to read.

I arrived in Jakarta in March of 2006. This was my first time managing a technical assistance project. My experience had been in policy making with some exposure to technical assistance in Russia and Afghanistan. Now I was in charge of helping the ASEAN secretariat and member states to implement their roadmap to create an ASEAN economic community. As I mentioned, ASEAN or better said the ASEAN secretariat, had developed a work plan with a time line. The technical assistance was designed to help them implement their work plan.

Of course we couldn't help with everything in the work plan. My approach was to look at areas where ASEAN goals coincided with U.S. government objectives in the region and consistent with Nathan Associates' contract with USAID. I would put together a work program in consultation with experts in the secretariat and submit it for approval by the Secretary General and his deputies, and USAID. The work plan included seminars where we would bring experts to give advice on how to implement some of the detailed trade and investment provisions, like scheduling commitments under the ASEAN Framework for Trade in Services. Some technical assistance advisors would spent a couple of days or weeks in the region, for example, revising the ASEAN Harmonized Tariff Nomenclature, a highly precise, technical task. We commissioned studies, such as on the effects of the ASEAN Agreement on Investment.

We ran many activities on a very small budget. We could stretch the budget because we didn't have many expats on the ground. That meant we had plenty of money for short-term technical assistance activities. I was in the Secretariat with one junior technical assistant who was a whiz with programming and budgeting. My office manager and accountant were Indonesian. We relied on the ASEAN secretariat staff to announce and send invitations to the activities. We organized the substantive program and the meeting rooms.

My first seminar was on trade in services. programs. The ASEAN Framework on Trade in Services is very much like the WTO Services Agreement. Dick Self came to the region and gave lectures on the technical aspect of scheduling positive commitments on services sectors. ASEAN member countries were under pressure to open much of their services trade, a metric contained in their action plan.

Another major program was updating the ASEAN Harmonized Tariff Schedule to be consistent with the international harmonized system of the World Customs Organization. In my first job in the U.S. Bureau of Customs I became familiar with the tariff schedule of the United States annotated, TSUSA. This allowed import specialists to classify imports in their proper category, that is classification, and the classification would dictate the tariff. Classification and evaluation were very heart of an import specialist's job. ASEAN member countries had aligned their national tariff schedules to an ASEAN harmonized tariff schedule, consistent with the international system. This gave traders more certainty as to product classification and duty rate. Classifications need to be updated frequently as new products came on the market and old ones fell into disuse. Sometimes there was a dispute if a new product were put in a classification with a high tariff. This was an intensive exercise that would take a week.

We conducted a study to ascertain whether the ASEAN Investment Agreement had stimulated additional investments. Our analyst was Mike Plummer, now the dean of SAIS's school in Bologna, Italy.

Am I on? Can you hear me Stu?

Q: Oh, I can hear you.

WALLAR: OK, good. Plumer's research showed that the ASEAN Investment Agreement hadn't generated any extra investment in the region. Naturally, all member states didn't greet this study with open arms. However, the secretariat staff really liked it because it helped make the case for a new, stronger ASEAN agreement on investment. Member states ultimately agreed. They negotiated a new agreement with stricter provisions and to create a regional platform for investors, and not just having member states align their regulations for investment. A regional platform meant that investors given permission to operate in one member state could open branches in another member state without meeting any new, additional requirements.

We launched a major project for the ASEAN Single Window. "Single window" is a like a single window in a movie theater where you buy your tickets. It sounds better in French, *guichet unique*. The technical concept of the single window was developed by a U.S. customs expert and a U.S. lawyer. They had these concepts enshrined as international customs standards. Basically, a single window is the simultaneous submission of all documents needed for border clearance and a quick turnaround time for import authorization.

For example, a pharmaceutical or an agricultural product might need a special license to be imported. That license would be issued by the U.S. Department of Agriculture or the Food and Drug Administration. This means extra paperwork but not necessarily extra leg work. All that paperwork necessary for the importation of the good would be submitted at one time electronically. The customs agent would receive this electronic submission and, at the push of a button, the necessary information would be forwarded to all relevant agencies for action, as appropriate. Those agencies would send approval or disapproval back to Customs. If all was in order, the import could be admitted. If not, the importer would have a chance to improve its application. The result was more expeditious processing of imports.

This idea for the single window was developed by this U.S. Customs expert under the Vice President Gore's remaking government initiative. U.S. Customs unfortunately didn't take to it. Believe it or not, there are companies that make money out of import delays – like those that issue bonds to cover potential import duties. Other countries more reliant on trade and part of a production turntable were keen on more expeditious processing of imports. Singapore, for example, already had a single window. Others, like the Philippines were moving in that direction to curb corruption. Indonesia's finance minister took it up for the same reason. More transparency and an electronic trail of all decisions.

Our project aimed to allow individual member state single windows to operate seamlessly at the regional level, sharing information with each other. Part of the project was to survey the status of national single windows. Like I said, some countries were moving quickly, others were not so keen. Eventually peer and market pressure made the project take hold. ASEAN was the first to have a regional single window – years after I had departed. But we were there at the very beginning.

We also supported the collection of statistics in a standardized form for aggregation at the regional, ASEAN level. I found a retired World Bank statistical expert who had been in the States for maybe 20 or 30 years. He lived in Maryland but was from Iran. Working at the World Bank he was an international civil servant and never thought about becoming an American citizen. USAID has lots of regulations and one of them is you can't hire Iranians for contract work. You need a special waiver. I did the extra paperwork and convinced USAID that this fellow posed no threat. He was a statistician. USAID gave us the waiver, and he did an excellent job on the statistics project.

Q: Jim, why did our customs people not go for the single guichet thing?

WALLAR: Very good question. I will fast forward to point out that eventually the Obama administration issued an executive order directing its creation. That was maybe only four years ago. But the effort for U.S. Customs to have a single window stared 15 years ago. One of the reasons for resistance is that it would break certain "rice bowls." More expeditious clearance would mean less overtime for customs inspectors, less revenue for issuers of bonds to pay duties, more transparency showing where delays are piling up, and more accountability on who is not doing their job. The new is unfamiliar and customs was very tradition-bound. They liked their way of processing imports and dug in. It was very frustrating for this U.S. Customs expert who had come up with the idea.

Another reason was cost and technical difficulties. Customs needed to create an entirely new electronic system. They had to design new software and review and eliminate duplication of data. On the latter point, one customs form might request port of entry another form, say an FDA form, would ask for place of entry. Same thing. But now there would just be one data entry. There were many such duplications that had to be eliminated. Then, of course, all participating agencies would have to be connected to the customs electronic system. This took time and money. Eventually they created one, but the process was moving slowly.

The Obama White House created a task force and pushed the single window through because business community, including the U.S. Chamber of Commerce, wanted it. Not only did the single window expedite customs clearance it also strengthened security because an electronic trail would track the merchandise.

ASEAN faced similar bureaucratic hurdles. There were stories that the Philippines customs service would take off Friday afternoons from their official duties to collect side payments for processing a particular firm's imports. I took a tour of a customs clearance office in Manila. There was a video camera installed in the ceiling aimed at a customs clerk window where transactions took place. The video camera lens was all taped up. I said, "Why is that?" "Oh, it is broken; it doesn't work." Eventually they got a new director in Philippines customs. He had a military background and was an enthusiastic supporter of the single window. Under his leadership the Philippines became one of the strongest supporters of a single window.

Singapore had its own single window. The country is a transit point for exports and imports, so speed in processing shipments is important. It is the Hong Kong of Southeast Asia. In the ASEAN context, however, I had the impression that they were concerned that their competitive advantage might be eroded if other member states had single windows. I don't think that was very likely. But in any event, I think they slow walked ASEAN's creation of a single window. Malaysia was very keen because they wanted to compete with Singapore. They became the drivers of the ASEAN deliberations and chaired the technical committee. It took time, much more time than necessary, but, in the end ASEAN created a regional single window.

Q: Something that is not often discussed is the built-in inertia by a bureaucracy for its own benefit. Keeping things from becoming too efficient.

WALLAR: Indeed. That is kind of the way of the world. I have seen this in Russia and Afghanistan where customs officials have their own way of doing things, and they take a little bit extra for themselves. In part that is understandable as officials in these countries are not paid very much. Russian writers like Gogol highlighted corruption, that is the opportunity to gain personally, is a, if not the, reason for securing a government position. In "Without a Dowry," by Alexander Ostrovsky, the lead character is offered a position with customs. He tells his wife that he is not interested. She comes back to him and asks "Why not?" His response is that customs officers are considered corrupt. She says of course they are, that is how they get extra money to buy nice clothes for their wives and nice houses. That is why you should accept the position!

In Singapore the situation was quite the opposite. Civil servants earn a living wage so corruption is low. One taxi driver grumbled to me that the high salaries are "official corruption." At least they are transparent and fixed.

We hosted a conference called "ASEAN Does Business." The secretariat invited representatives of different business sectors to explain in detail their plans for the ASEAN economic community. We helped the secretariat update their website, the content and the infrastructure to improve its functionality. We initiated fact sheets to inform the public about ASEAN activities. We also supported ASEAN efforts for mutual recognition of professional services, like accounting and nurses, under the ASEAN framework for trade in services.

ASEAN membership included countries that no longer qualified for USAID assistance and others that did. Delegates from Malaysia, Brunei, and Singapore would pay their own way but those from less developed countries could get travel, meals, and hotel covered by the assistance program. All member country experts could benefit of the visiting technical experts. These seminars contributed to a better understanding of technical aspects of trade, customs, investment, and trade agreements and helped make ASEAN stronger in the process.

The operating assumption was that all ASEAN rules had their foundation in the WTO and its predecessor, the General Agreement on Tariffs and Trade, the GATT. All but one ASEAN member country were members, even Myanmar because Burma was a charter member of the GATT. The one exception was Laos. I had the opportunity to meet the Laos economics minister during a workshop on trade in services in Vientiane. He was very progressive and wanted to push Laos into the WTO, both to align its rules with other ASEAN countries and with global rules, but also to transform the domestic economy into a more market-oriented, transparent one. The U.S. ambassador to Laos, Patricia Haslach, was keen for us to do anything we could to help Lao government with its quest to become a member of the WTO.

In our work program I proposed workshops in Laos on WTO requirements. The ASEAN secretary general asked, “Listen Mr. Wallar. This is an ASEAN project. Why are you taking money that is supposed to be for technical assistance for all ASEAN members and diverting some of it, not a lot, but some to just to one member state?” I explained the logic of Lao joining the WTO. Did we shut off?

Q: We are at it.

WALLAR: Anyway, the secretary general sat back and concluded that it was a good idea. He said, “If the Americans don’t do it, then the Chinese will do it. I think it is much preferable that the United States provide aid to Laos and not the Chinese.” After we received his approval I went back to Laos. Unfortunately, USAID, which approved the final work program, had not informed the Laotian government about the planned activity. I explained the project to the deputy minister in charge of trade. She was very stern and skeptical. The situation was a bit awkward. I was comfortable talking about policy as a government official, but I was just a humble private consultant with no official status.

We had a long chat. I explained the nature of the assistance, that it would help them achieve their objectives, that the advice would be the best technical advice we could present, that there were no formal links to USTR which would negotiate their entry into the WTO, and, best of all, that the project would not cost the Laotian government a penny. She agreed to proceed.

This small project under the ASEAN Technical Assistance and Training Facility turned into a major, multi-year, standalone project with a resident advisor, the best in the business. Lao did its homework and was admitted to the WTO in 2013. The minister was pleased. A survey of businesses a few years later suggested that entry into the WTO had been good for their economy.

I mentioned Mike Plummer who is a professor at SAIS in Bologna. In graduate school he undertook research for the East West Center on ASEAN. Once in Europe he turned his attention to European economic integration. After he completed his study of the ASEAN agreement on investment we discussed the benefits of a book detailing the advantages of ASEAN economic integration. EU integration was politically driven but it was given a push on technical side by a study entitled something like “the cost of non-Europe.” This study became a popular book outlining what Europeans would lose by not fully integrating.

Mike was enthusiastic about the idea. He pulled together a team from the region with the support of Tim Buehrer, who had taken over the USAID ASEAN project, and collaborated on a book called “Realizing the ASEAN Economic Community.” Chapters were written by different economist or experts in the region on different facets of ASEAN economic integration, such as trade, financial markets, services.

One of the toughest calls I had to make as chief of party was to dis-invite the Thai customs director general to a seminar because Thailand had experienced a military coup. As you probably know, Stu, any country that experiences a military coup, overthrowing a duly elected government, is cut off from US government assistance. Plans for an ASEAN customs seminar had been finalized, invitations had been sent out, and travel arrangements made. I called up his office and told him that U.S. law precluded me from supporting his attendance at the seminar. Naturally, he was most unhappy. It was another example of me, a private contractor, making a call to a government official that, in my opinion, would have been better handled by a U.S. government official. But there you have it. We humble contractors do what is necessary.

During this time, 2006-07, I traveled to all the ASEAN member states for meetings, except Myanmar. My wife Gale often accompanied me and enjoyed sight-seeing. A few meetings took place in Jakarta, but the understanding within ASEAN was that all member states would host meetings either in their capitals or other major cities. Gale spent time back in the States helping her parents. I flew back for Emily's graduation from Bates College. She had done extremely well, measuring up to the school's high standard. It was thrilling to see her march with her class and inspirational to listen to famous speakers at her commencement: Mark Morris, the dancer ("don't get that tattoo") and David McCullough, the historian ("always tip the hotel maid").

The U.S. Trade Representative's office (USTR) paid attention to ASEAN economic developments. They weren't very keen on free trade agreement like New Zealand or Australia, judging that ASEAN trade commitments weren't very rigorous. In part that is because among ASEAN members were least developed countries, like Laos, Myanmar, and Cambodia. They couldn't make the same level of commitments as Malaysia and Singapore. USTR did sign a framework agreement which on principals of trade with a work program to help ASEAN advance integration. The ASEAN single window was on that USTR work program.

Even though USTR wasn't so taken with ASEAN, the group was getting more attention on capitol hill. Senator Lugar, a preeminent foreign affairs specialist, raised the notion of having a U.S. ambassador to ASEAN. Relations with ASEAN were managed by the deputy assistant secretary for East Asia. After some hesitation, the State Department went along, but merely gave the title of ambassador to ASEAN to the DAS. Scott Maciel had the honor to the first U.S. ambassador to ASEAN. This started a trend as other countries started naming ambassadors to ASEAN. Finally, I think it was 2008, the U.S. sent its first resident ambassador to ASEAN, David Carden.

The State Department became more interested in ASEAN when ASEAN heads of state signed on to their Charter that championed human rights and created a human rights work program. Nothing radical, but a first step that was actively supported by a "second track" group of lawyers and academics in the region. The text of the charter was finalized in 2007 and heads of state adopted the charter the following year.

ASEAN has a deserved reputation for being slow, advancing by consensus which takes time. "The ASEAN way," is not a term of endearment. Nonetheless, more than just a talk shop, the charter, work programs, and targets for achieving specific goals have pushed ASEAN integration forward, slowly, if not steadily. On the economic side, most agreements, like on trade in goods and services, are now legally binding. The business community recognizes value in an ASEAN integrated market.

Q: Jim, could you explain this human rights thing. What did that entail?

WALLAR: The ASEAN Charter contained a broad recognition of the importance to promote and protect human rights, rather sweeping language for this group that includes Myanmar, Cambodia, Vietnam. A very active "second track" community aggressively pushed the issue to be included in the charter. It was difficult because some ministers weren't enthusiastic.

The second track included lawyers from the Philippines, Thailand, and Indonesia plus some non-governmental groups. They held seminars and published studies. One seminar in Thailand instructed participants how to record human rights abuses. An expert from USC Berkley and the East-West Center conducted these seminars. He was involved in the truth commission in Cambodia where they were taking depositions and testimony from people who experienced atrocities under the Khmer Rouge. That effort was to improve public understanding of what happened and to hold perpetrators accountable. He helped push the ASEAN human rights second track process along.

After human rights was included in the charter there was expectation that ASEAN would become more aggressive. Indeed, they established a committee. However, as is the case with ASEAN, the group moved slowly, beholden to ministers. More studies have been published and the issue has not gone away. But one of the cardinal rules of ASEAN is no interfere in each other's domestic affairs. The commitments in the charter did give a sense that, as a group, they were interfering in domestic affairs because they all agreed on these broad principles, but in the end they were just principles.

The State Department senior officer for APEC visited our project at ASEAN together with the USAID official who managed our project. APEC stands for the Asia Pacific Economic Forum and it is based in Singapore. The U.S. was instrumental in creating APEC in 1989 to have a presence in the region. The Malaysian prime minister created an East Asian Economic Group that specifically excluded the United States. Secretary of State Baker declared there could be no line drawn across the Pacific. Member economies in APEC include some ASEAN member states like Singapore, Malaysia, and Indonesia, as well as China, Japan Korea, Australia, and New Zealand and a Latin American group of Mexico, Chile, and Peru, plus Canada. APEC is a pan Pacific organization. I briefed the senior officer on the ASEAN project. I think his name was Mike Michala. Have you met with him Stu?

Q: No, I haven't.

WALLAR: I briefed him on the activities we were doing with ASEAN. He turned to the USAID official and proclaimed: "This is great. I want one of those." Meaning he wanted a USAID project to support activities of APEC and its secretariat. Eventually the State Department funded a technical assistance ad training program for APEC. USAID would let the bid, award the contract, and manage the project, but the funds and much of the policy direction were provided largely by State. The APEC project would be a different kettle of fish because the U.S. was a member of APEC and could directly shape the work program and the organization's objectives. This was not the case with ASEAN.

The small ASEAN project I was managing concluded in November 2007. Nathan Associates had won the follow-on contract which was a much larger project, an umbrella project covering several separate projects with ASEAN, including a continuation of the technical assistance and training facility that Tim Buehrer now managed. Only this time the scope for the facility was much broader, encompassing not only trade and investment but also energy, human rights, and disaster assistance.

Q: Yes, speaking of pandemics. We are going through one right now where everybody is staying home and wearing face masks if they go out. What did pandemic preparations consist of at that time?

WALLAR: We ran workshops on pandemic preparedness organized by an Indonesian health expert. The SARS outbreak of 2004 was still a topic, the question was when the next virus outbreak would occur. The scope of the seminars went beyond health measures but to very question of governance. What needed to be done if a pandemic strikes? Who were essential workers? How would they get paid? How would others get paid? What type of medical staff and facilities would be needed? Who would make the decision that the crisis had passed? Who would pick up the garbage? Who would make sure that bills could be paid or that funds could flow through the financial system? These are common everyday activities that one wouldn't think of until it is too late. Our experts would go through check lists for health measures as well as these other measures to be prepared for a pandemic. It was a "whole of society" approach.

Q: Well it is interesting. This is going on.

WALLAR: I wasn't aware of pandemic preparedness in the U.S. at the time. Our experts came from Southeast Asia. The region had experienced the bird flu and another virus outbreak, so being prepared was on the top of peoples' minds. The Australian technical assistance program also helped with pandemic preparedness.

When I returned to Nathan Associates in Arlington, Virginia I was put in charge of the new ASEAN umbrella project called ADVANCE, the ASEAN Development Vision to Advance National Cooperation and Economic Integration. ADVANCE was an umbrella contract for several projects. One was a continuation of the Technical Assistance Facility for Trade and Investment. Mike Plummer's book on ASEAN integration was supported by this project.

The training facility also performed a novel and helpful task in channeling relief funds to Myanmar in the wake of cyclone Nargis. The U.S. government offered direct assistance to Myanmar but it was refused. According to someone who knows the country quite well, the Myanmar generals had seen what U.S. assistance could lead to in countries like Panama and Grenada. They had visions of a U.S. invasion, so they rejected assistance by the U.S. Navy.

As a member of ASEAN Myanmar could benefit from ASEAN assistance. With USAID approval, the technical assistance project provided funding for disaster relief. ASEAN took the lead, but the funding was from the U.S. Since the money took some time to be released by USAID our project manager used his personal credit card to make some purchases. I am not sure how significant this episode was, but around this time Myanmar started playing a more active role in ASEAN and began to open up to trade and investment.

Another project under ADVANCE was for Lao accession to the World Trade Organization (WTO). The chief of party was Steve Parker, based in Vientiane. He did much of the technical work together with specialized experts to align domestic laws and regulations with requirements of the WTO. Steve was an expert on the accession process and had spent four years assisting the Vietnamese with their accession to the WTO.

He worked very closely with USTR, the U.S. government agency that was negotiating Laos' entry into the WTO. As a least developed country, Laos is entitled to a lighter level of obligations in the WTO. USTR, however, was taking a hard line, holding out for concessions at a much higher level than usual for a least developed country. They wanted Laos to open up its economy faster than perhaps the Laotian government wanted to.

Laos was in a bind. The previous economics minister had signed a bilateral agreement with USTR in which he made some commitments to open the market to U.S. firms. At the WTO other countries, like the EU, demanded to have the same access as U.S. firms. This is consistent with the "most favored nation" principal of the WTO. The Lao minister said, "If we did that our domestic industry would be wiped out." The U.S. held firm that Laos couldn't withdraw the concession from the United States. Ultimately the EU backed down because they recognized that Lao was a least developed country and couldn't afford to open up as quickly as perhaps they would like. Our project stayed on the sidelines and provided neutral advice. In my view, USTR was being overzealous, relying on principal rather than practical realities.

Another project under ADVANCE was on the ASEAN single window. This had grown into a separate project from the work we did in the initial ASEAN technical assistance facility. This project had its own chief of party and significant resources to create this unique regional single window. It was a tough slog but the project helped set up national single widows that could exchange information with other national single windows in the region. The system was successfully tested at the regional level. However, the ASEAN single window wouldn't go live until the next project gave it a final boost.

ASEAN value chains was yet another project under ADVANCE. The idea was that if ASEAN is integrating into a single market, wouldn't it be useful to have a particular commodity or good that could benefit from this easy flow across borders. We analyzed several commodities. The automobile and computer production was already integrated in the region. We selected textiles and tourism as two sectors that could benefit from ASEAN regional synergies.

The project proved that at a commodity specific level, ASEAN integration could make a difference. The project chief of party brought in textile experts and created a group of apparel manufacturers to work with textile producers and yard manufacturers in different member countries to negotiate supply arrangements across the region. They signed contracts with big outlets in Europe and the United States like GAP, Marks and Spencer's, and other big-name brands. They helped design training for weavers and cutters that would award a certificate valid throughout ASEAN. Those holding a certificate would be qualified for such a position in any ASEAN member country. This was a practical, concrete example of how ASEAN integration could be effective in producing merchandise for export.

The last project under the ADVANCE umbrella was on agriculture. This was supposed to work with the ASEAN Secretariat on issues of regional importance. However, the Secretariat never took up the project seriously because they said they were never formally apprised of the project. I tried to turn this one around, but the project manager had gotten off on the wrong foot and little could be done. The project was re-cast to promote small scale aquaculture undertakings. Nice, but not what we or USAID had in mind.

I was overseeing the ADVANCE portfolio of projects back at Nathan Associates. ASEAN was a rising topic in the U.S. government now that it had a resident ambassador in Jakarta. The new Secretary General Surin Pitsuwan, a well-know, dynamic Thai politician and a most eloquent speaker gave the group more of a profile. That was good, but he didn't pay as much attention to the nuts and bolts as his predecessor. I traveled to the region often, supporting projects, and briefing USAID officials and participating in seminars.

I mentioned that the State Department funded a project at APEC modeled after the ASEAN project. USAID announced competitive bidding for the contract. I was the lead writer for a proposal that Nathan Associates submitted and, much to my relief, won. Nathan Associates set up a team at the APEC Secretariat in Singapore. I attended some of the first meetings and renewed my acquaintance with Patricia Haslach. She had left her ambassadorship in Lao and was now the senior State Department economic officer for APEC based in Washington. What a coincidence to see her in Washington in a very different role.

In the summer of 2008 an E-mail appeared in my in box from Andy Baukol, a DAS at Treasury. The first line of the message was something like " please don't delete this before you read it." Andy asked if I would consider being the Treasury attaché to Iraq in Baghdad. This was out of the blue. He said that Treasury needed someone who had experience in working in embassies. Plus, he pointed out, I had never served in the Middle East, so this assignment would cover that geographic void in my career. He suggested that I come over and talk. I agreed.

Much like the case in Afghanistan, I asked myself why should I feel in some way privileged and not serve when called. Maybe a bit less dramatic than that. I was willing to listen. As I walked into the old Treasury building, Andy hustled me into the assistant secretary's office. We had a brief chat, more of a holding meeting. They rushed me up to the deputy secretary's office. Have you ever been inside the Treasury building Stu?

Q: I have been inside. It is a big impressive, big corridors.

WALLAR: Big and impressive. That's right. When I first joined the agency, the Treasury building was a little run down. They building was completely renovated during my overseas tours. Many of the offices on the third floor where senior management is located had been restored to their original style. Quite ornate. Old elevators that had been squeezed into the vertical space of massive spiral stair cases were ripped out revealing magnificent colored glass domes at the top of the staircase. Very impressive and elegant.

Andy took me up to the deputy secretary's office which is right next to the secretary's office and looks out over the lawn of the south White House. The deputy secretary was Robert Kimmit. He had been the U.S. ambassador to Germany from '91 to '93 after I had left. We quickly found common ground. He had a Treasury pedigree since he had worked in the general counsel's office. Now he was a political appointee. He put his arm around my shoulder looked me in the eye and said, "Jim there is no greater service that you could do for your country than be the Treasury attaché to Iraq."

Q: Sounds like a sales pitch.

WALLAR: I thought really hard about the offer. Treasury's office of technical assistance, the same office I had worked with in Moscow and Kabul, had played an important role in the early days of the U.S. invasion, re-establishing banking and getting currency back into circulation. Some of the treasury technical assistance advisors who had gone to Baghdad in the early days were people that I had worked with in Russia.

I reasoned that many Americans, military and civilian, had served in Iraq. Some did it to get their ticket punched in order to progress. In the foreign service if you hadn't served in a hardship post, then you could not get ahead. But I didn't need to have a ticket punched. I had ended my government career. But, as a said before, I didn't think that I am somebody special who could avoid such duty.

I discussed it with Gale. This was not a post for dependents, so she would be living alone. As she was raised in a military family she understood the call to serve. She also liked the prospect of my three R&Rs – one to the states, another to Switzerland, and a third to France. The trip to the states would be in March when she was scheduled to have a solo show in Columbus, Ohio, at the Hayes center. Gale is a trooper and went along with a one year assignment.

I had to have my security clearance updated and filled out the new forms. Now, Stu, I am sure someone has talked to you about these post 9/11 security forms.

Q: I can't think of anyone.

WALLAR: They are extremely long. They are not like the old ones that are like seven pages long. These are much longer. One of the questions was list all of the contacts you have had with foreigners. I couldn't remember all of the names and even if I did remember all of the names I couldn't track these people down. I mentioned my different postings but I was in no position to list every foreigner I met over my 35 years.

I attended a regional orientation seminar at FSI. It was eye-opening. A retired army expert explained that politics in Iraq is a full contact sport. No holds barred. Not even violence. That was pretty daunting.

I received my security and medical clearances, read up on briefing materials at Treasury, and got my plane tickets for the hop from Amman, Jordan to Baghdad from the Department of Defense. The first week of December 2008 I boarded a commercial flight with one duffel bag and one carry on knapsack. I spent the night in a hotel in Amman and the next morning caught a cab to a military air base. I was checked in, issued an armored vest and helmet, and loaded into the back end of a military transport with scores of others. We sat in webbed seats like a lawn chairs with military brown and green webbing. The seats were along the wall and lined the middle so we faced one another. The knees of people sitting along the wall would touch the knees of those sitting in the middle. No in-flight service!

We flew into the military airport in the outskirts of Baghdad. After sorting through our bags that were brought out on a pallet with a forklift, we were assigned to a helicopter that flew us from the airbase to the green zone. Once in the green zone we hopped into an old black Chevy SUV that took us to the Republican Palace. This palace was built for Saddam Hussein to entertain foreign guests. Now it was the headquarters for the U.S. military and most civilian operations in Iraq.

The way I would travel to and from Baghdad for the next year would be either through Amman, Jordan or Kuwait City. Amman was a more pleasant route because you spent the night in a proper hotel. In Kuwait city we flew into a military base, went to hotel room shared with others to freshen up, then around 1 am went to back to the military base and sat in a huge hall with hundreds of other waiting for the flight to be called. In the outbound we would go from the hotel room to the commercial airport around 4 am. United Airlines had direct flights to DC from Kuwait City.

To get from the compound to the Baghdad airport we would take a helicopter the night before the flight and sleep in a hooch at the airport for an early morning flight.

Sometimes we would leave the compound in heavily armored busses called Rhinos at around 1:00 or 2:00 in the morning. The trip was only eight miles, but we travelled slowly down Route Irish, taking every precaution. The military were very protective of us and mindful of possible attacks or improvised explosive devices. We could make planned stops to pick up others. Leaving and returning wasn't much fun.

I am sure you have heard a lot about the green zone. One reason why it is called "green" is because the area contains the "little Venice" of Baghdad with small streams, grass, and trees. Several ministers and high ranking officials have large houses in this residential neighborhood. The rest of the green zone is much like the rest of Baghdad, pretty dusty with a few palm trees. The green zone is also home to the prime minister's office, the parliament, and, of particular importance to me, the finance minister's office and home.

The Republican palace had large, open rooms with dome ceilings but had been carved up with plywood dividers to create many small offices. A secure room had been installed, small, stuffy, where country team meetings took place. Hundreds if not thousands of people streamed in and out every day. A popular gathering spot was the coffee shop in a large reception area as well as a small cafeteria. The main mess hall was in a large, temporary tent attached to the palace.

The hooches that surrounded the palace were sleeping quarters. They had been shelled on Easter day six months before I arrived, and people were still talking about that experience. Construction of a new embassy compound was nearly complete when I arrived. I was fortunate to get assigned one of the apartments that had been completed so I didn't have to move into a hooch like I had lived in in Afghanistan. I was twice lucky because I didn't have to share my one bedroom apartment. Some did, with one of the roommates bunking in what was supposed to be the living room. The apartment was basic but modern and had a proper desk and even a little kitchen.

Every morning I would ride a bus from the embassy compound to the palace. At night the return trip was usually in the dark. Security checks at both ends of the journey. By mid-January most of the office space in the embassy compound was completed. We packed up files and equipment from the Republican palace and hauled it to the compound.

The compound was surrounded by what looked like a mud or concrete wall topped with concertina wire. The grounds were populated with apartment buildings, the chancery, the embassy and DCM's residence, and assorted other maintenance and administrative buildings. The terrain was dusty. Only the large common area in front of the chancery sported any green grass, a constant challenge to keep alive in the desert. Two outdoor tennis courts and an outdoor basketball court and a large gym with an indoor swimming pool and work out room complete with treadmills and elliptical machines and dead weights helped those who wanted to keep or get in shape. Ambassador Hill organized lacrosse games on the basketball court. I participated in one and saw stars. A bit much for someone who hadn't played since college.

A cavernous Defac, the military term for cafeteria, served the entire compound's population. The line for ice cream was consistently long. Easting ice cream was soothing experience anywhere, but doubly so in a conflict zone in the desert. I had braced myself for the heat of the desert, which was tolerable since the humidity was low. I never broke a sweat wearing a suit or even playing tennis. What I didn't appreciate is that the nights are very chilly. Totally unexpected. I hadn't thought to bring a sweater or a jacket

A small BX – military lingo for "base exchange" or convenience store in civilian terms – carried essentials. Cleaning products, canned foods like soup and tuna fish, a lot of junk food, plus beer and wine. Of course, the military couldn't drink beer or wine since Iraq was a conflict zone, but civilians could and did. The accommodations and facilities were a far cry from the much more primitive set up in Kabul. Both civilians and a few military officers lived in the compound. Most military lived barracks outside of town.

When I arrived in December 2008 oil prices were rising and the conflict zones had gone mostly quiet. This meant that the Iraqis could not only pump more oil without fear of being shot or blown up, but were getting more money for the oil they were pumping. Their drilling and pumping systems had not been updated or maintained and were not very efficient. It was very leaky and an environmental hazard.

With Iraqi domestic revenues on the rise, the U.S. government wanted the Iraqi government to pay more for its own rebuilding rather than continuing to draw heavily on U.S. government funds. A whiz military officer, Colonel H.R. McMasters, wrote a report on ways the U.S. government could help in the Iraqi government retool and gear up its own budget mechanisms to rebuild the country. In military fashion, he settled on the concept of a strike force or task force to provide targeted, expert assistance. Ambassador Ryan Crocker, the predecessor to Ambassador Hill, and General David Petraeus, the commanding officer, liked this idea. They envisaged this unit helping with budgeting, banking, collecting revenue, and facilitating treasury operations so the Iraqi government could efficiently use their own money.

USAID had a large presence in Iraq, and had their own compound of houses, apartments, and eating facilities. Much better food than at the Defac. USAID's projects focused on customs, governance, small and medium size enterprises, and the private sector. The U.S. Treasury had sent advisors earlier on debt management, budget and banking.

Treasury systems were important because Iraq is a federal system. Revenues from oil production in a few provinces were channeled to the central government then re-distributed to all provinces. The U.S. government was also supporting provincial treasury activities with provincial reconstruction teams or PRTs. Each PRT had a military commander with troops and armored vehicles and at least one State Department officer, a political or economic expert. The State officer would serve as a liaison with the local provincial authorities and provide or coordinate technical assistance.

With this federal structure and disbursed assistance, Crocker and Petraeus thought it made sense to have the task force recommended by McMasters at the embassy under their authority and composed of civilian budget and banking experts pared with military personnel for security and to liaison with the top brass. With this in mind they created the Public Financial Management Action Group, PFMAG. Petraeus wanted a military officer to lead this new unit. The economic minister counselor Charlie Reis didn't agree. I think you know Charlie don't you Stu?

Q: I think I have met him.

WALLAR: He had been ambassador to Greece when the call came to serve in Baghdad. He gave up his post, life and beautiful climate on the Mediterranean for life and headaches in the desert.

Q: I have interviewed him.

WALLAR: He was the top economic officer in Iraq, the minister counsellor. As I mentioned before, I knew him from my SAIS days and from our work together on NAFTA.

He departed post just before I arrived. He pushed back on the idea of a military officer to lead PFMAG and insisted that it be a civilian. I think the military didn't think that a State Department person would have the qualifications to lead a team dealing with treasury operations. After I arrived in Baghdad I discovered that I was to be the head of PFMAG.

Maybe it was an honor but a far different job than a typical attaché position. Nine technical advisors contracted by the Treasury office of technical assistance and one Department of Defense account constituted the ten civilian advisors. They were experts on budgeting and banking. Short-term Treasury advisors would provide advice on tax collection and debt management issues. Ten military officers, mostly reservists, paired up with the civilians. One sergeant was attached to the unit, a jack of all trades but particularly IT. He was essential in getting what we needed to set up the office and keep it running.

My deputy was an Air Force Lt. Colonel. He graduated from the Air Force Academy in electronics and was a pilot. Very smart, very large. His call sign was "Kraken," the big Japanese octopus. He knew nothing about economics but was game to learn and asked lots of questions. He helped me immeasurably in communicating with the military. I had served with embassies that had military attachés, but I never worked in their system. I wasn't accustomed to their style. You know embassy life, Stu. Working with so many diplomats had rubbed off on me. I tended to be polite, reserved, and diplomatic.

That reminds me of a joke that Ambassador Whittlesey used to tell in Bern. Stu, do you know the difference between a lady and a diplomat?

Q: No. Do tell.

WALLAR: When a diplomat says “yes,” he means “maybe,” and when a diplomat says “maybe,” he means “no,” and if a diplomat says “no,” he is no diplomat. When a lady says “no,” she means “maybe,” and when a lady says “maybe,” she means “yes,” and if the lady says “yes,” she is no lady!

The point is that behavior in an embassy is generally diplomatic. Military behavior generally was courteous and very hierarchical. Views on economic issues were driven by an objective. They were mission driven. While this is commendable and necessary in achieving military objectives, working with institutions and people in government institutions, takes more time to achieve a given objective. Reaching a specific goal is just not how many people or resources you can devote to the mission; you have to change the hearts and minds of people so they work in a different manner or with new tools. This doesn’t happen overnight or even within months or years. It takes a long time and patience and perseverance. It was a very different milieu working in diplomacy compared to working in a military mission- driven sphere.

My duties included working closely with military officers, colonels and generals. One of the deputy commanders was an Army General who had nation-building in his portfolio. He was very interested in the budget and economics. My conversations with some of these military officers were, perhaps, overly diplomatic. On more than one occasion my deputy would ask for the floor after I had spoken. When a general was present, he would asked permission to speak. After the general granted permission, my deputy would begin his remarks with something like, “With respect sir, Mr. Wallar just said your idea is bullshit.” I would never use such language, but the officers got the message if they were confused by my diplomatic language.

PFMAG’s 22 people were too many to be accommodated in the new chancellery where State economic officers were located, as well as a commercial and agricultural counsellors. Rather than being located in the chancery with the state econ officers, I opted to stay with my PFMAG unit at the other end of the compound. Our building had been designed to be a school for embassy families. Rather than classrooms, it was three floors of large open. Our space was on the first floor. My office was an enclosed space in a corner with just big enough for two chairs and a desk. The narrow windows were next to the ceiling, good for light but too high for any view.

The rest of the team sat in the open space sitting at long tables with computers and small work spaces. There were dividers marking out each person’s work space on the table, but none were floor to ceiling. One big open office space. PFMAG accounted for two long tables with a few on along the side walls. Other government agencies occupied space on the first floor. A constant flow of people walking in and out. On the floor above us was State’s Iraq Transition Office with State officers and contractors.

The walk to the chancery took about seven minutes. I attended the regular country team meetings with Ambassador Crocker and then Ambassador Chris Hill after Crocker departed. General Austin took Petraeus’ place as commander. Then as fate would have it, Patricia Haslach took Charley Reis’ place as the top State economics officer. They created a new position for her, Coordinator for Iraq Transition, to oversee all U.S. government economic efforts. You recall, Stu, that I had met her in Laos and then when she was the senior State officer for APEC.

Her overriding assignment seemed to be to reassert the preeminence of the civilian role in the relationship with the Iraqi government. Since the invasion, the military had assumed a role in governance and nation-building as well as security. She wanted State, Commerce, USDA, and Treasury take charge of economic issues, and move the military into the lane as they occupied in other embassies. This was part of what was called the "normalization of embassy Baghdad."

As I mentioned, the military had staffed up with officers assigned to nation-building tasks. Every morning the military would have battle update assessments, so called BUAs. Once a week economics would be part of the BUA. I would do the briefing on the budget slides.

Ambassador Haslach didn't see why BUAs needed to have an economics briefing. Some military folks would talk with her, explaining their orders were to cover economic issues. As I understand it, she simply told them to go back and talk to your generals and tell them that it is not happening any longer. Colonels don't go back and try to convince their generals to rescind an order. I remember one colonel coming out of a meeting with her and said "I have just been wire-brushed by Pat." He said it with a smile. She was quite effective.

I was surprised that we could drive ourselves around the green zone without the RSO's permission. I often travelled with the office's translator, a Palestinian. We could just hop in our big, old GMC SUV. Well broken in I would say, with dents, dust, and cracked seat covers. I would drive to the finance minister's office or the parliament building.

I also drove to the one hotel housed in the green zone, the Al Rashid Hotel, for meetings. Rather than leaving the green zone which would have involved RSO clearance and several shooters in a caravan, Iraqi government officials would offer to meet at the Al Rashid. They did this out of courtesy, but at some cost. They had to pass through a security check to enter the green zone. Entering the hotel would immediately label the visitor as meeting or collaborating with Americans. This was not entirely true because the hotel ran a proper business for Iraqis. I often saw just Iraqi business men or parliamentarians talking to each other. The hotel was just across the street from the parliament building.

On occasion I ventured into the city, beyond the heavily guarded walls of the green zone. This was a major production. The RSO had to know our precise destination with GPS coordinates so they could pinpoint the location on their maps. One time they could not find the Central Bank governor's address on their maps. The trip didn't happen. Every trip required about six or eight shooters, not military but private contractors – often ex-military - and a caravan of three or four armored SUVs. We wore bullet resistant vests and helmets. The leader's check list always asked if anyone was a "bleeder." That sent chills down my spine.

When we arrived at our destination, shooters in the lead vehicle would secure the entrance to the site and call our meeting contact to confirm the event. Once we were given the signal that all was in order, we clamored out of the SUVs wearing our armor. In one building we walked up six flights of stairs wearing our heavy gear. Our security detail would stand outside the meeting room door with their automatic weapons at the ready. I was told each trip out of the green zone cost ten or fifteen thousand dollars.

My trips to the city were largely uneventful, thank goodness. One time the security detail detected an IED next to our vehicle. The driver took evasive measures, and we returned to the green zone without having the scheduled meeting. Another time they whisked us out of a meeting because they caught wind of a threat.

Two civilian colleagues in the State Department Iraqi Transition Office were killed when they were returning from Fallujah and their vehicle ran over an IED. They were engineers, one from Chicago the other from Cairo who attended The Ohio State University in my hometown. The ambassador presided over a memorial service for them in the mess hall.

My most "delightful" experience, if I can call it that, traveling outside the green zone was going "low profile." The RSO's office asked if I was willing to try this relatively new technique. Low profile means wearing the helmet and vest, but riding in a beat up Mercedes, sitting low in the seat. The driver is armed and a follow car, also a beat up Mercedes, tags along with another shooter. An advance driver checks out the venue and if all is clear I could take off my armor and walk into the building like a regular person. The follow car would drive by, just in case something went wrong. We looked like just any other car on the streets of Baghdad, beat up and dusty. Low profile meant low pressure and a more relaxed way to view the city than drawing attention with a caravan of SUVs with guns at the ready.

"Duck and cover" drills were routine. When the alarm sounded we took cover in the nearest building or under concrete barriers that littered the compound. If I were in the apartment I could get under my desk or table. One time a missile hit the construction site next to my apartment. I heard the blast and saw the light of the explosion. The embassy was targeted by missiles a couple of times, but no hits.

I couldn't help but compare Afghanistan and Iraq. Afghanistan is an extremely poor. The Afghans are humble, proud, and adverse to outsiders. The Iraqis are also very proud and rightfully so because of their rich heritage. The alphabet and number system was developed in their land. Bagdad was once the center of Middle East medicine, culture, and religion. In its heyday, elegant buildings and mosques graced the city, sidewalks were filled with people and streets with cars. A cosmopolitan city, welcoming outsiders.

Iraq is wealthy, in principal. The country is sitting on massive oil deposits that are cheap to drill. Not like fracking. Just poke a hole in the sand and the oil oozes up. Well almost. But the point is that the country is wealthy. unlike in Afghanistan. The challenge is to have a united government that uses these resources for the nation and not for personal enrichment or the well-being of one tribe. The future is theirs for the taking, but the government has difficulty in uniting for common purpose. Tension between the Sunnis and the Shiites is real. The latter find common cause with Iranians, the former with Saudi Aribia. That challenge continues.

I'll turn to some of PFMAG's activities. One project was to reinstate technical competence in the Finance Ministry treasury operations. We organized training on budget and accounting using Iraqi officials and experts who had been in the Finance Ministry. Instruction was in Arabic. Training could not take place in the main Finance Ministry downtown due to security concerns. A year or so before I arrived, a British advisor had been kidnaped from the ministry. It was off limits to us. We held the training in a hotel in the city.

Once we conducted the training in Erbil, in Kurdistan up north. I flew in a helicopter to the city. Low flying in a helicopter over several hundred miles is quite an experience. Electrifying as the helicopter, hugging the terrain, swoops down into a river valley then suddenly lifts up to climb over a mountain.

When we held sessions in Baghdad, we would include members of the Provincial Reconstruction Teams, PRTs. It was important for U.S. members of the PRTs to understand how the Iraqi treasury system works and how transfers are made from the central treasury to the provinces. We would often get calls from PRTs about the status of budget allocations. I had one civilian assigned to work with the PRTs. He would handle these calls and follow up to provide an answer. Often times the questions would come from the U.S. military commander in the province who had complaints from the local governor or tribe about the slowness of the transfers. They didn't trust the central government.

Q: One second. I think they are just delivering food to my little room here.

WALLAR: Should we can go for a little longer.?

Q: Oh, sure let's keep going.

WALLAR: We would track down answers to the PRT's questions, usually in the Finance Ministry. We received so many of these enquiries that we started a newsletter to share experiences in dealing with federal-provincial budget matters. The newsletter was published every week, distributed by E-mail.

We performed assessments of capital projects financed by the government budget. The budget process in Iraq places infrastructure projects in the Planning Ministry, that is capital expenditures, while the Finance Ministry is responsible for operation and maintenance budgets. We tried to get these two ministries to talk to one another. If the government wanted to build a bridge or road or school house, it must make sure there will be funds to maintain the structure.

Due to security conditions, the Ministry staff didn't know if projects well outside Baghdad were still active. Under Iraqi law, unless a project was terminated, it stayed in the budget. Since the Ministry didn't know if some of these projects were still active, the funds that had to be allocated were unlikely to be used. Inefficient. We hired Iraqi ex-budget officials who visited project sites, reported on their status, and make recommendations for next steps, that is whether a project should be pushed to conclusion or dropped from the budget. Our recommendations were appreciated by the minister who sought to save some money and concentrate resources on viable projects.

Another activity was getting the state banks in better shape. There were two large state banks, the Rafadin and Rasheed. Our banking experts examined the balance sheets, transferred non-performing loans or dubious assets into a separate entity, installed electronic reporting systems, and streamlined and operations. Some of the bankers weren't interested in new, electronic reporting systems because they recorded every step in a transaction. On one occasion when the new system was being tested it suddenly stopped. Someone had pulled the plug! It was a challenge to get everyone on the same page.

Our experts worked with the bankers to help them understand the advantages of the new system so they would take ownership. One selling point was that more private commercial banks were starting up and some international banks were eyeing the potential of business in Baghdad. These state banks would have to step up their efficiencies to compete in this new environment. That pitch went some of the way, but progress was slow. We did make progress in setting up an inter-bank clearing system, establishing a platform so pensions could be paid using ATM cards, and creating a foundation for payments with credit cards.

Q: I am not going to answer that phone call.

WALLAR: Trade finance was a line of business in which the new commercial banks wanted to become active. The general idea is that a bank finances the manufacture of goods being shipped, and once they are delivered receives the payment from the customer to extinguish the finance trade debt. The bank needs to do due diligence on the manufacturer and customer, ensure that the proper paperwork was in order so they could take receipt of the payment, have confidence that the goods would be meet specification and be delivered in a timely fashion. Lots of detail to lock up but trade finance is a relatively low risk business compared to a bank lending large sums for an unproven start up or a major investment project with unproven prospects.

An obstacle to the new commercial banks from diving into trade finance was created unintentionally by the U.S. led Provisional Coalition Authority (PCA). PCA created the Iraqi Trade Bank specifically for trade finance. That bank dealt with a western consortium of banks headed by J.P. Morgan. This was a time when private commercial banks weren't operating, so it was the only trade finance vehicle in the country. Now that private banks were starting to take hold, they wanted to branch out into other lines of business, starting with the less risky ones, like trade finance.

J.P. Morgan, bless their hearts, were willing to start working with them. Naturally, Morgan had to do its due diligence on these banks which would take time. Meanwhile the Iraqi Trade Bank was growing, thanks to its trade finance business, and started expanding into other lines of regular commercial banking, competing with the new, small private banks.

We encouraged the finance minister, the central bank governor, and the deputy prime minister's office to find a solution. The latter was very interested to allow competition determine which banks were more efficient and provided the best service. The Iraqi Trade Bank had little to fear, at least in the short run, because it was so large. We argued that trade finance contracts should be let on a competitive basis as opposed to being virtually locked up by one bank. Disappointingly, the finance minister sided with the Iraqi Trade Bank.

We helped the Finance Ministry organize a conference with foreign banks. Some representatives flew into Baghdad and spent the night at the Al Rashid hotel. It was a real eye opener for some of these investment bankers from London to see Baghdad, meet commercial bankers as well as see and hear the finance minister and central bank governor in action. This was a time when there was a sense of economic optimism. Oil revenues were climbing, the government was organizing its budget, some ex-pats were thinking of returning. The country's economic outlook was beginning to look brighter.

The central bank governor, Sinan Al-Shabibi, was keen on the bank's independence from political influence and kept a close eye on inflation and the exchange rate. He had returned to Baghdad from exile in Geneva, Switzerland. He resisted political attempts for the bank to print more money to finance the government's budget deficit. The prime minister, in particular, leaned on him to do so.

Shabibi's staff was dedicated but the talent was thin. His chief economist, an older fellow, was of the last generation to be educated overseas. The west's embargo on Iraq precluded overseas studies, costing the county and the central bank a generation, students who were unable to be trained in the west. The central bank was devoid of much expertise below the level of the chief deputy, who oversaw currency matters, and the chief economist.

To support technical work of the central bank the U.S. Financial Service Volunteer Corps (FSVC), created by John Whitehead and Cyrus Vance, conducted training sessions in Jordan. I had worked with the FSVC and Andy Spindler, its head, in Moscow. We ensured that the work of our resident Treasury banking experts supplemented or completed the work of the FSVC. They held their sessions in Jordan for security reasons. Many of their volunteers were former commercial bankers or central bankers.

A fire had devastated part of the main Central Bank building in the old part of town. Treasury supported work on a security assessment and advice for a new facility for senior management. The location was in Krada, just across the Tigris River from the embassy compound. I met with Shabibi several times in the Al Rashid Hotel and at the site of this new facility outside of the green zone. The new building was completed just before I departed.

Shabibi and I worked on a financial sector action program under the umbrella of a U.S.-Iraq strategic framework agreement. This agreement, managed by the State Department, covered a range of economic and financial issues. It complemented the new U.S.-Iraq security agreement of 2009 which replaced the Status of Forces Agreement. The U.S. had been operating under the later since the invasion, basically as an occupying power. The new security agreement specifically indicated that the U.S. military presence in Iraq was temporary. The strategic framework agreement's political and economic provisions were to establish the basis for long-term work programs between U.S. and Iraqi officials.

The central bank ran weekly auctions for foreign exchange, buying dinars for U.S. dollars or buying U.S. dollars for dinars. The aim was to keep the value of the dinar stable, within a certain range. High oil prices and exports and the large injection of for assistance meant that more dollars were buying a limited amount of dinars, driving up the rate of exchange. The dinar was "overvalued." Iraq imported much of its food. The overvalued exchange rate meant that the food was less expensive than it otherwise would have been at a lower exchange rate, requiring more dinars per U.S. dollar. The relative price of non-tradables were pulled up by the higher exchange rate.

But the higher exchange rate meant that Iraq's tradable goods were less competitive in foreign markets. This is a classic case of the so-called "Dutch disease," where industries cannot compete due to a higher exchange rate driven by one or two sectors, in this case oil and aid. Some farmers complained that they couldn't export their produce at a competitive price. At this stage, there weren't other major export industries. Shabibi believed that having a stable exchange rate, even if it were overvalued, was very important to gain the confidence of the population in the dinar.

Someone complained that the weekly foreign exchange auctions were a form money laundering. This was either misunderstanding or a provocation. The prime minister demanded Shabibi's resignation. For some reason, maybe we were working on details of the strategic framework agreement. I was on the phone with Shabibi the night the prime minister instructed him to resign. Naturally, Sahbibi was distraught. He opposed the prime minister on covering the government's budget deficit by issuing more money now he was at odds with the prime minister over this supposed auction scandal.

Nature, or should I say the markets, ran their course. Due to the uproar, the central bank cancelled its weekly auction. Demand for the dinar dropped as did its value in relation to the U.S. dollar. Not good for the pocketbooks of the population. The prime minister, in a panic, called Shabibi for an explanation. No auction meant no buyers, either private or the central bank, to bid up and stabilize the price of the dinar. This was a painful lesson for the prime minister about the foreign exchange market. He rescinded his demand for Shabibi's resignation.

This incident demonstrates the great pressure exerted on Shabibi, a competent and certainly dedicated central bank governor. His bank's independence was important to help create a stable macroeconomic framework – low inflation, stable exchange rate, limited deficits – to support Iraqi's long-term economic growth. He had little interest in politics. Political imperatives or just false rumors or ruses could undercut someone of Shabibi's stature, setting back institution building efforts.

I could go on, Stu, but it is getting close to noon and you have your lunch already delivered. We could pick this up next week. We could wrap up my time in Iraq and then talk about my second stint at Nathan Associates. I think we could finish next week in about an hour and a half. How does that sound?

Q: That sounds good.

WALLAR: Hello, Stu.

Q: Here we go.

WALLAR: Here we go, this is the last hurrah.

Q: OK, where were we?

WALLAR: I was talking about my time in Iraq and the trials and tribulations of Mr. Shabibi, the governor of the Central Bank of Iraq. The prime minister had threatened, actually demanded him to resign but rescinded his demand when he realized the error of his ways and the wisdom of the Central Bank's management of foreign exchange auctions.

Q: As I recall Shabibi was rather this serious figure or controversial figure.

WALLAR: He was very serious. Serious in terms of maintaining the value and stability of the dinar against the dollar, and very serious in terms of restricting monetary supply and not printing money for the government to cover its deficits. I think he was educated in the west. He had managed the Central Bank before in better times and came back to give it a go under the new regime.

Q: OK, go ahead.

WALLAR: Treasury had provided technical assistance for the Finance Ministry's debt management office. They were responsible for selling treasury bills, so-called T-bills, and bonds. T-bills typically have a maturity of one year or less. Bonds have a maturity of one year or more. Proceeds from these sales help the Finance Ministry smooth revenues streams so they could meet current obligations even if revenue flows were low. Tax revenue tend to be lumpy: high during tax season and lower other times. The Treasury expert had taught them how to auction three-month T-bills so the government could sell them at the most favorable and realistic price. He taught them the principles of an auction using Hershey chocolate kisses.

The debt management office team had learned their lesson well and were issuing three-month T-bills on a regular basis. As more private commercial banks were starting up, the demand for these instruments was increasing. The market, however, was not developing because the office was not issuing longer-term debt. I asked the Treasury technical expert to provide a second training.

He explained to them that they could also issue T-bills for six or nine months and bonds for one and two years or longer. By increasing their sales of instruments with different maturities they could raise more money and create a yield curve so investors would have a good idea of costs over time. With careful management they could rollover debt when it became due by issuing new debt issuance. They learned quickly. Within a few weeks they were issuing long term maturities. It was like free money in the sense they never thought they could tap a larger market. Of course, they had to be prudent in managing the debt, not to over-extend themselves and certainly not take on U.S. dollar-denominated debt which carries a heavy exchange rate risk for a country like Iraq.

Two Treasury tax advisors visited to help the revenue service increase tax collections. The finance minister, like all finance ministers, was keen to increase revenue and put his brightest economist in charge of the tax administration. The economist was very clever but had never managed a large government organization and had little knowledge of the details of taxation and collection. But he was game and willing to learn.

In our first formal meeting with him, he had been on the job about a month. His initial assessment, he confessed, suggested that the revenue services' problems too many to enumerate. He was overwhelmed with the difficulties.

The first steps the Treasury technical assistance experts suggested was to adopt self-declaration of income tax and the creation of a large taxpayer unit. Self-declaration is how we file taxes in the United States. In countries like Iraq and Russia, which I mentioned, tax payers work with a tax official to fill out the tax form. This meant rich targets of opportunity for those who were willing to tip the tax scales in your favor if they were compensated for their advice. The government's revenue would be the loser. Self-declaration was faster and assured the government less leakage and more revenue.

Large taxpayer units are typical in many developing countries. Naturally the largest firms should pay the bulk of the taxes. Devoting more resources to ensure big firms are paying their appropriate taxes makes sense. Diluting resources to cover all tax payers might seem equitable, but inefficient and doesn't get the rate return on investment.

We visited the Federal Board of Supreme Audit which had been set up by the British. The head of the organization was an older gentleman, extremely diligent and precise. He was a force to be reckoned with by the Finance Ministry and the parliamentarians because he was a stickler for keeping the books straight.

The Iraqi government kept its accounts on a cash basis rather than an accrual basis. The cash method means they balance their books every year based on cash on hand. Under the accrual method, revenue due is accounted even if it has not yet been collected. He was a stickler for retaining the cash system and resisted calls for a change to the accrual method. This would have implications for the government to be able to purchase goods on long-term credit.

Fiscal federalism is an important issue. In Iraq oil revenues are channeled to the central government then redistributed to the provinces. Kurdistan in the north had aspirations of autonomy. It retained some private drilling companies to pump oil on their territory hoping to keep the proceeds. Clearly there was a tension between the federal government and the provincial government in Kurdistan. The Kurdistan government argued that they may not get all they were due in the redistribution process. As much as they wanted to be autonomous, they did reap benefits from the federal government and, in the end, went along with the system and sent their revenues to the federal government. Tensions remained. A few years later the population actually voted to remain part of Iraq rather than create a new country.

The Finance Minister during my time in Iraq was Baqir Jabr al-Zubeidi, an engineer by training and politically aligned with the Shia opposition to Sadam Hussein. There were rumors that he had been a tough minister of interior, perhaps responsible for deaths of Sunnis. At first he liked the power of being finance minister as ministers, provincial leaders, and tribal chiefs would approach him for money. As he settled into the job he discovered that under the budget law he just couldn't give money away to whomever he wished. The Provisional Coalition Government had drafted the new budget law which contains the same basic principle as the U.S. budget law: No expenditure can be made without parliamentary authorization.

At first disappointed that his power was circumscribed, Jabir learned to like this budget law because it gave him an excuse for not helping the governors, especially those he didn't like. He could apologize by saying, "I am sorry my hands are tied. I have a budget law. I can only give money if the parliament authorizes it." He was not a numbers person but had a compete assistant who had worked in the Finance Ministry.

One of the PFMAG's major activities was coordinating or, better said, exchanging information on budget-related issues with other donors. This was not envisaged initially as one of its functions. PFMAG had access to oil revenue figures from the Central Bank on a monthly basis. We also had access to government expenditure statistics from the Finance Ministry. This information allowed us to understand how the country's federal budget was shaping up and being executed.

I started giving unclassified briefings to other donors. At first the briefing was to the UK Department for International Development's (DFID) budget assistance program, a significant program. The Brits also lived in a well-fortified embassy compound in the green zone. We expanded the briefings to others, including the Japanese, the EU, Danes, Italians, Germans, and the UN as well as the World Bank, which had a small office in Baghdad, and, of course, USAID. Eventually some members of the PRTs, and military officers asked to attend these briefings on the condition of the Iraqi federal budget.

The group grew so large, that we convened weekly meetings inside the embassy compound to give a run down on the budget and have an open discussion. The sessions evolved into briefings by other donors on their budget-related technical assistance programs. These weekly meetings became a good mechanism for informal exchanges. I wouldn't really call it coordination since each program had its own mandate. But they could learn what others were doing and perhaps make some adjustments to avoid overlap or provide complementary. Experts would gather before the meeting and stay afterwards to compare notes on other activities. There would be 25-30 people at a briefing.

The forum became a vehicle for coordination by the World Bank. The Bank's staff worked with the Finance Ministry to draw up a chart of technical assistance needs for budget and treasury operations. The group of donors who attended the PFMAG briefings convened at the Finance Ministry to fill in a matrix of assistance to meet the needs and avoid duplication of effort.

Foreign military sales were an issued to which I had little exposure but was a hot topic for the U.S. government at this time in Iraqi. I was generally aware of U.S. foreign military sales because Treasury had an office dealing with exports on credit, such as through the Export Import Bank. That office was concerned with debt collection or rescheduling. But I didn't know much about how the U.S. military makes a sales pitch to foreign governments to sell them military equipment. Still there?

Q: Yeah.

WALLAR: At the end of 2008 Iraq was pumping more oil and the price of oil was going up, so revenue was rising. In Baghdad the U.S. army general responsible for foreign military sales invited me to a dinner at his office. The General's mess is much better than the regular DEFAC mess. He wanted to make sure I was on the team, on the right side of the team, to encourage the Iraq government to make more purchases with their revenue under the U.S. foreign military sales program.

I understood his pitch but pointed to the Iraqi cash accounting method created an obstacle. Under the U.S. foreign military sales program purchases had to be paid for in advance. If the purchaser is borrowing money or operates on an accrual basis, this can be handled. But Iraq would have to pay cash for a tank and not see the tank for three years. Auditors would ask, "What have you purchased with this money? Where is the tank?" Lots of suspicion when the actual physical equipment for which cash has been paid cannot be shown.

The Iraqi military also would make the case that they could buy cheaper equipment from others which was certainly true. Whether the equipment was as good as ours I couldn't say, but certainly they could buy the equipment they needed for far less money.

Another important point that I stressed to this general and others was that the Iraqi federal government had many other, high priority demands on their budget. Security was important to stabilize the country so commercial activity could thrive. But after years of neglect, the Iraqi people needed to direct funds to health and hospitals, to education and schools, and to roads and other infrastructure. Many, many demands were being put on a growing, but still relatively very small federal budget. The Iraqi military and police still would account for substantial budget expenditures. U.S. foreign military sales seemed like a luxury.

Our budget experts helped train the Finance Committee of the parliament. The Committee was chaired by a woman, a very clever lady, keen to learn. She had a background in economics but was not well versed in the details of monetary policy, budgeting, and banking. I would attend training sessions or special meetings every couple of weeks and talk about issues that were on her mind. We hired a local staffer to help her research topics. Exercising oversight on the budget process was a new experience for the committee, and they had many questions. The finance minister was not particularly amused when he received questions from them on the ministry's draft budget, but accepted it as part of the new budget process.

U.S. investment banks, envisaging an upswing in significant commercial prospects in Iraq, proposed that the country issue an oil bond to supplement revenue. The interest and principal on the bond would be paid for by oil revenues. Under the proposal, bond holders would be the first in line for receiving payments from these revenues. This was borrowing on anticipated income, and on the not very safe assumption that oil prices would stay high or go higher.

The investment banks made a pitch to the finance minister when he attended the spring meeting of the International Monetary Fund in Washington, D.C. I happened to be in Washington for my first R&R and attended meetings at the Treasury with the Iraqi finance minister. He asked me to attend his meeting with the investment bankers proposing the oil bond. Since I wanted to know from the inside what was being proposed I agreed.

I found myself in an awkward situation. After the bankers made their presentation he turned to me and asked what I thought about the idea. I pointed out that under the terms of the bond, the bond holders would be first in line with a claim on the Iraq Government revenues. However, the government had borrowed from the World Bank which, under the terms of their contracts, prohibits others from being paid first. The U.S. government is a shareholder of the World Bank. He thanked me for my comments. In the end the oil bond idea never took hold.

A couple of budget episodes were rather exciting, not a term one naturally associates with the central government's budget. "Exciting budget," is an oxymoron. How can budgeting and treasury operations be exciting? I am not taking a page out of a Dan Brown thriller here. But there were times when the situation got tense.

One episode involved the Sons of Iraq. These were Sunni militia in Anbar Province. Some had been officers in the Iraqi army under Sadam Hussein. They supported the United States counter insurgency forces battling Al Qaeda militia. Together this "surge" of force was successful. The U.S. military paid the Sons of Iraq militia but pledged, on its own and without consulting the government, that their pay would be transitioned to the government of Iraq's budget. I am not quite sure who in the Iraqi government agreed to this, but it may well have been the prime minister.

Finance minister Jabr professed to know nothing about this arrangement, pleading that he was surprised. Now that he was better versed in the spending restrictions in the budget law he said something along the lines, "Ah my goodness there is no expenditure item for this in our budget that was approved by the parliament. So how can I pay the Sons of Iraq if it is not in our budget?"

The U.S. military suspected that the finance minister was not being helpful because he was a Shia. Tribal differences or resentments between the Shias and Sunnis explained much about why the government wasn't operating with one goal, one view. Perhaps it was the case in this instance, I can't say for certain, although Jabr was a long-time political operative in the Shia movement.

PFMAG became involved because the U.S. military top brass was quite intent that the Iraq government assume payments to the Sons of Iraq militia. The delay in payments apparently was causing leaders of the Sons of Iraq to become quite restive, feeling they were being stiffed by an unmet U.S. promise, and threatening to take up arms. It seemed I was either getting phone calls or being visited by a U.S. military officer every hour.

The U.S. military had an accountant attached to the National Police to help with their budget. I think we knew each other from the weekly PFMAG briefings. He told me that the national police had not used all of its allocated funds under their annual budget. Under the budget law, the finance minister could make transfers from one account to another, with certain restrictions. This type of transfer – both related to domestic security – was in the realm of possibility. Reluctantly, the finance minister went along and the Sons of Iraq were paid. At least the year I was in Baghdad. The longer-term plan was for the national police to hire those Sons of Iraq militia who wanted to join the police.

Q: Was there concern that the Sons of Iraq might turn violent?

WALLAR: That is right. The concern was that they might just drop their arms or pick up arms joining with the insurgents. This seemed hard to imagine since they had been allies in pushing Al Qaeda out. But as I was instructed, politics in Iraq is a full contact sport. I remember someone showing me video on a cell phone of a gathering of the Sons of Iraq.

I couldn't understand the Arabic but clearly, they were getting all excited about not being paid in a timely fashion.

Q: Well, during this time were things settling down?

WALLAR: Settling down is a relative term. There were still bombs going off in towns and it was not safe to drive long distances. Commerce was picking up, stores were re-stocked with refrigerators and air conditioners. As I mentioned, some small commercial banks were starting up and international investment banks were looking to establish a presence. So, yes, there was a sense of settling down and that the future would be brighter. Most importantly, the country was sitting on oil that was cheap to extract, something like $3 or $4 a barrel, and the price of oil was recovering from it slump in 2008.

Q: I recall that way back in the 50's Iraq was considered a nation on the rise. I mean, I may have mentioned this before, but it had good infrastructure and a literate population. Plenty of oil. It was really on its way.

WALLAR: Absolutely. There was an elderly gentleman in the Planning Ministry who had a colored postcard on his desk of the city in 50's or 60's. Downtown Baghdad was a cosmopolitan city, bustling with cars. It was the place to go to for university. It was the place to go to if you needed a sophisticated medical procedure. Baghdad had night life – signs advertising Johnny Walker were still up - and a rich religious and cultural history – from the frivolous to the philosophical. Even the green zone had its share of statues and arches that dated form the middle ages. The Iraqis have pride in their country, a sense that they have been betrayed by their politicians, and a hope that they would emerge stronger than ever from the war. The key was for all political factions to pull in the same direction, that is, to use government revenues to benefit the people not tolerate personal enrichment through corruption.

Q: Well did you sense a difference between sort of the old hands in the Treasury and the new people coming up. I mean was there sort of a cultural divide?

WALLAR: To some extent. I think I mentioned before, due to the UN embargo, which the U.S. government supported, few young people had been educated in the west. They learned what they could in terms of economics at Baghdad universities, but it is not the same thing. Many young professionals had fled the country. A few were testing the waters, thinking of returning. While the military situation was settling down, the political situation was not.

The head of the Finance Ministry's budget department was a young woman very clever with numbers. She was an exception. The older people in the Finance Ministry knew the system and were dedicated. But they were not young rebels who wanted the government to be different. Rather, these seasoned administrators followed orders, kept the paperwork in order, and stayed to themselves. One of the treasurers had been killed. It didn't pay to be bold or creative. The country had experienced a "significant loss of human capital," as an economist would say.

This is not necessarily a case in point, but it is illustrative of how the Finance Ministry was out of touch with recent developments, one of which was quota allocations. In August 2009 the International Monetary Fund, IMF, made a special allocation of special drawing rights, SDRs. SDRs are basically like money for use in a country's IMF account. They are not a currency in themselves, but they can be exchanged for currency or used to back borrowing.

During the 2008-2009 financial crisis, IMF members agreed to pump more liquidity into the international financial system through a new allocation of SDRs about $250 billion. Iraq, as a member of the IMF, was allocated SDRs in proportion to its share as of the total IMF quota, a very small amount, less than one percent. Still, Iraq's allocation was the equivalent of around $650 million.

The finance minister's assistant, Azziz, was unaware of this new allocation even thought it was public information. I don't know who represented Iraq at the IMF's Executive Board meetings but for some reason they didn't covey this important development back to the Finance Ministry. Or maybe they did but no one in Baghdad knew what to make of it. They were familiar with normal borrowing programs but maybe had never been exposed to the IMF's creation of SDR's.

Azziz confessed to be unaware of the significance of the SDR allocation. I pointed out that Iraq now how an extra $650 million or so for their use. He was just incredulous. Maybe thinking it was too good to be true he doubled checked. Sure enough, it was true. He was very thankful for that information. Not having younger professionals who have worked in or been exposed to the international financial system these kinds of surprises would happen.

Q: Well it does show that bringing somebody like you from outside who is up to date on things is crucial in a country that is trying to reform itself.

WALLAR: That is why Treasury and other U.S. government agencies went all out to help the government get back on its feet.

Probably the most dramatic budget-related issue involved electric turbines made by General Electric. When I arrived in December 2008, General Petraeus and Ambassador Crocker said their number one commercial priority was for the Iraqi government to buy electric turbines from General Electric. This was loud and clear in the first country team meeting I attended.

The logic behind this seemed to be driven by Petraeus' view of what was necessary for the economy to recover. In economics this is sometimes referred to as a constraint to growth, a bottle neck. The view seemed to be that people wanted to have air conditioners, refrigerators, and televisions, and other modern electric conveniences. Even if they could afford them, they wouldn't be able to run them because electricity production and distribution was very poor. The logic was that if this constraint to growth, the production and distribution of electricity, could be overcome, then greater economic growth would be unleashed. The lack of infrastructure is sometimes considered a constraint to growth, so stepping up electricity generation could make a certain theoretical sense.

Within a couple of weeks after I arrived, the prime minister signed a $3billion contract for GE turbines. I understand at the time it was one of the largest contracts GE had ever signed. Three billion dollars. It was a significant number of turbines. The GE executives flew into Baghdad for the signing and flew out the same day.

My predecessor introduced me to the finance minister at his home just after the GE deal was signed. The minister mused how the government might be able to pay for these turbines. He liked the fact that the government had purchased them from GE because the deal would not involve corruption. GE was very keen on combating corruption, using as a sales pitch that buying from GE would mean that the government was only paying for the goods and not lining the pockets of middle men.

But the finance minister was in a quandary because he needed to come up with $500 million for the first installment payment. His initial instinct was to lean on the Central Bank. In January I was on the U.S. team meeting with our Iraqi counterparts at a deputy prime minister's office. Finance minister Jabir and Central Bank governor Shabibi were present. After the official meeting, Jabir, confronted Shabibi, stabbing his finger at Shabibi's chest, demanding that the Central Bank provide the funds to pay for the turbines. It was quite a scene. Shabibi is rather tall, Jabir on the short side so he had to look up at Shabibi. Shabibi, who is every bit the gentleman, was visibly shaken by the encounter. I mentioned earlier that he was opposed to the Central Bank printing money to cover the government's expenditures. I went over to speak to the two, more to break up the encounter than to say anything useful.

Parliament got wind that the finance minister was looking for money for the turbines, but knew that funds for the GE payment had not been included in the budget. They heard that the minister would issue special bonds to borrow money for the first installment and hurriedly passed legislation prohibiting the finance ministry from issuing bonds without parliament's approval. I met with the chairperson of Parliament's Finance Committee and explained that the new law could have the effect of prohibiting the Finance Ministry from even doing its normal T-bill issuance and could cripple the government's ability to make normal payments, such as for employees' salaries. T-bills allow the government to smooth out revenue streams so they have money to pay current expenses even if tax revenues are not yet available. I explained that they had thrown out the baby out with the bath water, so to speak. They quickly modified the legislation so that short term T-bills could still be issued.

In addition to finding money for payment of the first installment, engineers on U.S. technical teams were raising questions about the turbines. Apparently, Iraq didn't produce the type of fuel the GE turbines required. That meant that the government would have to buy the fuel from another country. Others pointed out there were few transmission lines to move the electricity that would be generated by these turbines. A bit of a messy situation. But the government was determined to find a way to pay. The prime minister who signed the deal didn't want to look like he was a deadbeat. He wanted to honor his commitment. His prestige was on the line.

Petraeus had left the country, but I understand he was still talking to the finance minister about the need to make these payment to GE. One of the U.S. bank advisors suggested to Shabibi that the Central Bank could reduce commercial banks' reserve requirements and use the excess funds created to buy special bonds issued by the Central Bank. Reserve requirements are funds the banks need to put aside in proportion to their deposits to protect against any sudden outflow. These special bonds could be used to meet reserve requirements and earn interest. The package should be attractive to commercial banks. The Central Bank could use these proceeds to make a special, one-time loan to the Finance Ministry to make the payment to GE. The understanding was that funds to pay GE would be included in the next federal government budget.

Shabibi judged this as an eloquent way out, to avoid printing money while satisfying the government need for extra revenue. The special bond was issued but commercial banks didn't go for it. In the end, the two big state banks purchased all of these bonds. Shabibi was very clear that the special loan to the Finance Ministry would need to be repaid in six months, out of next year's federal budget. With a flair for the dramatic, the finance minister invited me and a general to his office to witness his signature on the paperwork to pay the installment to GE. This was mid-August. "There. It is done." He smiled and was happy to put an end to this episode that had caused him anguish.

The next day a loud explosion rocked the green zone, I could see black smoke from my window swirling up. Not in the green zone, but very close. The Finance Ministry and Foreign Ministry had been struck by truck bombs. Another exploded near the green zone close to the parliament building. By coincidence, I flew out of Baghdad that afternoon on a helicopter to a visit to a provisional reconstruction team. I could see the Finance Ministry main entrance leveled. Smoke was still curling up.

A week later I saw the budget director toting all of her budget documents in a roller bag. Her office had been completely demolished. The head of the debt office called, the one Treasury had trained to auction government debt. A delightful man. He informed me that the order the finance minister had signed to pay GE had been executed. He explained after the finance minister signed the transfer order it was then sent to him for finalization. But the explosion had chased him from the building and destroyed his office. He explained that after a few days following the explosion he went back to his office after the dust settled, climbed over the rubble, and found the transfer order in the rubble around where his desk had been. He countersigned the document and personally walked it over to the Central Bank for execution so GE could get its payment. A very touching story of this man going into the rubble to ensure the Iraqi government honored its commitment.

You could say that the eventual payments to the Sons of Iraq militia and GE were accomplishments, but these extraordinary payments were just the kinds of maneuvering that the new budget law was designed to inhibit. The budget process should be regarded as an institution of governance that adheres to the rule of law. Development specialist talk of the rule of law when it comes to corruption and money laundering. The budget law also has rules, embodied in law, that should be followed.

I wasn't particularly proud of these episodes because we weren't contributing to institution building, but teaching ways to get around the law. The U.S. military liked the outcomes in both cases because they payments achieved their mission. Full stop. "You got it done. Thank you Mr. Wallar," and they move on to their next mission.

After returning from Iraq I gave a lecture at the War College and recounted these episodes. The military students asked what was wrong? Everything worked out just fine. As I say, they are mission driven. I was more interested in institution building. I tried to explain that instead of helping them build credibility in institutions and the rule of law, we just helped them temporize. Yes, these were extraordinary times. But it was still an uneasy feeling that the lessons learned were not the right ones.

Q: Did you find the Iraqis were able to, did they really need outside help in order to understand?

WALLAR: I think some of the outside help was useful because they were hiring new people at the Finance Ministry. Even those who had worked there before needed to get reacquainted with some concepts or learn new ones.

USAID spent a lot of money to try to get the budget process automated. The effort wasted time and money. It was a classic case of not getting top management to buy into the new system and not learning from the budget technicians what they needed to make their jobs easier or more efficient. USAID, as I understood it, picked out a budget system that had been installed in other countries and wanted to install it in Baghdad. The Finance Ministry budget director refused to sign on. Each meeting with her was difficult.

The Iraqis were comfortable with their system. USAID could have begun by building on that system rather than introduce a new one at the outset. PFMAG tried to steer clear of the issue. We thought that automation was a great idea but management buy-in is fundamental to introducing any such systemic change. The finance minister asked one of PFMAG's budget specialist to attend the meetings between his budget experts and the USAID contractor tasked with setting up the new system. We also had a computer specialist, a military reservist, who made some helpful suggestions. I don't think the project ever took hold.

Part of the issue was the lack of human capital as I mentioned before. We from the west had become accustomed to automation, always something new and better on the market. Baghdad, because of the UN embargo, was a place where time had stood still. Systems were the same as they had been in the 60's and 70's. This is not a criticism, just an observation. Eventually, they would catch up. But it would take time, more time than a contractor has working with a USAID deadline.

Q: In a way you were a little behind it but not too far behind a whole new crop of people who are going to come up literally in computing in the digital age. It was just beginning. So that it was particularly attractive to young people.

WALLAR: That is right. Some Iraqi ex-pats returning from Dubai or other places in the Middle East had more up-to-date skills. One of our Treasury technical assistance advisors was from Iraq and learned his IT skills in the financial sector in the United States. He had endured several years in Jordan with his family as a refugee and finally arrived in the United States where he earned a degree in IT at Arizona State then landed a position with a large financial services firm.

In my early days in Iraq there was a sense that young, professional Iraqis who had been successful in the west were eying the possibility of coming back. That is what happened in Russia when I was there, a feeling of stability with a new government pursuing economic reforms and the prospect of a brighter future. It didn't work out that way. In Iraq they never got to the stage where the government was perceived to be stable, so not many Iraqi ex-pats returned.

Q: From what I gather the Iraqis are a sort of forward-looking people. They are innately more in tune with the future in developments and all than many other people from that particular era.

WALLAR: The country's future could be very bright. Iraq's oil wealth and their traditions and history position the country to be a major player. But they have just not been able to muster that unity in the politics necessary to transform that potential into reality.

Q: It must have been fascinating to work there, to see the country. It has got potential, but it needs some pushing and some direction.

WALLAR: That is right. It needs some pushing and some direction, and it needs a strong leader and a parliament that works together. The tension between the Shia and the Sunni still exists. The central government's tension with the Kurds still exists. The province of Kurdistan is more developed than most other parts of the country. While I was in Iraq Air Austria flying into Erbil, its capital city while Baghdad airport was still closed to commercial traffic. The Kurds are very organized, very disciplined, as exemplified by the Peshmerga – their military which fought alongside U.S. forces. They have good economic prospects in addition to oil in the ground. While the Sunnis and Shias bicker at the federal level, the Kurds have progressed. That is one reason discussions would arise suggestion that perhaps Iraq would be better off divided into three parts or three different countries. I don't think that is practical given that each would require substantial institution building and financial support. Yet another new prime minister has been installed. We will see. I tend to be an optimist but some Iraqis I know in the states disabuse me of my optimism. They say the officials are still corrupt and prospects are not good.

Q: What a shame.

WALLAR: A great shame.

I mentioned that one of Pat Haslach's main missions was to transition the embassy into a normal embassy. The U.S. military's role since the invasion had expanded into economics, politics, and public relations. Haslach and Ambassador Chris Hill were gently, or maybe not so gently, moving the military out of what in other embassy's is the State Department's role.

Here was a classic example. The U.S. military was assembling what they called an Iraqi Reconstruction Plan and asked me to provide input. When I received the invitation, I thought this is great. We are sitting down with the Iraqis and working out a reconstruction plan. I found out that wasn't the case. They were drafting something on their own. They had time on their hands and a mandate from their Generals. State's economic team didn't have much extra time on their hands so they participated when they could. I didn't. It was a make work project. I had enough to do working with Iraqis on the strategic framework agreement and other issues.

Anyway, in keeping with the transition to a normal embassy, Ambassador Haslach and I agreed that one of my final acts in November 2009 was to abolish PFMAG. Sort of poetic since I arrived just as it was created. The most important on-going activity had been the weekly briefings with other donors. The World Bank agreed to take over chairing that weekly meeting. Treasury would still have an attaché and technical assistance advisors but there would no longer be the equivalent number of U.S. military associated with them. That was the end of PFMAG, the join civilian-military effort to help Iraq develop and implement its federal budget

Q: Did the change of getting rid of PFMAG cause problems, I mean people with interest in this?

WALLAR: It didn't cause problems on the civilian side. The army general who had economics and politics and public affairs in his portfolio complained to General Austin that he was being cut out. Ambassador Hill explained that the military being cut out of economic reporting is just the way of life in a normal embassy.

The U.S. military was looking to protect gains the U.S. had made in the country and were engaged with nation building, part of the counterinsurgency doctrine at the time. I also learned that some in the military regarded nation-building duty in the field as a way to get promoted, much easier than earning a promotion state-side. One young man had arrived in Baghdad in 2003 as a captain driving a tank. In 2009 he was a Lt. Colonel because he had returned to Iraq as a public affairs specialist. A "hot" war wasn't necessary to get promoted, but being in a conflict zone, working on nation-building was a safer, if not easier ,avenue to advance.

Q: Well it is something like that in the foreign service. You know having an earthquake or a crisis or a political crisis gets attention and possible promotion. Who wants to be, Switzerland?

WALLAR: You are right. Foreign service officers want to be in exciting places to be stimulated and contribute. If things go well it helps their career. Until I worked closely with the military in Iraq I never appreciated that their system works the same way, even when working in areas that are traditionally civilian. Nation building and developing counter insurgency strategies with civilian populations provided great new opportunities for upward advancement.

Q: Well then you left Iraq about this time?

WALLAR: Yes, in December 2009. When I agreed to the job I told Treasury only one year. Of course Treasury asked if I couldn't you stay for another year. The answer was "no." I worked seven days a week. I wore a suit every day except for Saturday mornings when I cleaned my apartment from the desert dust. Good times and good comradeship made the experience tolerable, but the atmosphere is rarefied where you only think about Iraq. Tension was always in the air, whether in duck and cover exercises or traveling in the city with shooters, or just driving in the green zone, you are never quite sure what might happen. And that's not even mentioning the usual bureaucratic tussles within the U.S. government and working with the Iraqi government. The tension and constant work take a toll.

The first time I left Baghdad for R&R and flew into Jordan I spent a couple of hours just walking around the streets feeling the tension subside. It felt odd to walk past shops with windows filled with goods and to see people in shops. Some people enjoyed living in the embassy compound or maybe liked the hazard paid. Some never ventured out of the compound. Or had technical jobs and didn't have to work with Iraqis to achieve a shared objective. Bless their hearts. But I had enough. My career didn't need a boost, and I missed being with my wife and family.

Ambassadors Haslach and Hill hosted an in-house farewell dinner. The finance minister also hosted a small dinner, with the local fish grilled and fresh pita bread. Sahbibi, the Central Bank governor hosted a tea with his senior staff at the newly constructed senior management facility. As he raised his teacup he looked me in the eye and said something like, "Jim, you can't leave. You are one of us." Very touching. Brigadier General Stephan Lanza presented me with a "Commander's Award for Public Service," in direct support of Operation IRAQI FREEDOM.

When I returned to the states I admit I pulled a punch using my service in Iraq. My Dad and Mother were in an assisted living facility in Columbus, Ohio. Dad was an avid Ohio State football fan. I sent a message to the office of the Ohio State Football coach, Jim

Tressel. I told him my father was a veteran, and I was just returning from Iraq to visit Columbus and asked whether we could meet him. Much to my surprise Tressel wrote back and said, “Sure. Let us know when you are in town.”

The morning I arrived in Columbus I said “Dad get your jacket on. We are going down to the Ohio State football practice.” He said, “Ah Jim ,come on.” “No, I said, it is just down the road, and we have an invitation.” He was more than skeptical. We arrived at the practice complex, a new, huge building, and sat in the lounge eyeing the many football trophies on display. Dad is still doubting me as assistant coach introduced himself and took us to the coach’s outer office filled with football memorabilia. Tressel came out, shook my Dad’s hand, and talked about old coaches. Dad had played football for Dennison who had a coach who later became famous in the American Football League.

I had a box of sweets from the most famous candy maker in Baghdad that the Iraq tax commissioner had given me as a going away present. I gave the sweets to the coach and his staff. We got to watch the Ohio State football team practice for an hour. My dad was in seventh heaven. As we were leaving Tressel came up and said to my Dad, “Mr. Wallar I just want to thank you for what you have done for our nation.” My dad looked him in the eye and said, “Mr. Tressel I want to thank you for what you have done for Ohio State football.” Tressel had developed a winning team, which Dad appreciated.

Nathan Associates offered me the position of senior vice president for international operations. I was very touched. I confess that had I not been in Iraq for that year I probably wouldn’t have had sufficient self-confidence to assume this position. I accepted. I had enjoyed my previous work at Nathan, with bright, devoted colleagues, working with foreign counterparts, and focusing on practical economic issues. But senior VP is mostly management which is not a strength of mine. I quickly appointed two vice presidents to help with personnel, accounting, and proposals so I could have some time to work on policy issues and lay groundwork for new initiatives.

I traveled to Nathan projects or potential projects in Mozambique, South Africa, Jordan Egypt, Zimbabwe, Sri Lanka, and Nepal. I returned to the ASEAN Secretariat to be acting chief of party for a month while we replaced the long-term chief of party. While in SE Asia I attended meetings with USTR and the State Department.

USTR claimed that ASEAN economics was its turf and disabused the State Department from trying to take over U.S.-ASEAN economic consultations. This was a shame because USTR’s purview is limited to trade while State handles a broader range of economic issues. Such a broader perspective would have been to ASEANs and the U.S.’s advantage. USTR chaired the U.S. government delegation to the annual ASEAN economics ministers’ meeting. We had lined up a prominent TV host to emcee the event in Cambodia, but he dropped out at the last minute. I got to take over. A bit of stress dealing publicly with the ten ministers from ASEAN member states and the USTR, but it all worked out.

Just before Christmas in 2013 I flew to Myanmar to propose two seminars to assist the government in preparing to chair the ASEAN leaders and heads of state summit. I had suggested to USAID that the seminars be financed under the current ASEAN project. They agreed. The chair of ASEAN rotates every year and 2014 was Myanmar's year. They had passed up their previous opportunity in 2007 because they did not think they were ready. But reforms were afoot. The military was allowing elections, while still keeping a grip on parliament and key positions. Myanmar's "opening up" was the focus of international attention.

The deputy foreign minister was at first dubious about our offer. Two really wonderful colleagues who had worked with me on the ASEAN project as well as in the ASEAN Secretariat had traveled with me for the meeting. One was from Malaysia, the other from Indonesia. Both had excellent contacts in the Myanmar foreign and economics ministries. As the discussion progressed the deputy realized the depth of experience we had with ASEAN and agreed to the two seminars.

In March 2014 we brought in speakers from ASEAN member states who had experience in chairing ASEAN leaders' meetings. The seminars took place in Nypidal, the capital. Derek Mitchell, the U.S. ambassador to Myanmar, attended the opening ceremonies since this was the first high-level technical assistance provided by the U.S. government to Myanmar. We had to be careful who we talked to and not to stay at hotels owned by military or meet with people who Treasury had designated as subject to financial sanctions. It was a heady time to be in Myanmar as it was opening up. Much optimism. Rangoon had been the premier capital in SE Asia but had slipped severely, losing out to Bangkok. Myanmar officials hoped that their economic development could take off quickly so the country could make up for lost time.

In 2011 the U.S. became a member of the East Asian Summit. ASEAN chairs the summit which includes the ten member countries of ASEAN plus China, Korea, Japan, Australia, New Zealand, and India. U.S. membership provided a wonderful venue not only to discuss security issues with China in the same room as Japan and Korea, but also economic issues. It was somewhat poetic that the United States would be invited to join because the East Asia summit was an outgrowth of the East Asia Economic Caucus set up by the Malaysian prime minister expressly to exclude the United States.

I thought it would be great for the U.S. to discuss economic issues in the East Asia Summit. China was very suspicious of the ongoing negotiations of the Transpacific Partnership, the TPP, a free trade deal being negotiated without China. The East Asia Summit was also the launching pad for the Regional Comprehensive Economic Partnership, RCEP. This included all the summit participants, except the United States. Unfortunately, the United States didn't engage in the summit's economic discussions. USTR insisted that any discussion by the U.S. government of economic issues would only take place in APEC or in the TPP. In my view this was a real shame, a missed opportunity since all the major regional players were at the table.

The Japanese made good use of the East Asia Summit by gaining its endorsement of a regional SE Asia development plan. That plan included a significant amount of infrastructure to link ports with manufacturing areas and free trade zones. The plan would benefit Japanese or any foreign businesses with supply chains in the region. Of course, it would also advance the host country's economic development. But in no small measure the plan advanced Japanese commercial interests. The United States just took a pass on the discussions. China has forged ahead with its own "One Belt One Road" infrastructure initiative. The U.S. is playing catch up.

Q: Did you have any chance to talk to other people on our side who were concerned about this stand with the trade people?

WALLAR: Yes. Kurt Campbell was the assistant secretary at State for the region, and Joe Yun was his assistant. I knew Joe from Paris where he worked in the Treasury attaché's office. The bottom line is that USTR had won an inter-agency battle. I wrote a couple of opinion pieces for some think tanks in Washington promoting the idea of using the East Asia Summit more actively, but it never took off.

USTR put all our economic eggs in the TPP basket. Now that the Trump administration has dropped out of the TPP the basket is gone. Meanwhile the region has moved ahead. The TPP has been converted to the Comprehensive and Progressive TPP without the United States, and RCEP has been signed, although India dropped out. The United States is just not part of the game. Accordingly, the U.S. government influence in shaping trade and investment rules in the region has diminished greatly.

At the APEC Secretariat in Singapore I gave seminars on strategic planning as part of the Nathan Associates project. APEC had been criticized as being just a talk shop. The U.S. and Australia pushed reforms to improve efficiency and produce results. Often times a training session, seminar, or study was a one off experience and didn't lead to anything. The U.S. and Australia and the new Secretary General from New Zealand agreed that in order to qualify to draw on a common pool of funds available to the Secretariat, each activity proposal would need to be part of a multi-year strategic plan. Each strategic plan would have building blocks of activities designed to achieve specific, measurable targets that contribute to advancing or achieving the overall objectives of the committee.

I also gave strategic planning training seminars to APEC member economies around APEC annual meetings in Japan and in Washington D.C. I reviewed and commented on the strategic plans of about 20 APEC committees to make sure they were grounded in objectives that were realistic, measurable, and could be accomplished in a reasonable time. It was a very hands on. I think APEC has taken some pride in this new system that has energized the committees. Now they actually see results of their activities.
The cycle of projects never ends. The Nathan Associates' USAID funded project in APEC and ASEAN had run their course of four or five years. USAID issued requests for proposals for new projects at APEC and ASEAN. Rather than one large umbrella project for ASEAN, USAID issued requests for proposals for two projects, one economic the other political, covering human rights and disaster preparedness. Since Nathan Associates

had been doing both, economic and political, under two previous projects and had gotten high marks from USAID, I decided we would bid on both ASEAN projects and the APEC project.

I was advised this was a risky strategy because USAID doesn't like to have one contractor manage so many closely related projects over consecutive project cycles. I thought that Nathan Associates had so much experience that it would not be very effective for USAID to go with a new contractor who would have to learn not only about the organizations and get to know their personnel but also hire experts who know something about and are respected by these very specialized organizations. Nathan Associates had spent years developing personal relationships with the subject matter experts in each of these organizations. How could we lose?

From November to January 2014 I was the lead writer on all three proposals. That time was pretty much a blur. This was the same time I traveled to Myanmar to set up the seminars. I was writing and revising proposals on the airplane, which I don't advise anyone to do. The day after I landed Nathan Associates had a "red team review" of one of the ASEAN proposals. I don't remember much.

Nathan Associates won the ASEAN economic project. I was the chief of party and flew to Jakarta at the end of June to hire local staff, set up the office, and write the first work program. As U.S. government interest had grown in Myanmar USAID asked if I could include a separate economic work program for Myanmar under the ASEAN project until they could secure funding for a stand-alone project. I wrote a mini proposal on how specific economic projects in Myanmar could advance ASEAN objectives on trade and investment as well as advance Myanmar's own economic development. These activities provided the foundation of a new project that started the following year in Rangoon.

Nathan Associates also won the APEC follow on project, but lost the ASEAN political project. Those who had advised against going for all three turned out to be correct. Meanwhile, the health of my parents and Gale's parents was not so good. Being so far away, we thought perhaps we had taken on too much risk.

The person we had bid on the ASEAN political project was Tim Buehrer, the former chief of party for the ASEAN Technical Assistance and Training Facility under ADVANCE. After ADVANCE he had worked on a USAID economic project in Indonesia and had a son in high school. His economic project was ending, but he wanted to stay in Jakarta so his son could graduate. We worked out a very seamless transition so he could take my place and run the ASEAN economic project. USAID agreed because they knew they were getting a more experienced person in project management who had delivered excellent results on USAID projects. Gale and I returned to the states.

Back in Washington as a senior VP I worked to bring operations and collaboration closer together with a firm Nathan Associates had acquired in London and firm Nathan Associates had created in India. Each had distinctive business models and working methods and clients. It was a challenge to get them to collaborate. We made some progress, but so much depends on personalities. I retired in the summer of 2015. Meanwhile, the CEO of Nathan Associates was stepping down, and I was put on the search committee to find a replacement.

I was brought back unexpectedly to be a chief of party for a USAID project called Leadership in Public Finance II based in Washington which meant no travel. I was blessed with a terrific staff to handle much of the work. The project funded activities in Kenya, Sri Lanka, and in Washington where we held seminars in public finance for USAID officials.

One major focus was to link health ministries with the finance ministries to develop program-based budgeting. I was surprised that health ministries rarely engage with their finance ministries. With a program-based budget, health ministries could lay out specific activities or goals that the budget would help them achieve. This type of presentation would demonstrate the effectiveness of their programs and help them make a stronger case for budget funding.

Another stream of activity was to promote the mobilization of domestic resources. Foreign assistance is only temporary, and host countries need to find ways through revenue collection, debt issuance, and other means to develop sources of revenue. Since the U.S. Congress is cutting back health care funds, mobilization of revenue has become a major issue on which health and finance ministries can make common cause. A study by Nathan's top economist demonstrated that in the least developed countries, when overall revenues increase, the health budget also increases. Health ministries should have a keen interest in promoting the mobilization of domestic resources.

Congress had tried to draft a new development law to replace the hopelessly confusing, highly amended foreign assistance law dating from the 1960's. One of the bill's declared purpose was that development assistance is to help countries to sand on their own two feet. Mobilizing domestic resources and making sure those resources are used effectively in program-based budgeting is a worthwhile activity. USAID is moving in this direction, and we were pleased to contribute. The project concentrated on budgeting and customs collections and also tax administration and policy and worked in tandem with the World Bank and International Monetary Fund which had developed analytical tools in these areas.

The project was allocated a small amount of money to start up but depended on USAID missions overseas "buying in" to the project, requesting specific activities that they would fund. As more USAID missions heard about the project, we begin to receive more buy-ins. That is, the mission didn't have funding for a multi-year project, but did have funding for a discreet activity, like an assessment of the tax regime, or funding for a year of focused activities, like procedures for government procurement.

We started to get missions to buy into the project, not only on budget issues but also trade issues. This was a great success for Nathan Associates and a tribute to the team working on the project. But it took more and more time to manage. I had agreed to run the project on a part-time basis, but now it was full time. After a year and a half I retired again.

We have come to the end of my road, at least my professional career. I am still involved with some international economic issues with CSIS, the Center for Strategic International Studies. I am writing a history of my family in which compels me to learn or relearn American history.

Q: Where does your family come from?

WALLAR: As far as we can go back with my particular Wallar line, my ancestor, William Waller, enlisted in the Virginia rifle militia in July of 1776 when he lived between Harper's Ferry and Shepherdstown near the Potomac River. They lived across the river in Maryland for a while then migrated to Western Virginia which is now West Virginia just south of Morgantown. Around 1813 the family migrated to just south of Cambridge, Ohio. The next three generations circulated around southern and central Ohio. My grandfather moved from the farm to Columbus where my father and mother and I were born.

Q: It is always fascinating looking at the movement of Americans. When we consider this place about 200 years ago the west, particularly the Midwest was almost unpopulated.

WALLAR: Indeed. William Waller's brother, Jesse, was one of the few hardy souls who crossed into Ohio around 1810, a real pioneer. During the revolution he had been stationed north of Pittsburg and saw the promise of the frontier. Many families from Berkeley County, Virginia, now West Virginia, like the towns of Martinsburg and Charlestown migrated up to southern Pennsylvania, then pushed on floating on flatboats down the Ohio River. Some ventured up the Scioto River to a place called Chillicothe, originally an Indian settlement. The first governor of Ohio had moved there from Berkley county Virginia.

Q: There is a book by David McCullough called the <u>Pioneers</u>.

WALLAR: The <u>Pioneers</u>, right. . It wasn't clear to me why my ancestors didn't go further west. Others did, brothers and sons. But my immediate ancestors stayed around Southern Ohio. In the 1830s Southern Ohio was big coal country, with mines and blast furnaces popping up. The Ohio canal connected the region to Lake Erie, Columbus, and the Ohio River. Looked like a good move. Small mining towns along the area were referred to as a "string of black diamonds," referring to coal. Trains displaced the canals and richer coal beds were found elsewhere. Those small mining towns are now less than a shadow of their boom days.

Q: And who knows what will happen again?

WALLAR: You mean in terms of development in these counties?

Q: Yes.

WALLAR: You are right. With the internet not only can you communicate from anywhere now you can send programs for 3-D printers to manufacture items. The ability to locate production nearly anywhere is more feasible than it was in the past. One of the ideas we had in our ASEAN development program was to use 3-D printing facilities to create innovation hubs throughout Southeast Asia. At the time there were only two 3-D printing facilities, one in Singapore and another in Yojakarta. The latter printed or manufactured would be a better term, artificial limbs for a fraction of the cost you could buy them from a supplier in the west.

Q: The world is an astonishing place.

WALLAR: Yes, it really is and continues to be so. This episode we are in right now is not particularly heartening, but we trust it will lead to better tomorrows once we get there.

Q: Right now, we are going through a lockdown phase where everybody is staying home. This interview is being conducted by phone because of the virus.

WALLAR: I have come to the end of my story. I would like to thank you for the opportunity to tell it and for your excellent questions. If you have any more questions don't hesitate to ask.

Q: A friend of mine, Mike Scarlotis, a Treasury man from way back, commended me for getting somebody from the Treasury into this program. I don't think he knew you.

WALLAR: Tom Robertson is the one who talked to you and Heather about me and talked to me about doing this. Looking at your website showed me that you folks have done a tremendous job in preserving oral histories of foreign service officers.

Q: We are very proud of what we have done.

End of interview