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Transcript of interview with

Robert Garner

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By Robert Oliver

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Interview 1

Q: Now, sir, would you identify yourself?

Garner: I'm Robert L. Garner, now President of IFC. I was born in Mississippi 67 years ago, went to school in Tennessee, went to Columbia Military Academy and Vanderbilt University, thought I was going into journalism and was at the Columbia school of Journalism in 1917, when we got into the First World War. I left and went to Plattsburg Training Camp and joined the 77th Infantry Division, went to France, and was successively scout officer and operations officer for the 205th Infantry till the end of the war. We came back from France in spring of 1919. I got a job in training, in the educational department of the Guaranty Trust Company, which was then recruiting a large number of young fellows, mostly right out of the Army, went through that course, and finally took up a job in the buying department in the Guaranty Co., which was their security affiliate, having to do with the issuing of, purchasing, underwriting and sale of securities, both foreign and domestic. I stayed there until the middle '20s when I left to join the investment department of the Continental Insurance Group. I stayed there a year and then was asked to come back to the Guaranty Trust as assistant treasurer working on special security deals and assistant to the senior officers. Then I was treasurer and vice president, stayed there until 1943, when I went to General Foods as financial vice

president and director, and was there when McCloy asked me to come down to the World Bank as vice president.

Q: Had you known Mr. McCloy?

Garner: No, I hadn't, except by reputation. Some of my friends had suggested me to him and he was looking for somebody that had experience in investment banking, so he asked me to take that job and asked Gene Black to become American Director of the Bank.

Q: Had he known Mr. Black?

Garner: I'm not sure whether they had known each other before or not.

Q: But had you known Mr. Black?

Garner: I'd known Mr. Black, yes, he was at the Chase and I was at the Guaranty and we'd known each other for a number of years.

So we came down here on the 17th of March, St. Patrick's Day, of 1947.

Q: I believe you told me before that you had originally thought you'd come down on the 15th.

Garner: -- well, the British Director said "Beware the Ides of March, St. Patrick's Day is a luckier day," so we waited till the 17th.

Q: Could you tell about your experience when you came down the 17th?
Had you officially accepted the job?

Garner: We'd officially accepted the job. McCloy, Black and I came down a week or two in advance, at the invitation of the directors, for a discussion of the times and general conditions under which the new management was to take over. There'd been a difference of opinion from the beginning in the Bank as to the role of management and the role of the directors. At Bretton Woods most of the important countries had felt that the directors should not attempt to actually operate the institution. The United States representatives had rather argued in favor of a very active role for the directors. This question was not resolved during Mr. Meyer's tenure and I believe that it was one of the causes of his resignation. The uncertainty as to what the powers of the president were and what the proper role of the directors was.

It was understood at the time in conversations carried on with McCloy that it would be agreed that the management would actually manage the institution and the directors would play the usual role of general supervision without interference in the conduct of the business. When we got down here, there was still some hesitation on the part of some of the directors to make that position perfectly clear. So we listened to the discussions, and then McCloy finally said that the only condition under which he felt it was possible to handle the situation would be a clear declaration as to the power of the management to manage, that if the directors were not fully in agreement with that, we would go on back to New York that afternoon.

Then the directors went into executive session and after lunch they said they were fully agreeable. So the deal was made.

Q: This wasn't any kind of written statement, was it?

Garner: No. It was just a general agreement. I suppose the minutes of the meeting -- they carried the sense of it. There was no formal signed agreement.

So with that basis, we took over. The Bank had done no business up to that time. It had spent the period in organization. Various committees had worked on questions of loan policy, and during that time committee work was still in very indefinite shape. Nothing really had been decided.

So we had pretty well a clean sheet of paper as to what we were going to do within the general framework of the charter. We were favorably impressed with the calibre of the staff that we found here. I think it's true to say that morale had gotten pretty low during the period of December until March, when the Bank had no head. It was common knowledge that the directors were seeking a president. They hadn't found one for months. But despite that, there were a few of the chaps that had held the thing together, and we were favorably impressed with the quality of the people we found, the department heads and the others.

Q: Who were some of these people that had held the Bank together?

Garner: I would say that Chester McClain was probably the principal one -- as I could gather it from what people told me. He had probably done more than anybody else to keep the organization together. He was a somewhat older man, and people wept on his shoulders and he kept them cheered up. So I believe he was the one that really carried it, kept the spirit from going to pieces.

When we arrived, we had before us really two proposals. One was from France for 500 million dollars. It was a very elaborate proposal, based on the Monnet plan for the reconstruction of France, covering almost every sphere of activity in industrial life -- transport, communications, rebuilding of destroyed factories, supplies of raw materials for factories. This document had been studied considerably before we arrived, but no decisions had been taken.

Q: Was it felt that this was consistent with the project approach specified in the charter?

Garner: Well, it was not exactly, but after all, what we had to consider was whether we could do something that France really needed, and we felt that it was within the scope of the charter, but I believe our feeling at that time was that it was not to form a precedent for the normal operations. However, we felt that it was proper to take action on this application, but that 500 million dollars was too much, so we decided that we would consider a loan for half the amount, or 250 million. We did extensive work in studying the report and eventually

recommended to the board and the board approved the first loan of 250 million dollars to France.

There were a number of questions to be decided, such matters as what interest rate would be charged? Would the interest rate be uniform to all countries at any given time? Or would the credit standing of a country be taken into account with different rates? We decided that it was not practical to do the latter, and that an interest rate would be fixed which would be applied to all loans at any given time.

The basis of the rate would be what would be the reasonable borrowing cost to the Bank of borrowing money. And the general policy then fixed has prevailed, that the interest rate will be about 1 percent above what it cost the Bank to borrow money at a given time. The only market then open was the United States market, so it really was the rate on the United States market. Since then of course borrowing has taken place in a number of other markets, and there's more of a composite rate now than that prevailing in the American market.

While work was going on regarding this, it was decided that although the Bank didn't actually need the cash, that it was very important to establish the credit of the Bank in the American market, and under the lead of Gene Black, arrangements were made to meet with financial and investment bankers, in the first place to explain the Bank, which was not very well known to anyone, and to determine whether it was possible to float an issue of bonds in this market.

With the fact that the new management came out of financial Wall Street, and McCloy out of a Wall Street law firm, the management

was known and I think favorably regarded by the financial community, and it became apparent that it was a feasible thing to sell an issue of bonds. I don't know whether you want me to go into more of the details on the bond issue?

Q: I might just ask this, if I may. Do you think that the bonds could have been sold in New York if there had not been people in the management of the Bank who had been closely associated with the New York market?

Garner: I don't believe so. The question -- although it was clear that the United States standby, that is the call which the Bank has on all the member countries to meet its obligations. It had in effect the guarantee of the United States government up to the amount of its stock subscription. There was a great deal of skepticism as to whether the operation was going to be run on sound business financial lines. It's my opinion, unless potential investors had been convinced of that, they wouldn't have bought the bonds, or would have bought them very reluctantly.

Q: In other words, they were not only concerned with the guarantee of the United States government, they were also concerned with the soundness with which the Bank handled it?

Garner: The financial community would have been very reluctant to support the Bank unless it had a basis for feeling it was going to operate on sound lines.

Q: I wonder if you could say a bit more about the French loan? You were the chief negotiator for the Bank, were you not?

Garner: Yes. Well, the first thing we had to do was decide as to the amount. As stated, we felt the \$250 million was adequate. It was all we should do with our first loan.

Second, we had to decide some general principles -- of interest, of maturity, things like that. Then the question was to sit down and negotiate the deal with the French. The chief negotiator for the French was Baumgartner who is now Governor of the Bank of France. It was a difficult first loan. Number one, as I said, it applied to a wide range of the economy. Therefore we had to consider what was a reasonable division between raw materials, generating equipment, industrial equipment, ships, railroad equipment and so forth.

Number two, the French are a proud and sensitive people. There was no precedent for the type of loan that we were considering. We had determined that we would have certain conditions in all of our loans. There was the question of a negative pledge by France. In other words, as we were not asking for security, we felt we should get an obligation that France would not give physical security to any other lender.

Another basic problem was, what sort of control would we have over the disbursements, the purposes for which the loan was to be used? We felt we had justification in the charter, as well as justification in sound business practice, that we should see that the money went for the purposes that were agreed upon -- so much for this area, so much for that, so much for locomotives, so much for industrial equipment. That again had not been the usual pattern of lending to first-rate countries. In the past, in the private market, most loans had been made as a credit to a country of standing, and the use of those funds was not well defined. So that caused a considerable amount of argument with the French, as to why we should insist on knowing what the money was being used for.

Q: What was the French attitude about all this?

Garner: Well, the general attitude was that, running back to Louis XIV and Napoleon, the sovereignty of France, and no limitations -- it was infringement on their sovereignty to lay down conditions. And it made a very difficult negotiation. Particularly, at that time, Frenchmen had just come out from under occupation. Their pride had been hurt. Baumgartner was a very fine man but he was under great tension. But we finally worked that out. I remember one statement he made. We were talking about following the proceeds of the funds used to purchase coal, which was to be used in French industry, and he blew up and said, "Mr. Garner, you expect me to identify every lump of coal as to which boiler it's going into?" I said, "No, I just want to be sure it is not being

diverted to Paris night clubs. I want it to be used in French industrial activity."

But we finally worked out what was I think a reasonable pattern for our loan, that we would know what the funds would be used for, and that we would have control of disbursements against specific requests for specific purposes. That pattern has been followed by the Bank throughout its history, and I think has been one of the things that has given people confidence in the Bank.

Q: Did you discover any instances where the French were using the materials in a way different from specifications?

Garner: I don't think anything of importance -- I might say that because of the wide diversity of the products, including raw materials, it was necessary to set up a very elaborate follow-up system, with a substantial sized office in Paris as well as the operation here. It was probably the most difficult supervision the Bank has ever had, because of the wide variety of products covered by the loan. I don't think there was any case where there was an attempt deliberately to divert funds, but the check-up system did find that some of the oil had been diverted to the French Navy, and when we called attention to that, the French refunded those funds.

It gave the Bank a chance to really develop, starting with probably the most difficult rather than a simpler case, what I think has proved to be the best international in-use supervision that has ever been seen. A number of companies, big international companies, have

come down to study the system that the Bank uses, and I think the competence of what has been done has been one of the factors in the success of the Bank.

Q Could you identify any of these companies offhand?

Garner: I've forgotten who they are. Aldewereld is the chap that would know most about that.

Q: The question about the negative pledge, was this something that was written into the contract?

Garner: Yes.

Q: I've heard that Mr. Schumann had a separate letter

Garner: Now, wait a minute, you may be right. A negative pledge clause is well known in financial circles. It's used very extensively on unsecured bond issues here. My recollection is that we did accept a letter rather than writing it into the contract; though this was a concession I think to French pride, we felt it was just as effective. Subsequently, it has been pretty universal to put it into the agreement.

Q: Were there any loan applications outstanding for any Eastern European countries at this time?

Garner: I'm not certain whether the application from Yugoslavia had been received when we came down here, I think there were none. Fairly soon we got applications, I think, from Poland, Czechoslovakia and Yugoslavia. I don't remember the exact dates. There was also an application in from Denmark for a relatively small loan, and that loan was processed I believe within some months after the French loans.

Aside from the French loan, the most active in the works was an application from Chile. I believe it was for 40 million dollars. There were a number of industrial projects, I think some power projects. We were told that the Chilean application was in excellent shape and that some people had the feeling that we should make the loan immediately.

Q: Do you mean the loan had been studied by the staff before you arrived here?

Garner: Some study had been done of it. I would say that the man who was chiefly urging action on it was Pete Collado, the US director. Remember, at that time the directors were taking an active role in the affairs, so that Collado had felt it was important that the Bank proceed promptly with the loans to Latin America, to underdeveloped countries.

There hadn't been a very careful study by the staff. There had been a report from Chile which was not bad, but we didn't feel that we could accept the report which had been prepared by the Chileans, without further consideration. We thought that the loan was too large, and that it would be better to select a few of the projects and proceed

with them first. But the thing that we brought up as an important element was the fact that Chile was in default on bonds sold in the American market in the '20s, and we felt that the Bank should not make a loan to a country that was in default unless the country made what we believed to be a sincere effort to settle with the bondholders.

Q: Did you explain something of the reason behind it?

Garner: Yes, we did. We said, two reasons: number one, that we felt in the long range what was necessary for these countries was to re-establish their credit, and that people could re-establish their credit gradually looking forward to the time when their credit would be re-established in the private market, that certainly they had to take care of their past defaults, with some reasonable settlement.

Secondly, as a very practical matter, we pointed out that our efforts to sell bonds of the World Bank would be hindered if we were trying to sell bonds to people that held defaulted Chilean bonds, if we were to make a loan to Chile.

There was a very strong attack by some of our directors, by some of the press, by others, that this was an improper role and that we were Wall Street bill collectors, but we stuck to the position. We told the Chileans that until they would sit down with the Foreign Bondholders' Committee and work out a reasonable settlement, that we simply would not make the loan. They protested, but after going back home, they decided that if they wanted to get some money from the World Bank, they'd better make the settlement. So they did make the

settlement, and sometime later came back and very proudly announced that the settlement had been made, and we said, "All right, now we'll look at your loan," and we then proceeded to make the loan to Chile, the first loan to an underdeveloped country. I think that precedent has justified itself because most of the defaults which were then outstanding on bonds sold in the American and European markets, with the exception of the Communist countries, have now been settled by agreed settlements with bondholders' representatives, and I think the Bank's position on that has had a big influence in clearing up these defaults.

Where the defaults had been widespread in the financial community in this country and Europe, they had a very sour feeling towards foreign obligations. I think the attitude that the Bank took was one of the important factors in convincing the financial community that the Bank could operate on sound lines.

Q: Do you recall offhand any other occasions when a borrowing country objected, initially at least, to this requirement?

Garner: Well, yes, others have objected. But in most cases, they have gone ahead and made the settlements. Having established the precedent with Chile, the objections were less vociferous. The only one that I know of that hasn't taken any real steps towards settling their obligations is Greece. That is still unsettled, and the Bank has never made a loan to Greece.

Q: Would you tell a bit about the background of the Polish application and the decision not to make the loan?

Garner: Well, the Polish application was primarily, and finally settled down exclusively, to a loan for the rehabilitation of the Polish coal mines. It was obvious that it was a ticklish question as to the problem of lending to a country under Communist control. However, we sounded out opinion in this country and in Europe, and we found in general that there was substantial support in both political and financial circles for the idea of trying to restore Polish coal production, and one of the considerations was that Poland with this restoration would be in a position, and would agree, to supply very urgent coal needs in Western Europe. So our approach was that the loan must be in effect tied in with sales of agreed amounts of coal to Western Europe and application of the proceeds of those sales to payment of the loan.

Q: Does this imply that the coal was to be used as security for the loans?

Garner: In a sense. It was not security in the sense of a mortgage on the coal in the ground, but in the sense that as the coal was mined a certain amount of it would be sold and the proceeds of those sales would be applied to the loan without going back into the hands of the Poles. Considerable progress was made on this, but finally the Poles objected to this, saying it was an unfair condition, an infringement on their sovereignty. We didn't think the Poles had any sovereignty, since they

were under the control of Russia, so we insisted on these conditions. Finally the Poles broke off negotiations and resigned from the Bank.

Q: Do you know what the position of the United States government might have been, and the executive directors?

Garner: The United States government would have supported the loan under these conditions, and the British government would. We sounded them out and other important directors -- the directors would have supported the loan if we could have set it up.

Q: Could you mention some of the important people that you talked to about this?

Garner: We talked to the State Department and I remember we talked to Mr. Hoover, as a man very familiar with European situations and the needs of countries following a war. We talked to important publishers in New York, publishers of the important papers, the opinion makers. We talked to a number of people in the financial world, as to the effect of this on the possible sale of our bonds. And some were skeptical. We realized there would be criticism but on balance we found people whose opinions we valued, their opinion was that this loan could be justified, and that it would be of such assistance to a number of our member countries in Western Europe, that would offset any criticism that we were merely helping a Communist-controlled country.

Q: What was Mr. Hoover's reaction?

Garner: His reaction was that it was a constructive thing to do.

Q: Was the fact that the Poles chose not to join in the Marshall Plan operations in Europe a factor in these negotiations?

Garner: This was before the Marshall Plan.

Q: The application came in before the Marshall Plan, but its final decision I think was not --

Garner: -- well, my own guess was that the Russians, who had Poland under control gave another evidence that they didn't want to play ball with the West. And they didn't wish to accept any obligations or any conditions -- just that it wouldn't be consistent for one of the Russian satellites to be a member of the Bank when Russia wasn't a member.

Q: Was there any similarity between this coal arrangement and the subsequent timber loans to Finland and Yugoslavia?

Garner: Yes, there was. The same principle of being able to -- number one, of supplying a useful commodity to other member countries, largely in Western Europe, and the feeling that both Finland and Yugoslavia might not be in a position to be masters in their own house, and

therefore that one needed some special protection to see that funds derived from the proceeds of the loan were used to pay it.

Q: Was the working party concept of the Bank's examination of loan applications in force as early as the French loan?

Garner: I don't know whether we called them working parties then, but in effect we set the thing up that way, with a loan officer and a representative from the economic department, lawyers, and what technical people we needed. So the concept -- I've forgotten whether we actually called it a working party, but the concept of a group representing the various skills was used in the very early days.

Q: How about the institution of the Staff Loan Committee?

Garner: That came along later. I've forgotten the date, but my recollection is that it didn't come for some little time.

Q: Did Mr. McCloy take any part in negotiations with the French?

Garner: Yes, he took some part in it, and at a number of critical points he participated. But I think it's fair to say that from the beginning it was understood that I was going to act more or less as general manager of the Bank, and direct the work within the Bank, as McCloy among other things was traveling a good deal. He was trying to get the Bank known to the country, and was very much interested in

working with Black on the question of the bond issue, so that I tried to relieve him of as much of the day to day working duties as possible.

Q: This is perhaps a good time to talk about staffing problems then, the development of the Bank's attitude towards staff.

Garner: As I said, when we came down here we were favorably impressed with the quality of the staff. I don't know who was chiefly responsible for that. I think Bill Howell played a great role in it. But they had collected a group of very competent people, people of character and intelligence and experience, as far as there was any experience in this type of thing existed. The organization was then based on a loan department and an economic department, as the two chief operating departments, not broken up into geographical areas. When we started to work on the French loan, I remember that Leonard Rist, who was a Frenchman and head of the economic department, did not take any part, saying that as a Frenchman he shouldn't participate in the study and discussion. Walter Hill, his assistant, carried the burden of the economic study of the French loan.

We came to the conclusion that was an unsound position, that the Articles of Agreement say in regard to the personnel of the Bank the staff should have its first allegiance to the Bank without regard to national or other interests. So we thought that was a sound basis to operate on. I think it's one of the most important factors in the success of the Bank that we broke down the feeling of nationality within the work of the Bank. In fact, that gave a basis for emphasizing that

the Bank was not political, that the Bank would not -- that members of the staff of the Bank should not, allow their personal or national interests to intrude. I believe the fact that this principle has actually been developed as a tradition is one of the most important factors in the Bank's reputation and competence.

Q: Did you seek to hire people from various countries on any kind of quota basis?

Garner: No. Obviously we found the staff here was reasonably distributed. Naturally with a preponderance of Americans, because the Bank was in America, it was easier to recruit Americans, British and other Europeans. We adopted this principle, that the suitability, the competence and character and experience of a man would be the first test; that we would not accept direction from any outside source as to whether we would hire anybody. They would be hired on the basis of merit, but recognizing that it was very important in an international institution to have as wide as practical a distribution of nationalities. Every effort has been made to extend the national coverage. I think the Bank now probably has close to 50 different nationalities.

But we've never had a quota, and as a corollary of hiring people on merit, I felt that we had also to fire people on lack of merit, and we have consistently weeded out those people out of the staff that we felt were just not suited for the work they were doing or any other work we could find in the Bank. That caused some trouble, because

while in the United States people get fired readily, it is not the prevailing custom in most other parts of the world, and when we had to fire people of non-American nationalities, we sometimes ran into a bit of trouble, but we stuck by our guns and established the principle.

Q: Can you illustrate this with reference to any specific case?

Garner: Well, I remember we had to fire a Britisher. He made a tremendous stir, and tried to get the support of the British embassy, and the British director. I will say for them they wouldn't support him, and were convinced that we were right, that he just wasn't suited to do the work of the Bank.

We've had some protests from directors when we've had to ask somebody to resign, from Latin America or some of the Europeans, but we've had no real trouble. We've stood by the position, whether it was hiring or firing a member of the staff. We've had pressure from certain countries to hire more numbers of their nationals. That still continues in some cases. There was pressure from particular individuals who had influence, and in some cases it was quite obvious that the man who was working for a government wasn't very satisfactory to the government and they'd like to push him off on us.

There's been less pressure from governments with regard to personnel than I would have expected, and by standing firm on the principle that hiring was management's decision, the tradition has been built up gradually and is pretty widely accepted by almost everybody.

Q: This applies in the case of hiring people too. Were there any instances in the early days of governments suggesting names of people that they wanted the Bank to hire?

Garner: We've had a good many. I'd say, of the larger countries the French have been the ones exerting the most pressure. It is different with different French directors. Some directors have been very cooperative and realized what was the policy of the Bank and have been very cooperative with it. There was one French director particularly that made a nuisance of himself in always trying to get us to hire some Frenchman that we didn't think was competent.

Q: What sort of people have you looked for in the Bank?

Garner: Well, we've looked for good people. The general categories are men with governmental-financial experience for the loan officer type of operation. We've looked for economists who had what we considered reasonably practical experience. Then, as the technical work of the Bank expanded, finally ending up in the formation of the technical operations department, a variety of engineers and allied technical people. Some lawyers, and in general the lawyers have had some experience in either international law or the particular laws of certain areas. We have not felt that we wanted say, in economic fields, men oriented towards highly technical and academic research type of work. The Bank as an operating institution has never felt that it should try to engage in research in developing economic theories. Obviously, the

economist who is trying to appraise the economy of a country, which is the main work economists do, needs to be a soundly trained man in the basic fundamentals of economics. But he must be, to be useful for the work of the Bank, able to come out with practical economic answers, not academic ones.

Q: This brings us perhaps to the question of credit worthiness. Would you say a bit about how policies developed in this field?

Garner: We recognized that one of the basic decisions we make with regard to a loan was what were the chances that the country would be in a position to repay it? Obviously, we wanted it to be a useful contribution to the economic growth of the country, and that was one of the factors as to whether the country would be able to repay, because if a loan is made for a useful purpose and serves to increase the economic strength of a country, the chances that the country will be able to pay it are greatly improved. It's a very imprecise exercise to assess the credit worthiness of a country. One has to make certain general assumptions as to whether the country is going to have a reasonable degree of political stability, or whether it's going to be in constant political turmoil. Many of the factors affecting credit worthiness are not within the control of a country. Its own financial, fiscal policies, its borrowing purposes, whether it borrows for good sound purposes or whether it borrows when it can for purposes that don't contribute to the economy. Now, many of the factors are beyond the control of the country, such as in many of these developing countries

their principal exports are raw materials, agricultural, mineral and other raw materials, and the question of whether there'll be a market and what the price will be for those commodities in many cases is beyond their control.

Assessing the credit worthiness is, I would say, an educated guess. It's easy to pass on the extremes, the very weak countries or the relatively quite strong countries. There aren't too many strong countries in these areas. So regarding most of them, it is an educated guess. I think on the whole the Bank's judgment with respect to credit worthiness has been a pretty creditable record.

Q: Do you recall any occasions when the Bank has decided it is best not to get into loan discussions because of political uncertainty in a country?

Garner: Oh, yes. Well, let's take the case of Bolivia. There's been a default problem there which one can technically talk about. But with Bolivia having a record of a change of government every few months over years and years, one could say that there is not enough stability to justify loan operations.

I think one of the things that is holding many countries back as much as anything else is political instability. Aside from the effect on its actual ability to pay, the constant change in administrations and policies means that a plan is made by one group or started by one group. Then a new group comes in, the former plan is discarded and they start on something else. Without some consistency in objectives and in

administration, it's very hard to make progress even on building a single project, much less on advancing the economy of the country.

Q: Was this a factor in considerations of possible loans to the Dominican Republic?

Garner: Well, the Dominican Republic has had, until recently, more political stability than most countries in Latin America. While I was at the Bank there was no serious request from the Dominican Republic for a loan. Trujillo ran the finances of his country better than most of the countries in Latin America. He definitely was opposed to foreign loans, and I have no recollection of a serious request from the Dominican Republic for a loan. We never had to turn one down. Just general conversation, and when the Dominican Republic withdrew, with the excuse that it had never gotten anything from the Bank, that was pure excuse -- that withdrawal from the Bank was merely a reaction against the attack on the Dominican Republic by the Latin American countries. As you know, we've now been approached with a suggestion that they'd like to cancel the withdrawal.

Q: How about the case of Cuba, the other country in Latin America that has withdrawn from the Bank?

Garner: Cuba's a peculiar situation. There were innumerable vague proposals from Cuba, none of them really in shape. Back at that time, Cuba's credit was not too bad. They had met their obligations and the

Cuban peso had been tied to the dollar for a long time, and credit-wise Cuba looked pretty good. But their government has always, over a number of years, been both corrupt and inefficient. They never really got anywhere as to a specific loan proposal. They finally (the finance minister who was a very able man, head of the Bacardi Company) asked the Bank to make a survey, saying, "We haven't any plans for development," and the Bank made I think one of the best studies we have made of any country, but by the time this study was completed, the regime had changed, the finance minister was out, and nothing was ever done to implement it.

I went down to Cuba at a time when there was a great discussion of a loan from Wall St. of 100 or 200 million dollars which was pretty fantastic, but it got great publicity down there. The day I arrived there was a parade in favor of the loan, and the day I left, there was a parade against the loan, but it was a fanciful thing. The then president of Cuba said he wanted some loans from the Bank, and he agreed to have an audit made of Cuban finances by Price Waterhouse and Co. It ended up with Price Waterhouse telling us it was impossible to audit anything because there weren't any books. Many transactions were never recorded, and it was obvious that the amount of money that was being grafted was tremendous. I remember, just before I left, I had an interview with President Prio Socarras, and one of the things he wanted was a tunnel under Havana Harbor. It was commonly reputed that the people in the know-how had bought up the real estate on the other side of the harbor, and if a tunnel was put under there, it would be a great boost to real estate.

I said, "Mr. President, that's perfectly absurd. New York had to carry things back and forth across the Hudson River for a great many years before they ever felt they could afford a tunnel, and you can do the same thing."

"Well," he said, "Mr. Garner, you may be right, but it's like a diamond on the hand, it's something that just shines -- it just appeals to me."

"Well," I said, "it doesn't appeal to me." Then I told him frankly that my contacts down there had told me that there was so much graft in Cuba that I didn't see how the government could operate. We couldn't make a justified loan.

He said, "Oh, that's just my political enemies."

I said, "No, it isn't just your political enemies, there are people who are not your enemies, all sorts of people, Cubans, foreigners --"

He finally said, "But Mr. Garner, I give you my word, I personally have never stolen any money."

I'm not sure he was telling the truth, but his associates were certainly stealing it.

Q: What year would this have been?

Garner: Let's see -- about '53, '54, along in there. I think it was along in that period.

Tape 2

Q: Was there anything more you could add about the Cuba negotiations?

I think that's very interesting.

Garner: What did I start to say?

Q: You just finished telling about the president's remark that he had never --

Garner: At that time, I called on the foreign minister at his home one evening. He had the exceptional reputation of being an honest man. And I think the reputation was well-deserved. In our discussion, he asked whether I thought Cubans were more corrupt than Mexicans, and I told him I hadn't been in Mexico in a long time and was not familiar with it. A Latin American who was accompanying me spoke up and said, "Mr. Minister, the Mexicans are just amateurs as compared to your experts."

Q: Were there any other particularly colorful negotiations that you had with various member countries?

Garner: We had some pretty colorful ones with Turkey. I went out to Turkey, I guess in the early '50s, at a time when Inonu was president, and I became very fascinated with the Turks. I admired their qualities which had made great soldiers of them. I admired the way they had, after the First World War and in the face of the great powers set

themselves up as an independent country. After the terrible corruption that had existed and bad government for so long, what Ataturk had done. He was unquestionably one of the great men of his times. And I have been a so-called Young Turk around the Bank -- I felt that Turkey was a country we should work with.

One of the things that came out of that visit was the possibility of forming a development bank which would be able to lend to private enterprise in Turkey. As a result of discussions we had at that time, the Turks accepted the idea. We sent people out there. We got the Bank set up, sold shares in it, and the World Bank made a loan to it. We furnished a director (Tucker) who unfortunately died of a disease that he probably picked up in Latin America. And that was the first of the development banks that the World Bank initiated and worked with.

The Turkish government gave certain credits to this development bank but it was owned privately. We got some foreign investments, from Americans and British. We were very optimistic as to the possibilities of this bank. The Governor of the Central Bank had given us assurances that this bank would be supported and given his blessing and would be permitted to operate on a sound basis without political interference.

In the meantime, the Bank had made some other loans in Turkey, for various projects, and matters were coming along pretty well. Then the election came, and Menderes took over, won the election, and became Prime Minister. He started on an expansionist, inflationary program. The Bank raised questions about this, and finally said that

until we could get some agreement on sound general policies, we wouldn't lend more to them.

In the meantime the finance minister had, we thought very arbitrarily, interfered in the bank and demanded the resignation of some of the directors and of other people. We felt that was a violation of the understanding. I went out to Turkey, and I wanted to talk about this, and there was also a hydroelectric project that I wanted to discuss. Well, we looked at the hydroelectric project. Gen. Raymond Wheeler, our engineering advisor, was with me. We came to the conclusion that it was a sound project; we looked with favor on it.

In the meantime, I had arranged to see the prime minister at an early date after my arrival, but he kept me waiting, running around the country, and I got pretty sore that he didn't keep his appointments and it seemed to me it was very discourteous in his attitudes towards the Bank. He finally arrived and I went to see him. We started off pleasantly enough. He speaks very good English. I said, "Having only a short time with you, and having been delayed, and being ready to leave the next day or two, I must get down to business." I finally said, "Now, I'll ask you a very direct question. Is your government going to continue to interfere with this bank, or are you going to allow it to run on the basis that we agreed with the previous government?"

He got indignant, refused to speak any further in English, and we had a pretty hot session. It almost came to blows. I became convinced, after that conversation, that we couldn't deal with him, and that he was going to continue to interfere with the development bank and he was going to refuse to have any real substantial meeting of minds

with the Bank. I was pretty abrupt, and my Turkish friend, the then director of the World Bank who was a very good fellow said, "What you told the president was all right but you were too abrupt. Now, you know, we go about matters slowly -- we sit and have coffee and we talk pleasantries and then we come back and we gradually get to the business. You jumped right into the controversial subject."

I said, "I didn't have time to do those things. That fellow kept me waiting around, cooling my heels to see him, and then when I saw him, that was the only chance I had to talk to him. I didn't have time to be diplomatic."

The other part of the Turkish picture is that they finally suggested that the Bank have a resident representative in Turkey. And we selected Pieter Lieftinck who had retired as finance minister of Holland. He went out there, and we transmitted to him the basic outlines of the policies of the Bank -- asked him to discuss these with the government. We felt it was necessary to get agreement on basic policies, if the Bank was going to continue lending. The Prime Minister wrote a very insulting letter to us, and said that it was outrageous for anybody to make suggestions to the Turkish government. I considered that that letter was sufficient justification for us to tell Lieftinck to give his adieus to Turkey and come home, and that the Bank would not make any more loans to Turkey. Lieftinck had been a very excellent but severe minister of finance in Holland. When he become persona non grata to the Turks, they said, "We knew these Dutch are tough people, they could stand him for seven years, but we Turks couldn't stand him over two!"

I think it was a compliment to him.

Another very interesting and very unfortunate thing happened. The then President of Turkey had to a considerable extent been pushed aside by Menderes. Up until that time, the President had really been the dominant man in Turkey. Celal Bayar when he was one of Ataturk's lieutenants was highly respected. When Menderes came in, he pushed Bayar off into the corner. The President came here and lunched at the Bank. He didn't speak English, or very little. We had a pleasant discussion, but did bring up some of the questions that we had about general policy. When the luncheon was over, so far as we knew, it had been a pleasant occasion, one in which nobody had shown any resentment. We also had a meeting in the board room in which -- not with the board, in which we discussed some of these things. A staff member who'd done a good deal of translating, after the luncheon took the President down, put him in his car -- just a little courtesy. We were therefore very much astounded when a few days later we were advised that the President felt that we had insulted him, had been discourteous and rude to him and that he was indignant. And the only thing I can imagine is that Zorlu had in his interpretation and in his subsequent talks with the President, completely misstated the Bank's position and what had been said. Zorlu is now one of the men on trial in Turkey. He was most recently foreign minister. He is in my opinion the most evil man I've run across in all my dealings in international affairs. And he has done great damage to Turkey. He has had tremendous influence with Menderes. He claims to be an economist. I've had him sit in a chair in front of me and lie, when he knew I knew he was lying.

His general attitude was that the Bank didn't know anything, we always sent a bunch of boys out there to try to tell the Turks what was sound finance and economics, when in fact we sent some of our best people to Turkey. He was arrogant, and his influence on Menderes is something unbelievable. Menderes would get up in Parliament and make a statement based on information given to him, and find out later that Zorlu had lied to him. The latter would be out of favor for two weeks and then they would be intimate again. I don't know what it is -- some Rasputin-like relationship.

So the Bank has -- based on those events -- ceased further loans to Turkey. We all came to the conclusion it was impossible to do business with Turkey as long as Menderes was in power. He's bankrupted the country, and I think our only course was to refrain from lending. A new government has taken over, and I still have hopes that Turkey can progress, under a decent government. I could be sued for libel for some of these things I've said.

Q: Well, they probably will never appear in print. Any other stories of negotiations that are interesting?

Garner: I went to Ceylon on a trip around the world some years ago. The Bank had made a loan to the power authority in Ceylon for a big hydro project. The arrangements were that there would be supervising engineers, I think from the UK, and a German contractor to do the work. The plans were soundly laid out. When I got there, I found that the man in charge of the project, the power authority, having signed the

documents, had gone to England for a six months' vacation. The only man I could find was his deputy, who didn't seem to know much about the situation. But he said he'd take me up to the power site.

We drove up there, where there was a small power operation nearby, in charge of an engineer who'd been on the site for some time. We drove down and came to a place where the road had been widened, and they told me that that was where the governor-general had come to dedicate the initiation of this work. Meantime, I found that the contract had not been made with the supervisory engineers. The German contractors had some people and equipment down in the port that were just waiting for somebody to put them to work. I asked, "How high is this dam going to be?" and one of these chaps said a certain figure and the other said quite a different figure. "Well," I said, "Who's in charge of this?" and one fellow pointed and said, "You're in charge of it." The other said, "No, you're in charge of it."

So it was a complete and typical snafu: the man who was in charge, having signed the documents, said "That's all done" so he went on a vacation.

I went back down to the capital where we were to have a reception with the governor-general. I told him my story, and he said, "Well, that's terrible. The minister of public works is away. Everybody that's supposed to be responsible for this thing is away." I got over to the finance minister and explained the situation to him, and he said, "I know very little about it, it's in this other department."

I said, "Now, gentlemen, I am notifying Washington of the situation, and recommending that Washington send people out here

promptly and it will be my recommendation that if proper action is not taken by the time they get here, the loan will be canceled. That will be my recommendation."

Well, they got going and by the time the Bank engineers got out there, they'd got the fellow back from England, and they got the supervising engineers to work, and the project went ahead.

But that's typical of the type of inexperience that you run into, and that is the type of delays which are so often attributed to the Bank or other lending agencies but which occur because the people simply don't know how to get things done. And you have to keep on top of them all the time.

Q: One thing that interests me about these stories that you've been telling is the fact that you were involved yourself in the negotiations in the field. Is it fairly common practice for you or the president to -- ?

Garner: Well, it hasn't been common practice, I think rightly, for a senior officer of the Bank to go out and negotiate a specific loan. But, on the other hand, it is a sound practice that we travel around and see these countries, and get the feel of them on the ground. Now, obviously, as we do that, we come into either a question that's raised by the officials of the government regarding something that has not been done or something that is to be done. And so one gets into a general discussion. You also see things that are going on that you want to raise questions about. I would say that after the French loan, I never

acted as a principal negotiator on a loan, and that neither the President nor the Vice President actually acted as a principal negotiator. A loan officer would be assigned to that, maybe the head of the department or the assistant head. But it is inevitable that as one visits around, one comes on things that lead to discussions, usually of general policy. I can tell you another case on that same trip.

We went to Thailand, where we had financed the dredging of a river and the building of new docks. That work had gone forward under Dutch contractors, and had been done very well. The Bank had a representative out there, and we'd been apprised in our talks with him and with the important people that the bottleneck in getting traffic moving was that they had built warehouses, but the customs people had sealed the doors on the warehouse, and there was a fight between the river authority and the customs people, so the goods couldn't go through, couldn't be moved, and were accumulating in the warehouse. This fight was going on and the goods were not moving.

So I verified the facts, and that night I had dinner with the prime minister, and again, having only a short time and not having time to be diplomatic and go through all the usual Oriental preliminaries, I raised this question with the prime minister and I said, "Now, we just can't stand for this. Our money's going into this project. You're not getting the benefits of it. Somebody's got to settle the problem between the customs and the port authority, and get the goods moving. I've asked for a report, and if it's not forthcoming by the time I get back to Washington, if this thing's not settled, I again am going to

recommend that no more payments be made on the loan." I got that settled.

Q: This sort of thing suggests that the Bank may be in a unique position to insist upon sound operations in other countries.

Garner: It is. It has probably been impossible for a representative of the US government to press these matters that we at the Bank have pressed. And it's not easy for the Bank. Government people resent it sometimes. But it's not the kind of resentment that they have against another government. After all, the Bank's not a sovereign. And the fact that the Bank has established a reputation for being objective, and on the whole has obtained the opinion of responsible and knowledgeable people around the world that their recommendations are for the good of the country, that they're sound, that they are objective -- has made it possible for them to be received and in many cases accepted to a much greater degree than would ever be accepted by one independent government from another. And I think that that has justified the conclusion that from an economic standpoint, from the effect of financial aid, it can be much more effectively handled through a good international organization, a nonpolitical organization, than it can from government to government.

Q: Would you comment on the contrast between the Bank and the UN in this respect?

Garner: Well, of course the UN has never been in a position of a lender. They have certain funds, there's a special fund and so forth, but they haven't been in the position of lender. But the basic difference, I think, between the Bank and the UN is that the UN is admittedly a political organization. The people who operate the UN and those who represent the UN are clearly representing their countries. The whole setup of the UN accepts that political basis. The employment in the UN is very much more subject to governmental direction. So that I think it is true that by and large, the members of the UN owe their allegiance to their governments, and they are dealing with political factors which obviously are not subject to the same determinations that financial and economic problems are -- which makes me feel that it would be a mistake to set up some UN, Federal, or some other organization which is administered by the UN for economic aid.

Q: Do you feel that the new Inter-American Bank will interfere in any way with the operations of the World Bank, for these reasons?

Garner: Well, the Inter-American Bank was conceived on much more political lines than the World Bank. I think it's too early to say how it will operate. Practically all the officers of the Inter-American Bank are governmental people. Now, let's assume they're capable people. I don't know whether the Inter-American Bank will attempt to or be able to establish the objectives that I think the World Bank's established. It's too early to say. I've seen their loans, descriptions of their loans. It's very hard for me to determine how good they are, whether

they've been made on primarily economic or political grounds. Of the two that I know something about, I would be somewhat critical. But I would have to reserve judgment.

Now, what I think one could say from the standpoint of the World Bank and other financial organizations - there have been a number of cases where the World Bank has laid down certain conditions for a loan or continuation of a loan. The country has been able to get credits without those conditions from other public institutions or from other governments, and that obviously weakens the influence of the Bank towards the acceptance of sound conditions by the borrowers.

As specifically applied to the Inter-American Bank, I think the World Bank will continue to be active in Latin America. I think there will be need for both. The World Bank will continue to service Latin America, which it's done in a very large way, much larger than Latin Americans will admit, without the Inter-American Bank. I don't think the Inter-American Bank is going to mean that the World Bank operations in Latin America are really seriously jeopardized. I think they'll both operate.

Q: I take it that one thing that you'd like to leave on the tape is the feeling that in the early days the Bank freed itself from outside political influences, and that this has been a very substantial explanation for the Bank's service.

Garner: Yes. I think without that, the Bank would not have attained its standing or its effectiveness. Let's not forget that in the early

days there was a very strong criticism of the Bank for not doing enough, that we were too severe, we were too strict, we were too cautious. But I believe results have justified our course in the minds of objective people. I think the Bank has combined pretty well a prudent, competent economic and financial approach with a good deal of courage, a good deal of idealism. It has certainly taken risks. I remember when we were considering Thailand. That was at the time of the Korean War. The question was what was going to happen in that whole area? We went into Thailand, taking the risk that the Korean War would not spread all over the East. The Bank has been prepared to take risks, but it's insisted that, in its judgment, its loans would accomplish useful economic purposes, that they would be well done, that the projects would be well done, well engineered, would be basically economic, and that there was a reasonable chance that the country could repay.

And so this relatively slow start the Bank made, and it was slow, - there were times when months went by without making a loan, and one wondered where additional business was coming from. But that slow start was a sound start, and gave a firm foundation, and I believe the record justifies the basic policies and practices which the Bank has pursued.

Q: Do you feel it was a fortunate thing that the Bank was substantially dependent upon the bond market for its funds, that this helped to make the Bank sound?

Garner: Yes. I think in substance we've always had to say to ourselves, "If we do certain things in a certain way, will that tend to build confidence in the Bank, or will it tend to undermine confidence in the Bank?" So it's been a useful thing. It's also been a very useful argument, to tell people why the Bank must pay attention to financial opinion and judgments.

Q: We might talk a bit about the Bank's role in technical assistance, which dates back at least to the Colombian --

Garner: -- well, in the early years, we simply considered projects that were brought to us. We often changed them, advised changes. We often said that a certain project we did not consider of the most useful sort. And there was a suggestion here and there -- "Instead of doing this, perhaps you'd consider that."

We confined our efforts pretty well to appraising things that were presented to us. We saw again, you see, that some better planning in regard to economic development was needed. We were not sure how much planning, how effectively it could be done, but we did see for instance an overemphasis on industry to the neglect of less glamorous things like communications and transport and agriculture. So after some transactions in Colombia, the Bank was told that in Colombia there was a very strong provincial feeling--there are really five regions in Colombia. Due to topography of the country the communications between them were difficult. Due to different characteristics of people in different areas, there was a very strong local feeling. And they told

us quite frankly that Colombians themselves could not come to an agreement on any general plan of development, that each region would oppose what the other regions wished, and asked whether it would be possible for the Bank to make a study and come out with a Bank recommendation.

We decided that that was a worthwhile activity to experiment with, so we formed a mission. We went outside of the Bank to get the head of that mission, and we picked Lauchlin Currie. He was a controversial character, but we made very careful checks from the most reliable sources we could find, and we were convinced that there was no substance in any charge that he had been pro-Communist or extremely radical or in any sense not a fully loyal citizen. He was a competent chap with pretty wide experience around the world.

So we sent this mission down there. I went down with it, just to introduce Currie and his associates. I can remember -- and this illustrates a point as to how difficult it's been to make people realize that the International Bank located in Washington, D.C., is not an American institution -- in the papers it was headlined: "North American Mission Arrives in Colombia." Well, we had press conferences. We began to explain what the Bank was. The mission went to work. I stayed down there a week or so, traveled around the country, got the feel of it. The mission came up with the first survey report. On the whole it was a very good report. It centered on what we felt were the highest priorities, the improvement of communications and transport. This report was well received by the Colombians and has, I think, stood up pretty well over the years. The basic lines recommended in that have in

general been followed pretty well by the Colombians. The Bank proceeded to fairly extensive loan operations there, concentrating on road, boat and railroad transport, on power, and subsequently on additional types of projects.

I would say, and this is rather typical, that of all the areas, agriculture is the most neglected. It's harder to get people to do things about agriculture than about other segments, and of course it's a more difficult problem because agriculture is in the hands of a large number of people, many of them small farmers. It's harder to get an organized effort. But I think Colombia has benefitted very much from the work of the Bank. One of the ministers of public works, some years ago, who worked very closely with the Bank, told me that while the money was useful, he thought that the advice the Bank had given to Colombia in the survey report was even more valuable to him.

Q: Does the Bank attempt to use its survey reports for purposes of formulating specific projects?

Garner: Yes. Very often, when the Bank starts a survey, there are some projects that are under discussion, and obviously they look at those to see whether they are sound, and whether they seem to fit into what the general tenor of the report is going to indicate with regard to overall development. But very often a survey comes up with suggestions that studies of certain projects be made, because they seem to be needed in relation to general development.

The survey report doesn't attempt itself to put a project in shape, and say, "This is just how much power, what kind of a power plant it should be," but they would indicate areas, geographical areas or areas of activity, in which they feel there's a high-priority need for projects in that area, and suggest that in general, what sort of approach should be made. But they don't come up with a recommendation of a certain road to be run at exactly a certain place or with exact specifications.

Q: I wonder if we might talk for the rest of this tape about the question of private enterprise, the Bank's attitude, development.

Garner: The Bank was set up to deal with governments and the majority of its loans have been to governmental enterprises, basically for infrastructure. However, it has made a certain number of loans to private enterprise, but always under the necessity of getting a government guarantee. At an early date it took a decision that it would not finance government-owned industries which it felt should be in the field of private enterprise.

Q: Could you put a date on this particular decision, or an occasion that caused this decision to be made?

Garner: No, I guess it was just the conviction, of the management of the Bank, one, that we believed in private enterprise in those fields in which it could operate, and two, we felt that governments had so many

things to do that were purely in their sphere that they shouldn't divert resources to other things, and third, that most governments are incapable of running industrial enterprises effectively. I don't remember the first case that came up, but it was in accord with the philosophy of the management.

Q: Has this created any problems?

Garner: Yes, we've been criticized. There have been directors that have urged that we finance government-owned steel mills and similar projects. The Indians tried to get us to finance a government-owned steel mill. There have been cases, but we've said that was something for private business, that we would be interested in financing under private ownership, but with the government guarantee which we required.

The view of management too was that if these countries are really going to develop, they could own transport, they could own power, they could have other infrastructure projects, but the only way they were going to really increase the production of goods and have people have more and get more jobs and raise the standard of living and build up the country was through the development of private enterprise industry, and agriculture.

So there were several reasons then that led to the considerations of a new institution to deal directly with private industry without government guarantee. The guarantee requirement presented problems both to the government and to private business. It was easy enough for government to conclude that it was proper for it to

give a guarantee to a privately owned power company as in Mexico or Brazil because that's natural enough, but when it comes to industry, there's very likely to be competing groups of competing industries, or a variety of private industries, and there's always embarrassment in guaranteeing one company rather than some other. And also very often the private companies didn't want a government guarantee because they were afraid of government interference.

So after a few years, some of us began to realize that the Bank was not the best type of instrument to finance purely private business. We began to work on the idea of a separate institution affiliated with the Bank, but with separate capital, and separate organizations, which could deal directly with private industry. It took about seven or eight years to get the idea accepted, but finally it was in 1956, and the IFC was set up: The principle was that it would operate in conjunction with private business and in partnership if possible with private investment capital. The limitation -- one of the unfortunate limitations that was put in the charter, at the insistence of George Humphrey, Secretary of the US Treasury, was that the institution could not invest in equities, in shares of stocks. We had made it quite plain from the beginning that our intention was not to act as an ordinary shareholder and participate in management.

To go back a little bit, after this matter had been tossed around for a few years without any great publicity but with a good deal of discussion, Nelson Rockefeller was asked to head a committee to make one of the many reports on what could be done for economic development, and this report called "Partners in Progress" was published. Nelson had

some ideas about the possibility of financing private business, and talked to us, and we threw out the idea of this finance corporation, which he took up and included as a recommendation in his report. He recommended that a corporation be set up with between three and five hundred million dollars capital and that it be permitted to invest in shares but not to vote the shares. We didn't agree with the legal prohibition against voting but we agreed with the principle. George Humphrey simply took the position, "I don't think a public institution should own shares in a private company," and George was not a fellow who would listen very carefully to arguments against his opinion. So it came down to the point that we could not get US support except with that limitation. I was away at the time. Black talked to Humphrey and called me and said, "I'm inclined to think we'd better make a deal with Humphrey, so you can have any sort of investment, it can have any sort of characteristics, but it can't be shares."

So we set it up on that basis. It's been I think probably one of the greatest hindrances to the expansion of IFC's business, for two or three reasons. We have adopted a policy in IFC from the beginning that we would not make straight, ordinary, conventional loans with a fixed rate of interest, that we would also always work in the direction of venture capital that would have some way of participating in the success of the enterprise. Logically the forms in which we can operate are all right, but they are strange to people, particularly the people in underdeveloped countries. They lead to very complicated documents. The laws of many of the countries never contemplated this type of transaction, of a loan having profit-sharing or options on

shares, and people -- a great many people got the opinion we were asking for everything. We'd ask an interest rate and then we'd want profit-sharing and also options; while the cost to them would not have been more than a simpler form of transaction, it seemed to be forbidding. So we finally came to the conclusion that we had to get a change in the charter. I made the proposal publicly in the meeting last year. The directors approved the change, and some 48 or 50 countries have voted in favor of it, which is enough by number to change the charter, but we're still lacking the vote of the United States which is necessary to get the percentage voting for the change. It has passed the House of Representatives with a good majority and is now in the Senate Foreign Relations Committee, and we have the promise of Senator Fulbright that as soon as the Foreign Aid Bill is passed through the committee he will bring this up in the Senate, where he thinks it can pass very quietly and without opposition. If so, we'll then be able to operate in a field which is the one in which finance is most lacking for private business, and that is in the equity field. I think it would greatly increase the capacity of IFC to do more business and more constructive business. It will, I think, help us to participate in the development of capital markets in these countries, which are badly needed.

IFC had a slow start, just as the Bank had a slow start. This one charter provision I think has had an important bearing. The other thing that will continue to be a problem is that the lending institutions, national and international, are lending to private business at lower rates than IFC is lending because IFC makes its terms on the comparable terms with what private investors would make, and with

the objective that we want to get the participation of private investors or we later want to sell out to private investors, and obviously the terms must be such that private investors will find attractive.

That will continue. Most foreign lending, all of it by the national agencies, is to finance equipment, in most cases from their own countries. It's not difficult to get financing for the equipment needs. What is short is funds for working capital, local currency funds and so forth. IFC has done things that the private people are not doing. The other public institutions offer loans cheaper than ours. Therefore we must find fields of activity in which the other people are not participating--that they're not doing, and I think with this charter change, IFC will be able to do a great many constructive things that no public institution is doing, and that only in a limited way private investment bankers are doing.

Q: Who were the people in the Bank who were interested in this idea from the beginning and helped work on the plans?

Garner: Well, --

Q: -- is this pretty much your own?

Garner: I think I was the originator of the idea. I think that most of the chaps who are around would say that it was my idea. Black supported it fully. Demuth did a great deal of work on it. But I think most of

them would say it's Bob Garner's idea, and I kept pushing it, with the full support of Black.

Q: Did you have any misgivings about leaving the vice presidency of the Bank in order to take on this new job?

Garner: No, I didn't. I felt I'd done what I could for the Bank, I'd had wonderful experience there and I'd done what I considered needed to be done. I realized that I was stepping from a very big puddle into a very small puddle, but there were two considerations. I was coming within seeing distance of my retirement, and I felt that I would like to spend the last years of my active business life dealing with private business. I felt that, just as I felt private business has been largely responsible for everything built in this country, that it was the thing that could be the most important element in the economic growth of these other countries. I like to deal with private business people. I have had a lot of experience dealing with private business. So I was very happy. It was at my request that I had a chance at this thing that had really been my idea, to try to put it into practice and see if it would work, and I was glad to take the job.

Q: There's time for just one final comment perhaps. I wonder if you could summarize the contrasts and similarities between Mr. McCloy's term as President and Mr. Black's term as President of the Bank?

Garner: Well, McCloy was not a banker, he was a lawyer, very active in law and as Assistant Secretary of the Army. I think McCloy saw his role as getting the Bank known, of selling the idea of the importance of the reconstruction of Europe and the development of the underdeveloped countries. It's old shoe now, but at that time it was not. The idea of organized efforts for the development of the less developed countries was a novel idea. He used his abilities and his reputation in government to make the Bank known and to build up its image as an institution that could play a great role. McCloy had no real banking experience. He's not really a financial man. He didn't attempt to get into the internal operation of the Bank or too much into more than the basic lending policies. He was quite effective as a speaker and a writer and a contact man for the Bank. When it came to a question of leaving to go to Germany, I think the more political nature, the somewhat more, certainly at that time, better known office of High Commissioner of Germany was one, I think at that time. A great many people would say that the High Commissioner had more prestige than the presidency of the World Bank. He's interested in public life. I don't know whether he felt that the Bank's progress up to that time had been such that it wouldn't become the great institution that it did, I don't know. But he'd worked in government, and when the President wanted him to go to Germany, I guess he felt that fitted his own temperament and his own interests, and felt that he should respond to the request of the President.

Interview with Robert Garner

By Robert Oliver

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Garner: The organization of the Bank which we found when we came down was a loan department and an economic department, plus the service departments such as legal and administration. The problem of how the loan and economic departments worked together presented some operational difficulties, and we found that a number of economists had become operators in the loan department. In some instances, as in the case of Marty Rosen, who showed operational skill and was soon put into operational duties and as is known, he moved up through various responsibilities, and was a very successful loan operator and very successful head of a regional department eventually.

But a number of the economists throughout who wanted to become operators didn't have those skills, and there were difficulties sometimes with regard to inducing them to stay on the work for which they were best qualified.

Then the question came up of technical services. We felt immediately that we required some engineering staff, and we first got Jack Madigan, who was from a large very fine engineering firm in New York, to serve part time as our engineering advisor. He has a very remarkable record. He had no formal education, I don't think he ever got through grammar school, but he had developed an outstanding engineering firm. He did all of the engineering work for Moses in New

York. During the war he was chief advisor to Patterson on all Army construction, and had the power of attorney from Patterson. So he proved to be very valuable to us. He has an unusual sense of getting to the heart of both engineering and financial matters. He was instrumental in helping work out some of the financial arrangements with regard particularly to Mexican Power and Light, which was a very complicated situation. We hired a few engineers to work with the engineering advisor.

After some months, Madigan advised that we get a full-time engineering advisor, and proposed the name of General Raymond A. Wheeler. General Wheeler was well known because he'd served as engineering officer in the same division with McCloy during the war, so we induced General Wheeler to seek early retirement from his job as Chief of Army Engineers and become our full-time engineering advisor.

He added to the engineering staff, and made a great contribution in building that part of the Bank's operations.

Later, as you know, General Wheeler sought retirement from that administrative job, and he was assigned to the study of the Indus Basin problem in which the Bank had become involved. And it is his plan, the plan that he developed, that was finally agreed to in the Indus Basin settlement.

When General Wheeler retired, it was realized that one needed more than just an engineering staff, and that was the origination of the technical operations department. After a short period, Simon Aldewereld was soon put in charge of that, though he's not primarily a technical man, and from that time on the technical operations department has

developed. It became a very critical and important operating department.

Q: Was there a time when Milton Cross was working in that?

Garner: You're correct. Cross came in first and headed it up, Milton Cross from New York. He'd been with Brown Harriman. He stayed down about a year, a year and a half, and then decided he wanted to return to New York, and it was at that time that Aldewereld took over so the process of building up TOD was carried on by those two men.

Meanwhile, after a number of adjustments in the main organizations of the loan and economic departments, it was decided to set up regional operating departments of the Bank, and to combine in these regional departments the loan officers and the economists who were working on the particular problems related to operations in those areas, with the economic department being reorganized to work on more general economic problems, not directly related to operations, and that is the pattern that is now in operation at the Bank. There are three main area departments, doing the negotiating and the economic work related to operations, the TOD worked with them on the technical aspects of projects, and the economic department doing broader economic studies.

I think it's overstating a bit when I say the TOD handles only -- the technical aspects of projects -- they really do more. They include the economic and financial aspects of projects. It's not purely a technical department in the scientific or engineering sense. I believe that this organization is sound in concept. Involved in it is

the concept of working parties, in which, on every project, for every loan, there's a combination of loan officers, economists from within the department, the TOD representatives, and lawyers, so that there is a combination of the various viewpoints. The idea of a working party is that while each specialist will concentrate on his specialty, that there's no clean line of demarcation, but that the group is responsible for considering all aspects of the project.

The loan officer is head of the working party. The extent to which this concept works successfully depends in large part on how competent the loan officer is in leading the team and getting the best out of all members of the team. On the whole, I think it works pretty well.

Q: How did it work before the reorganization of '52?

Garner: Well, it was very difficult to draw the line of major responsibility, as between the economic department and the loan operations, particularly in some loans such as the French loan which involved broader areas. It worked, but the conclusion was that the organization I've outlined was more satisfactory. It brought the working economists and the loan officers closer together. They were in the same department. And thus we broke down to some considerable extent the inevitable departmental rivalries which often arise.

Q: I understand there was a time, '48 or thereabouts, when some economists were actually transferred to the then loan department in an attempt to do the same thing.

Garner: That is correct, and some of them, as I said, proved to be good loan officers, good operators, some didn't. In a number of cases we gave the economists the opportunity to act as loan officers and found that they weren't qualified for it.

Q: I take it, though, you always thought of the loan department as the operating department of the Bank?

Garner: That's right, and it was the operating department, but since nearly all of the Bank's operations have a large element of broader economic judgment, the economic department had somewhat ill-defined but very definite responsibility with regard to specific operations. And as I say, I think this organization, combining in the area departments both loan officers and the economists has proved to be the most practical solution.

Q: I wonder if you would like to reminisce a bit about some of your experiences in negotiations with member governments, and the role of the Bank as mediator?

Garner: Well, one of them -- and it was really, I guess, the first attempt of the Bank to act in the role of mediator -- was in regard to

the oil situation in Iran. Mossadegh became premier of Iran -- I've forgotten the exact date -- and nationalized the Anglo-Iran Oil properties at Abadan. The result was that the operations ceased. Iran didn't have the personnel to run the refinery to begin with, and secondly, the oil companies of the world would not buy this confiscated oil from these confiscated properties. So the largest oil refinery in the world, at that time, was closed down.

There were various attempts to arrive at some solution, but no one seemed in a position to step in and really attempt to break the impasse. Mossadegh was visiting in this country at that time. The then Pakistani ambassador, Ispahani, came to the Bank and talked to me, with the suggestion that perhaps the Bank could play a role to help solve this problem. He had had some very preliminary talks with Mossadegh, and reported that he thought the latter would be receptive to this idea.

So Black and I discussed the matter. We talked to Averell Harriman, and to other people in the United States government, and we touched base with the American oil companies, and we got general encouragement that if the Bank could do anything useful, it was worthwhile attempting it. We also, through the British embassy, got the blessings of the British government and from the Anglo-Iranian Oil Company that our intervention would be welcome. So I went up to call on Mossadegh in the Shoreham Hotel, here in Washington. He in general said, yes, he'd like to have the Bank come in, and was friendly to our suggestions. We only attempted to touch on our approach very briefly, in very general terms.

The approach was this: that the Bank would act as a friend, a friendly mediator for all parties, to work along the lines that the Bank might temporarily take responsibility for the operation of the refinery and in cooperation with the Anglo-Iranian and other oil companies, work out temporary marketing arrangements, on the basis that if we could get the oil moving again, it might then be possible, after a year or two, to develop a permanent arrangement between Iran and the oil industry. There was never the idea that we would be more than a temporary operator

We told Mossadegh two things that came out in the conversation. One was that the Bank itself did not have, could not possibly furnish a staff for this operation, and therefore we'd have to be free to recruit qualified operators, including British, the British who had been there. He was indefinite on this matter, raising some problems, but not being firm that this was unacceptable.

The other point was that he wished us to become the agent of Iran. We told him frankly that we would not become the agent of Iran. We would be an independent third party, carrying out the responsibilities to both the oil company and Iran. Here again he argued but did not refuse to accept that basis.

So we said that we would start examination of this matter, to see if we could work out some practical arrangement. The first thing necessary to find out was whether the refinery was in operable condition. Nobody knew. Obviously, if the refinery had been badly damaged or allowed to deteriorate seriously, that would be an important factor. So, I got the services of Cap Rieber, who is Norwegian-born,

who had come to this country at an early age, and had finally ended up as President of the Texas Company. During the war he resigned because he was accused of having favored the Germans, the Nazis, with respect to the Spanish Civil War. I think that was an unjustified accusation, but anyway, he left the Texas Company, and became President of the Barber Oil Co., then Barber-Asphalt, which was in the oil business but was not really one of the big international companies. Cap's past experience had given him a very wide knowledge of the international oil business.

He went over to Iran, I think it was in the late fall or early winter, with Hector Prud'homme of the Bank's staff. He inspected the refinery and found that it had been maintained in a shutdown condition in excellent shape, and that in his opinion, with proper personnel it could rapidly go into production.

So based on that report, we decided to proceed further, and we developed a memorandum outlining the basis on which we would undertake this operation. I went to Iran, taking Cap Rieber, Prud'homme and Ellsworth Clark of the legal staff. On the way to Iran¹, I visited Rome, where a meeting of the Foreign Ministers was in progress, and there talked to Averell Harriman, to John Snyder, who was then Secretary of the U.S. Treasury, and to Mr. Eden, who was then Foreign Secretary of the UK. And all of them gave us encouragement to work this thing out.

We came back to London, and met with British government and the oil company representatives, to review more in detail the proposals

¹Actually, not on the way to Iran but on the way to London. The meeting of Foreign Ministers mentioned was the meeting of the North Atlantic Council held in Rome November 24028, 1951. (Harold Graves)

that we had made. Then I took my team to Iran. We arrived in Teheran, and began the conversations with Mossadegh and his associates.

It was a fascinating but very frustrating negotiation. Mossadegh was incapable of concentrating on practical questions. When we tried to talk economics to him, he said, "It's just a political problem."

"Well," I said, "what's your solution to the political problem?"

"Throw the British out."

I said, "You've already thrown them out. Now, what next?"

"Well, throw the British out."

But gradually we moved along, and at times it seemed that we would make progress, even on these two basic problems -- of whether the Bank would be a free agent and not an agent of Iran, and on our right to recruit whatever personnel we thought necessary, including former British personnel that were familiar with the operation. We'd feel that we'd just arrived at a certain conclusion, and the next day Mossadegh would start all over as if nothing had been agreed.

Other elements entered into the picture. At one stage there was a committee of Senators brought in. They hadn't sat through any of these discussions, so they wanted to start from the beginning.

Q: These were Iranian Senators?

Garner: Iranian Senators. We had tried to get across to these people a few basic facts -- number one, that Iran was completely dependent on oil

revenues for the operation of their government; number two, that it was going to be impossible for Iran, having seized these properties, to find markets for their oil. The market throughout the world was in the hands of private oil companies, by and large. These private oil companies refused to handle this confiscated oil. And therefore, the only final solution was an arrangement between Iran and some of the oil companies. And since this was probably a long drawn-out process, the Bank's interest was to try to get the flow of oil going temporarily, so that Iran would have some revenues. When we would point out to Mossadegh the desperate condition of his government without oil revenues, and say, "Now, in the absence of those oil revenues, what are you going to do?" - he said, "We'll commit suicide."

Q: Did you have the feeling that he was sick?

Garner: No, he was not sick, he was a man who'd grown up with a fixed idea, to get the British out of the oil business and Iran. That had been the thought that had dominated his life. He had succeeded in doing that. Having done that, he had no constructive ideas. He was incapable of considering matters from anything other than an emotional political angle. Number two, he is a great actor. Throughout his career he was famous for breaking into tears at appropriate times. I will say for him, he did me the courtesy of never crying with me. Another one of his favorite tricks was to receive people while he was in bed. He played up this business that he was not well, and he was a poor man in not very good health, fighting the giants, but he had tremendous vitality.

Occasionally he would receive us in bed, but he didn't cry, and I appreciated that, and we got to be pretty good friends. I liked him. He was a fascinating personality, and I got to be rather fond of him. I think he got to be rather fond of me, though we could never agree really on anything.

So finally we had a final meeting, in which there was Mossadegh and a group of Senators and others. I might say that there were a few people in the government, a few people who had been previously connected with the oil company, that had some concept of the economics of this situation. And I believe that in pounding on certain things with those people, we did lay some basis for a better understanding of what the problem was. In this meeting, there were about 30 people. I again outlined the basic position from the time we first talked to Mossadegh. It was laid out in our terms of reference. We had emphasized it at every point that we had thought at times that there was agreement, but now I felt that we had done all we could, that there was nothing more I could say.

I looked over at Cap Rieber, and I saw he was getting a bit restless. Cap's a very dapper chap, rather small, and speaks with a Norwegian accent, so I said, "Perhaps Cap Rieber might have something to say." Well, Cap got up and said, "Gentlemen, you are fiddling while Rome burns. You remind me of a man that's all dressed up with a silk hat and a cutaway coat and striped trousers and spats and a gardenia in the buttonhole, and you haven't got a God damned place to go!"

Well, with that final statement, I said, "Gentlemen, we've been here now for quite some time." I think it was about two weeks. "I

see no point in any further discussion. We're catching a plane tomorrow, unless you gentlemen are willing to take the proposal that we've laid before you."

So the meeting broke up. That night we had a reception. I might say that both the American ambassador, Loy Henderson, and the British charge, the ambassador having been withdrawn, a chap named Middleton had been extremely helpful to us, not attempting to intervene but giving us every helpful advice and support. That night there was a reception, at the officers' club where we were staying, under guard, and there was a good deal of pressure put on me from both Iranian and the foreign diplomatic sources, to stay longer. And I said, "It's just no use."

I said, "We're getting nowhere. We reach agreements in principle, but as soon as we start to talk about implementing them, we're met with a repudiation of any agreement that the Iranians have indicated they'll accept. I'm going home, and we're going to make a statement as to just what has happened, and that's that, gentlemen."

So the next day we caught our plane, and I went to see Mossadegh and tell him goodbye, and he was very courteous and affectionate and sent me down a big box of Iranian cigars and an autographed picture.

A few things that amuse me when I look back on it -- there had been several assassinations in Iran in those months, and just as we got there, the editor of one of the papers was assassinated. It seemed to be the pattern to get some young boy in his teens to do the shooting. I believe, under Iranian law, the death penalty doesn't apply to a

minor. So one of the chaps who had been assigned to us as our special aide -- he was then minister of agriculture or public works, a good young engineer -- came rushing in one morning to the officers' club where, as I say, we were quartered with a battalion of troops, to say that the Tudeh party had voted the night before to shoot an American. They didn't know which one. But when we started out the next morning, each one of us was put in a separate car, alongside of a plainclothesman who kept his hand inside his pocket on his gun. My first call was to the American embassy, and this escort of mine didn't want to leave me even to go in and see the ambassador. They watched us quite carefully. Nothing happened, nobody was shot, but one can never tell what may happen in those countries.

We came back to London. I met with Mr. Eden and the British government and the oil company representatives and made a report to them, and said that we were sorry, we'd done our best, and as far as we saw there was nothing more we could do. We came back, reported the same thing to the American government, and we made a statement which set forth the position of the Bank, what it intended to do, what we had tried to do, and the reasons why we'd failed.

I might say that looking back on it I'm very glad we failed, because I think we would have been on a hot spot -- even if we'd gotten full agreement from the Iranians on our terms. The problem of trying to operate, trying to get an adequate group of persons there, even if we were perfectly free to choose, would have been a tremendous headache. Probably we could have done it, but it would have been very, very hard.

Following this, there was a period in which a number of negotiations took place. Herbert Hoover, Jr. got into the act. He was Under Secretary of State at that time. He promoted further discussions which finally ended in the formation of a consortium, an international consortium including British Petroleum, which was a new designation for Anglo-Iranian and Shell Oil, representing both the British and Dutch interests, American companies, I think maybe one or two other European companies. And finally the consortium did work out an arrangement under which the oil business of Iran has been conducted since then.

It's rather interesting -- that the oil people told us later that they felt that the background that we laid in these discussions helped in finally convincing the Iranians to make a reasonable deal with the consortium. I believe that this illustrates the fact that in many of these large ventures, particularly having to do with raw materials, natural resources in undeveloped countries, that an international foreign consortium is much less apt to raise nationalistic feelings than if the project is owned by a single foreign group.

Another interesting sidelight, from what I've said you can understand that Cap Rieber is a man who speaks frankly and I never heard anybody talk more brutally frank to the Iranians than he did. But they realized he was entirely honest, and when as this consortium negotiation was forming up, the Iranians asked Herbert Hoover to suggest some possible oil advisor to represent them in the negotiations, he made up a list of three or four, and when they saw Cap Rieber's name on it they said, "Cap's the man we want." And he went back there as advisor to the

Iranian government in the negotiations. A very interesting personal touch.

Well, that was a fascinating episode, and while it didn't result in any immediate action, I think the Bank performed a useful preliminary function.

Q: Was there some thought at some point that the Bank would finance part of the oil operation?

Garner: About all the financing that was needed was working capital. There were no capital expenditures required. We never got down to the final financial arrangements. What we had in mind was that, one way or the other, we could put up some money, and that there were other sources that we could touch, revolving credits until oil began to flow, and when oil began to flow it would be self-liquidating. But we never got to the point of making detailed financial arrangements because we were stopped on these other basic principles.

Q: At some point did it become decided in the Bank that the Bank should only act as a mediator in those particular disputes where the Bank's role as a financial agent was of some importance?

Garner: No. No. In this case, we never contemplated that finance was the main problem. It was a secondary problem, but I have no doubt that it would have been easier to solve, with or without the Bank actually putting up funds.

So, in the Suez negotiations, there was no question of financing about that. In the Tokyo bond business, there was none. The only one in which it was probably apparent from a very early stage that large financing would be required, when the deal was laid out, was the Indus.

Q: I'd like to hear some more of your experiences negotiating with governments and so on. Maybe I might ask a question about Bank organization too. While you were away, who in the Bank was in charge of staff loan committee work, for example, really administered the Bank?

Garner: Well, if Black was not here, it was usually, I would say, the head of the loan department, and William Iliff had come in by that time as head of the loan department. Then when the loan department was merged -- I mean, the geographical departments were set up, Iliff had some more general duties, and I think he was generally in charge when Black and I were away.

Q: Along about that time, '51, I think, Mr. Iliff, later Sir William Iliff, became what was called assistant to the president. What was --?

Garner: Well, he came over as head of the loan department. When the loan department was abolished, in the reorganization into the geographical departments, and the department heads were appointed for that, it was felt that Bill's most useful service would be along general activities. It would not be appropriate to make him head of one of the

geographical departments, where he had heretofore been responsible for overall loan operations. So the appointment as assistant to the president, and availability for general duties, seemed appropriate. Bill is an excellent negotiator, and as it became more and more obvious that the Bank was going to have a large number of activities other than those of making specific loans. It was felt that it was very desirable to have somebody who was somewhat free of day-to-day administrative duties, who was better able to pick up and go wherever was necessary, or take time to devote to some one of these particular problems.

The Indus came along there, and while Black and I both participated pretty actively in the early stages, it became obvious that neither one of us could give the time required for the detailed work on that, so that gradually Bill assumed that Indus function, together with General Wheeler, from the engineering standpoint, and over the years a very large part of his time has been devoted to the Indus. He's also been called in on the Suez and other things. It was necessary to have some high-ranking official who could devote a large amount of time to special problems.

Q: Did Mr. Rist ever engage in any of these high-level negotiations?

Garner: Not where there were operations. Rist had done a great deal where there were basic economic matters involved. For instance, developing the reporting system whereby a certain number of European governments agreed some years ago to supply the Bank and the American government confidentially with figures regarding supplier credits. He

has participated in a large number of conferences on broad questions where the Bank was represented. He hasn't been involved in actual negotiations on specifics, even on non-loan matters.

Q: Would there ever likely be times when Mr. Rist would be in charge of the staff loan committee when you were away and maybe Sir William was away?

Garner: He might have been. He was one of the senior people, right under top management and had been here from the beginning.

Q: Well, how about some other recollections of your dealings with countries?

Garner: Turn it off a little, give me a chance to think...

You notice I'm not giving dates, because I do not have a calendar in front of me. But in the early '50s I decided to take a trip all around the world, flying first to India, which was my first visit to the East. There we made a general swing around. I remember one incident that happened in Bombay. We were invited by the government reserve bank to a meeting with businessmen and bankers. Remember, in those days a lot of people didn't know what the Bank was, and there was a good deal of educational work in just telling the people that the Bank was an international organization, it wasn't an agency of the American government.

They had a sizeable group there, and I began to outline the work of the Bank. There was a very attractive-looking younger man sitting across the table from me, and at one point he spoke up and said, "Mr. Garner, from what I hear, it's almost impossible to do business with the Bank. You're so severe, your investigations are so detailed, you take so much time -- it's almost impossible to do it." He said, "I understand, you've been looking at the Indian Railways, and among the questions you want to know is, how many pensioners do they have and how many watchmen they have."

I didn't know who he was. My reply was that we sought all the information that we felt was pertinent, and whether or not the average age of a watchman was pertinent, if it was we'd want to know it, as we knew that on some railroads around the world people were retired at 35 years old and that they had more pensioners than they had people working, it might be pertinent.

So I leaned over and asked who this fellow was, and my neighbor said, "Why, that's Jay Tata, the head of the great Tata enterprises." So I said, "Mr. Tata, I might say this, and I think you will understand the pertinence of it. Your Bombay Electric Company applied to the Bank for a loan. You want to put in two generators, but the Indian government was unwilling to give permission for more than one. Due to the very careful and thorough study that the Bank made, we were able to convince the government that two generators were justified, and I think we're going to make the loan on that basis. That's my justification for the thoroughness with which the Bank goes into these affairs."

Actually, we got to be very good friends, and that went on, and of course the Bank financed the Tata iron and steel expansion, and Tata is I believe now a very strong advocate of the principles that the Bank operates on.

We went to a large number of the areas in which development was being pressed in India -- the Damodar Valley, where the Bank had financed the power. We went up to some of the big hydroelectric works that are not being financed by the Bank but where we were being pressed by India. We saw a lot of officials. I didn't meet Mr. Nehru at that time. He was away, as I recall it.

Then I went on to Pakistan. We went to Karachi and from there we swung around quite a few areas. I had some interesting personal experiences. We went out to the Sindh -- which was one of the important rivers of the Indus system, and a very important agricultural area of Pakistan. When we got out there, we found that there was a big county fair going on, thousands of people. They had their various sports, wrestling and others. And we were invited by the governor to spend the night. He found out that some of us were very interested in shooting, so he invited us to stay over the next day and go on a partridge shoot. We were quartered in very elaborate tents, very comfortable, and they had a party that night with native music and dancing, very colorful.

The next morning, we started out. It was quite a crew. There were about a dozen guns, I think. One Pakistani had a beautiful pair of Holland guns. We had the police and we had soldiers and we had maybe a hundred peasant beaters. The first time I'd ever shot driven

birds. I was unfamiliar with the gun. As luck would have it, the first two birds came over me, and by some chance I hit them both. They thought I was very hot. I should have stopped then, because I missed a lot of the others, but we had good shooting.

Following that, we stopped at, I'd say, a country squire's place for lunch, all very pleasant. As we got back to our quarters to pick up our bags and then drive over and take our plane, which was 10 or 12 miles away, the chief of police came up and said that the Governor insisted that we come in to the ceremony.

There was a big meeting going on for the dedication of a cultural center. And I said, "Why, I can't go in there, I have no coat on, my shirt's open" -- I just had on a pair of light white and blue striped trousers. But he wouldn't take no for an answer. There was a great crowd seated under the marquee and the Governor was making a dedication speech. There was a vacant chair next to him so they put me down there, while he finished his speech. Then the procedure was that the Governor and the official party were to march out past this crowd while he laid the cornerstone. Meantime, the Russian ambassador, who had not been invited, had turned up in his big car and was there. So as the Governor rose, I rose next to him, and we started down. Bill Frazier from the Bank who was there with me, as I stepped up said, "Mr. Garner, the seat of your pants is out."

These old trousers had simply disintegrated. I had one of these big helmets, so I put that casually on my hip and told Bill to walk close behind me, but as I walked down, my situation was quite obvious to everybody, and a titter went through the crowd, but there was

nothing to do. So the Governor, I, the Russian ambassador, with the moving picture machines going on, marched down and finished the dedication, and I had to march back through the crowd, got in my car and went off. I had to buy a new pair of britches.

From Pakistan, we went back into India, Calcutta area, and spent a day or two there. That I think is the most depressing place I've ever been, with thousands of people just living on the streets, not even having a hole like a rabbit. They seem to be born on the streets, they exist on the streets and they die on the streets. In the morning if you drive out early you just see them lying there, bundles of rags.

We went from there, made a couple of stops and then flew to Ceylon. That's the only time I've really been sick. I woke up that morning and I had this Delhi-belly and the nearby plane was called off, so we had to drive about 50 or 75 miles down a dusty road full of cattle and children and bicycles and dust and it was pretty miserable, but we finally got another plane, got to Ceylon, and I took some of this white medicine that the Bank gave us and the next morning I was very weak but I was over the attack. I had a very short disability.

Ceylon was interesting. It was so much cleaner, so much less crowded with people that it was a very nice contrast to eastern India. We had financed a power project in Ceylon. Among the requirements were that there would be a supervising engineer and foreign contractors, and when I got there I found that the man in the Ceylonese government in charge of the power program who had signed the agreement, had gone to London for a six months' holiday. The German contractors were on hand, but were given no instructions.

In Ceylon, we had a very pleasant few days with an interesting episode which I've commented on previously. We went on to Burma. Burma was then, as it still is, in a state of considerable internal disorder. We flew up the river to Mandalay, saw the oil installations which had been destroyed by the British and had never really been back in operation by the Japanese during the occupation. The Burmese had the field going again but the pipeline was out, so they had to ship oil down the river. We were taken out to a new bridge, just rebuilt over the Irrawaddy, which again had been destroyed by the British when they retired. Near the bridge was a great pile of engines and freight cars which had been wrecked by bandits in the preceding months or years. From time to time they'd blow up a train. Everything was very quiet as far as we could see, although on the way out to the bridge there were guards along the road. We were escorted by soldiers and even going through Mandalay they had guards on us. But it was very pleasant. We had a nice time.

From there we went to Thailand, then to the Philippines. I mentioned before about the port operation in Thailand. In the Philippines the Bank had not made any loans at that time. We went around and saw quite a few of the developments. We went down to Mindanao, and it was more or less just a courtesy visit. We had an interesting lunch with Magsaysay, who was then president, who was a very extraordinary man, a man who was most hospitable. It was very interesting to see the effects of the American occupation, and the strong influence of what Americans had done in the Philippines.

We went to Hong Kong. There, one felt very definitely the British influence -- the police were snappy, the traffic was regulated - - most fascinating congregation of people, of course. As we were crossing on the ferry at night, we ran into Hal Patch who had previously been the British Director of the Bank, who was an old hand out in that country. One of his friends had loaned him a beautiful cottage on the bay. He invited us to lunch the next day. We could occasionally hear guns firing over on the mainland, and realized that any time the Chinese wanted to take Hong Kong before breakfast they could do it, but apparently they don't find it desirable to do so, and Hong Kong is growing with tremendous activity. We stayed there only 24 to 36 hours, and flew on to the Philippines.

Then we went to Australia, landed at Port Darwin and spent a couple of weeks in various parts of Australia. We didn't get into Western Australia, just around Sydney and Melbourne. I was very much impressed by the contrast between the Orient and the Australian both its economy and way of life. I saw Mr. Menzies, the Prime Minister, who, as you know, got a 100 million dollar loan out of the Bank faster than anybody else ever did. He is a very fascinating, attractive personality. He invited me to lunch in Melbourne, where he had a large group of local people, including the local government officials. I sat next to the Labor premier of Victoria. He got up, as he always does, and stated that when he was going to approach the World Bank, he was told that the fellow that was the meanest, toughest guy, that he'd have the most trouble with, was named Garner. He pulled my leg, and my reply

was that he had taken our shirt faster than anybody else ever did, so we had a pleasant time.

Canberra, the capital, is an extraordinary city. It's one of these artificial capitals, built at a beautiful location, and its center is the government facilities, buildings, and so forth, and around it are several communities, commercial and residential communities. So as you fly over Canberra at night, the government area is blacked out, and you see this great black mass, and around it these five suburban communities lighted up. Rowland Wilson, who is Menzies' hatchet man -- he's the tough guy that negotiates what Menzies in his inimitable way is able to get as a gentlemen's agreement -- Wilson had said that Canberra was five communities in search of a city.

While having been impressed by the strong provincialism between the various provinces in Australia, the result is that each one of the states has a different railway gauge. They're very jealous of their state prerogatives. So in responding to Menzies' address, I quoted this statement that Wilson made about Canberra, and I said, "Now, I think you people know that I like you, so what I say is in the friendliest spirit, but I'll have to say that Australia is five provinces in search of a nation. However, I hope that you will not let this provincialism really interfere with your development. You're suffering now from different railway gauges. You're now putting in great power facilities, and I understand there's a dispute between the various states as to what voltage shall be adopted." I said, "Don't make the mistake again of having differences which are going to be tremendous handicaps."

Well, they took it in great spirit. The Australians usually have a sense of humor. I was very pleased with them. Then I popped over to New Zealand, which is not a member, for a short fishing trip with some friends over there, and then came on back to Washington in time for Christmas. That's the longest trip that I've ever taken. Black has since exceeded it by his most recent trip to Africa. Those long trips are really killers.

Q: You know it occurs to me that there are two things we talked about the first day which I don't think we've recorded on tape, that are fairly important. One is the Bank's insistence upon international competitive bidding in the early days.

Garner: General Wheeler is largely but not entirely responsible for that. I think all of us in the Bank realized that we must avoid any basis for favoritism in the award of contracts, so that it was a perfectly logical and natural consequence of the international character of the Bank that we would insist on international bidding. It was somewhat theoretical in the early days because the only undestroyed industrial complex was that of the United States. But even in the early days, there was opportunity to get some supplies and money elsewhere. I think that such competitive bidding has been one of the absolutely essential components of the Bank's policy.

The other thing that General Wheeler insisted on, and again we all recognized the validity of it, that we would not accept the appraisal of a project or a program made by any organization that was

going to either sell equipment for that project or do construction work for it. In other words, we would not accept the appraisal of an engineering firm if they were going to benefit by contracts for equipment or services subsequently.

We had a very interesting illustration of that with one of the leading companies in this country in the industrial construction business, particularly in the steel and coal industries

It was Koppers. General Summerall was then president. Of course, General Summerall was an old Army associate and great friend of General Wheeler's. In connection with the Indian Iron and Steel proposal, Summerall came in and said that he'd be prepared to do a turnkey job on it. He talked to Spec Wheeler and Spec said, "Bill, I'm just not going to approve your doing the engineering, designing the plant, and then getting the contract." So Summerall, who was a very decisive and aggressive fellow, said, "Spec, who's your boss?" He said, "Bob Garner." "Well, let me go up and see him." So he came up to see me, and we reminisced a bit. He comes from Mississippi and my family knew his. He put the same proposition up to me. He said, "Now, we're going to relieve you of all the troubles -- turnkey job, you won't have to worry, we'll do the whole thing, take the full responsibility."

I said, "I'm sure you're competent to do that, General, but you're president of the Koppers Co. Your loyalty and interest is bound to be for the interest of Koppers. Now, how can you also protect the interests of World Bank and of the borrower? I want somebody who's protecting their interests. I know you'll take care of the interests of

the Koppers Co. in fine style, but I don't think you can take care of the conflicting interest of the borrower and of the World Bank.

He said, "Who's your boss?" I said, "Gene Black." "Well, can I see Gene Black?"

So he invited Gene down to Pittsburgh for dinner, and he put on a nice party. Gene gave him the same answer, so he had to accept that answer.

General Wheeler's knowledge of contracts, and his insistence on the objectivity of engineering studies and technical studies has been a very important factor in firmly basing the principles of the Bank. There may be an exception: if an industrial company is putting a lot of its own money in a project with which they are familiar, whether it's a chemical company or a cement company, we will rely more on their judgments, because they're backing their judgment with their own money. It's quite a different thing when a government is spending the public's money, they may be influenced, not as well informed, and may be willing to accept recommendations which may be prejudiced. We find it worthwhile in most cases to have independent checking. Even the best informed and qualified companies sometimes overlook things. We usually do some independent checking on their work, but we are willing to take the basic work done by an industrial company who is experienced and who is putting a substantial amount of its own money into the enterprise.

Q: The other matter that we talked about the first day that I think was worth repeating is the few attempts that the United States government

has made to influence the Bank in its selection of staff. I think you specifically mentioned the occasion when --

Garner: I didn't record that?

Q: I don't think so.

Garner: Well, what we determined when we came down here was that if this organization was going to do a professional job, an objective job, we had to have control of staff. We had to have the right to pick people based on their competence, abilities, and we had to have the right to deal with them as management saw fit. We accepted the fact of the desirability of as wide a national distribution of staff as possible, but we stood firm on the position, we would not hire people on the basis of political grounds or on the basis of trying to take a certain nationality simply to have it represented on the staff.

We were quite surprised, I was, certainly, to find that it wasn't too hard to enforce that principle, and in the early days, I think I got more pressure from my friends in Wall Street or in business to give a job to Bill Smith than I did from the United States government. We've had a number of occasions when we would get a request from a Congressman or a Senator or somebody in administration, would we talk to somebody? In most of those cases we said, "Sure, we'll talk to them and if they qualify we'll be glad to consider them." But we've had practically no problems. The one occasion that would have possibly been an exception to that rule was, when McCloy went as High Commissioner to

Germany he asked to borrow Chester McClain, who was then general counsel, to go with him for a period of about a year, to borrow him from the Bank. They'd been old associates before the war, and while we were very reluctant to lose his services even temporarily, we felt that we couldn't refuse the request, and gave him a leave of absence. His assistant, Dave Sommers, took over the job of acting general counsel, without any official appointment. As the period of leave began to approach its termination with McClain, we got letters from him indicating it was going to be very hard for him to leave at the designated time, and so it became apparent that we might well be faced with the necessity of replacing him.

Black and I talked it over, with Howell and some of the other appropriate people, and we all came to the conclusion that Sommers was adequately qualified to take the job. We finally received, late in the week, a cable from McClain saying, "Impossible to leave this job, hereby tender my resignation."

Black was away, but we had come to an agreement, so I called the boys in -- it was Friday afternoon. I said, "Let's issue a press release and get it out to the press immediately, that McClain has resigned and Sommers has been appointed."

It appeared in the Saturday morning papers. On Sunday, there was a story from Germany in the press confirming that McClain had resigned.

Monday morning I got a call from the White House. I've forgotten who it was, but he was Truman's appointment man I think, Parsons or something of that sort. "Hello, Mr. Garner."

"Yes?"

"I see that Mr. McClain had resigned."

I didn't let him get any further than that. I said, "Yes, we hate to lose him, but we are so very fortunate in having the man to succeed him -- Dave Sommers, who was his assistant, was on Friday appointed general counsel, and the story was in the Saturday Washington Post."

"Oh," he said, "I didn't see that. I just thought maybe you would have a problem in filling that job, and I thought we might be helpful." But luckily we had beaten him to the punch. I'm quite sure he would have had a fine suggestion for a retired Congressman from Missouri or some other crony of the President's. We'd have been subject to pressure. But just by good fortune, we beat them to the punch. And that's the only time that, at any high level in the US government, have we ever had an attempt to push somebody on us.

Q: Did you anticipate this? Is that the reason you -- ?

Garner: -- I just had a hunch. This was an important position, that it would be a mistake to leave it open. I don't know why, just a hunch, "Let's get it done before any questions arise." Just one of those things. Sometimes you have a hunch and it proves to be a good one.

Q: There is a person who was important in the early Bank's history, now dead, that is a very shadowy character for me, namely Chauncey Parker. I wonder if you could say what his role in the Bank was?

Garner: Well, Chauncey Parker was an old friend of McCloy's. He'd been an investment banker here. McCloy had known him for a long time, and the families were quite close friends. So McCloy suggested that Chauncey could be of great use in general matters having to do with organization and personnel, not substituting for Howell's job, but something on a pretty high level of organizational operations. He'd served with the draft administration and had had a good deal of administrative experience. But McCloy said, "Now, he's a friend of mine, so I just make this suggestion." We were looking for somebody to help us on general organization matters. He said, "I don't want to press him, I just say, you take a look at Parker and see what you think."

So I met him, was very much attracted by his personality, and I went to see General Hershey and asked him about Parker. He told me about his work as his assistant, and said, "The damn fool, he was doing a wonderful job here, but he wanted to get shot at, so he got a leave of absence and joined the Marines in the Pacific."

He finally ended up, "Parker is a guy I'd put in charge of the rear guard." Absolutely loyal, devoted and so on.

Well, he came in here, and we used to fight like cats and dogs. I was very fond of him and we were great friends, I lived with him for quite a while, but he was quite an emotional fellow and he'd fly off sometimes and we'd just cuss each other out.

Chauncey had very considerable abilities. He had strong prejudices. As I say, he was an emotional fellow. And he did some very

useful work with us here. When McCloy went to Germany he wanted to take Parker with him. There again, we didn't feel we could say no, so Chauncey -- Chauncey's always been a hero worshiper, particularly of McCloy, so when McCloy said, "I want you, Chauncey," Chauncey would have jumped out the window if McCloy had asked him to do that. So he went to Germany, and I thought it was a good thing for him to do. He went there, and then when that assignment was over, he didn't want to come back to the Bank, and matters had gotten to the point that there really wasn't the place for him. So he then got a high-ranking job in the U.S. mission to Italy. Very tragically he got some mysterious disease, came back and just faded away and died. He was a lovely fellow. He wasn't a banker, and in the long range the Bank wasn't the place for him, but he ended up doing something that he liked to do with McCloy. And that German assignment was a very important operation, and then Italy. So it was a very sad thing personally for many of us, to lose him.

Q: Your speaking of living together reminds me that when you first came down here, you and Mr. McCloy and Mr. Black all lived at Mr. Rockefeller's house.

Garner: Nelson Rockefeller has a big place out on Foxhall Road, that he'd acquired when he was down here on one of those government jobs during the war, and he just used it for an occasional residence. It was a tremendous place -- so he very kindly invited us to camp out there in the early days. So I spent my early days in Washington sleeping in old John D. Rockefeller's big double bed.

Q: Did Parker move in with the three of you at some point?

Garner: No, Chauncey had a house in Georgetown. Chauncey's wife is a niece, a grand-niece I guess, of General Sherman, and her family owned quite a lot of property around Washington, including this house, and as I moved around from place to place, one summer Chauncey said, "Why don't you come and spend the summer with us here in Georgetown?" He was away a good deal of the time. McCloy was in that house at one time. We lived there together, and then I stayed on. When McCloy brought his family down here, I stayed on and lived with Parker for some months after that.

Q: Well, was there a small group of you, you and McCloy and Black and maybe Mr. McClain who were really deciding the important policy issues of the Bank in those early days?

Garner: I think that's fair to say. Demuth played a big role. He'd been one of Meyer's assistants, and he stayed. John Ferguson, the other one, left when Meyer left. In that period, there were no operations going on, the president's office was sort of the center of everything, and Dick Demuth as the assistant was in on everything. Dick is an excellent man at drafting documents, at ideas -- he's full of ideas, and in the period in which new concepts and practices and principles are being developed, Dick's contribution was very important.

Then he became my assistant. Dick has always been in staff work. He's always wanted to get into operations, but our feeling is

that he was really so good at these various staff functions, performed such a useful job that it would be a mistake to let him get out of that area. Since then he has of course been in so many general matters, organizational missions, liaison work with other organizations -- very useful. And Dick's influence in the Bank all the way through has been quite important.

Another man that we haven't mentioned is Crena de Iongh, who was Treasurer, and played an important part in the early days, till he retired. That's about the group.

Another man that for a period here did a great deal of work was Walter Hill. He was Rist's assistant when we came down here. And since at that time the thought was that a national should not deal with the affairs of his own country, in the first loan, the French loan, Rist had abstained --that was before we came down -- and Walter Hill as an assistant was doing the economic work regarding it and heading up the study of the French situation. I remember that that was a time when we had to make certain decisions about interest rates and the whole thing and Walter played a large part working out these problems. He was very helpful to me, in laying out some of the broad principles, in getting them down on paper and defining them. Walter had a number of subsequent assignments, finally went to Paris and now is Secretary of the International Chamber of Commerce.

Those are the people that in the early years before the present regime, before I came in, before Knapp came in, that was the group that got the Bank organized and basically worked out the policies and procedures.

Q: Some people commented on the contribution of a Paul Rosenstein? Do you remember him?

Garner: Yes. He's a very brilliant economist. In my opinion, a theoretical rather than a practical economist. And I frankly never felt that the Bank was his dish of tea, and he's finally come to Harvard -- to the academic world, where I think his talents lie. I came to the conclusion that the Bank was not the place for the development of broad economic policies or studies, that our job was applied economics, that the world is full of theoretical economists doing a very useful job, many of them, in the universities and various economic societies, and that for us to try to get into that field was unwise. I think that we should try to see the application of any economic work we do to the general field of economic development, and to basically what the Bank could use.

Q: I understand that he and you were both instrumental in the idea of the Economic Development Institute?

Garner: I think he came forward with the first idea. But in my opinion, what he had in mind was more of an academic institute for the study of broad economic principles and development. That led to my thought that I've just expressed -- that our work should be applied to practical problems. I liked the idea, but proposed that it be a staff college rather than an economic study institute, using the experience of the Bank, and the Bank and the facilities of the Bank, to teach people

in the developing countries how they could use what we could teach them, in the practical work of the economic development of their countries.

Q: Just one last question -- you personally supervised the -- you personally headed the negotiations on the French loan. I take it, by the time the Chilean loan and other development loans came along that --

Garner: -- it's obvious that I couldn't negotiate all the loans, it wasn't proper. I've forgotten who negotiated the Chilean loan, but by that time it was down in the loan department, and after the French loan I never acted as the principal negotiator. Now, with the Chileans, I had discussion with them about what they ought to do about their defaulted debt, but I didn't negotiate any loan after the French loan.

Q: By the time the Chilean loan, the organization and procedures --

Garner: -- had been organized, marshalled and so forth, and so we were ready to negotiate and had a good deal of the studying down. Now, obviously, in the early years, management had to keep a closer eye, because of the lack of experience of all of us, than they do now, and we weren't able to decentralize responsibility and authority in the early days as much as I think it is now done.

Q: Well, sir, thank you very much for all your patience and your time.