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Transcript of interview with

Ansel F. Luxford

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Interview with Mr. Ansel F. Luxford

By Robert Oliver July 13, 1961

Interview #1

Q: Now, you are Mr. Luxford. What was your association with the Bank, Mr. Luxford?

Luxford: Well, its organization until May of 1951, I'd say, I was assistant general counsel and subsequently associate general counsel of the Bank. Actually for the first few days of the Bank's organization I was the temporary US alternate executive director and then came into the Bank as the assistant general counsel.

Prior to that, I had been with the Treasury for the bulk of the time after leaving law school. I left the Treasury to go into private practice in 1939, and was called back in April or May of 1940 on a temporary basis because I'd been working in the economic warfare field prior to this. Things got worse rather than better, and I remained there throughout the war in the field of economic warfare, first as an attorney on foreign funds control matters, subsequently chief counsel for foreign funds control, then assistant general counsel, senior assistant general counsel of the Treasury, and assistant to the Secretary of the Treasury. Most of my work through this whole period was monetary and international financial.

At about the time that -- well, I date it very specifically back to a few months before the North African invasion -- up to that time, I had been primarily devoting my attention to foreign funds matters -- at that time Bernard Bernstein[1], who was the assistant general counsel and under whom I worked as assistant, had to go into the North African operation, in the army, and I took over his job, which included all the work that was being done on postwar planning, that was being done in the Treasury on the international side. And from that day on I was part of the small Treasury team headed by Harry White that was working on the programs. Even at that time the plans for the Bank and Fund had been very well worked out in terms of writing, and we were holding from time to time meetings with the technical committee, the interdepartmental committee that had been set up under the Secretary of the Treasury as the chairman of a Cabinet committee.

On the whole, the spadework was being done in the Treasury, with the technical committees meeting more or less to comment on the proposals, and as a clearinghouse preparatory to the informal discussions that were going on and had been going on with the various countries, particularly with the British delegation. That delegation, the man who was probably doing the most on it was Opie[2]. I'm now addressing myself to their

[1]Not E.M. Bernstein, economist, who also was a close colleague of mine

[2]Redvers Opie, son-in-law of Frank William Taussig of Harvard's economics department

Washington delegation. At the same time Sir David Waley was doing some work on it. A little bit was being done by Sir Frederick Phillips and Lord Brand was also familiar with what was going on.

From that point on, my time was divided equally between the economic warfare side and the postwar planning side. I had a small staff that worked with me closely on the postwar side. I would say, the only man who was intimately working on it throughout this whole period, on the legal side beside myself, was Dick Brenner, now dead, who later was assistant general counsel of the Fund.

As we got down to pre-Bretton Woods, it was necessary to come in with drafts. Dick Brenner and Leeman Aarons of my staff were the ones who had the jobs of coming through with first drafts. Elting Arnold[1] may have been in on that. I'm not sure whether he was at this point or not. I could go back to the records and check. But when we left for Atlantic City, we had drafts of both documents that embodied our approach, realizing that a lot of these things had to be thrashed out, but if you go back to those drafts you'll see how closely they were followed in terms of so many of the later provisions, if for no other reason than that we had worked through a coherent draft from which we were working, in terms of our negotiations and subsequent drafts. It's the old story -- if you get a piece of paper that has been developed through, you've thought through your problem, you

[1] Now general counsel, Inter-American Bank

almost compel other people to work from it if they haven't the same instrument. It's just a matter of your know what the implications of each other's move in the negotiations are going to be, in terms of having thought the whole topic through.

But that was a minor part of the pre-Bretton Woods days. It was primarily a problem of soul-searching on the part of the Treasury experts, as to how you would meet the various problems, how you would meet the political ones. On the one hand, you knew what the problems of the other countries were and what they were going to be asking for, and we could not keep our eye off the generally hostile or indifferent attitude on the part of the Congressional committees. Repeatedly Secretary Morgenthau would go up there and report to the committees what he was doing. They were pretty apathetic. They listened politely, but nobody gave the slightest suggestion that this was going to be easy going.

The whole problem was one of how far you could go and still expect to obtain Congressional approval. At the same time, it became obvious to me that one of the biggest problems here was going to be to sell a complicated problem like the Monetary Fund to Congress, simply because of lack of understanding. It's a highly technical field, and it would push any normal legislator's abilities to the nth degree, to try to understand the complexities of the Fund operations and the need for them. So part of the job was trying to translate the complex concepts of the Fund, and to some extent the Bank, into terms that could be understood in the legislative body. And obviously in doing that you had to simplify and then oversimplify 20 times.

That was equally true of mobilizing public opinion. We knew we wouldn't have a ghost of a chance of getting this through Congress unless we got strong public opinion support for it, particularly when we knew the bankers were very much opposed to it, and our program was addressed as much to educating the forces outside the government that could bring pressure on the Congress, how to push this bill through Congress. All of this, bear in mind, was well before the Bretton Woods thing, but you started your educational campaign early, and you brought along with you some 50 professors of economics, for one body, that was working with us. The labor unions were interested, as well as almost every organization that had strong political connections. The cotton people would be in it and the Farm Bureau people would be in it. This was not a straight lobby or educational program at this early point so much as it was keeping them aware of what we were doing, what we were thinking about, at a technical level within their organizations, so that at a later date, when it became necessary really to push hard, you would have someone competent within each of these organizations, to begin to explain to their own people what it was all about.

Q: Was there rather a considerable amount of more discussion concerning the Fund than the Bank, due to a feeling that the Fund was more important than the Bank or just that it was more complicated and needed more explaining?

Luxford: Let me put it this way. The Fund, as a technical problem, was obviously a far more challenging problem than the Bank. The Fund was pretty much moving out to the periphery of economics, and especially in terms of international operations. The Bank was being formulated along more orthodox lines. And we were satisfied in our own hearts that we would have no problem selling the Bank internationally, because this is a simple proposition of, here is a place to get some money, and you didn't have to put very much up in order to get a lot.

The Fund, on the other hand, represented an invasion of one of the (traditionally) most significant powers of government, in terms of the power over money, and it was in some respects an infringement of sovereignty in that very critical area. We said it wasn't an infringement so much as an exercise of sovereignty, but the fact remains that, remember the British government fell, the Conservative Party fell, on the gold issue, when they went back to the 5 pound after World War II, and the depressing effect that had on the British economy was one of -- well, Churchill said he would never make the mistake of tying Britain's hands again on the question of exchange. Lionel Robbins, who sat in on these discussions, had the unfortunate position of having been the one who had advocated going back onto gold for the British government. As a consequence, we weren't dealing with abstractions, we were dealing with people who had lost power not long before in terms of insisting on stability of exchange rates at the sacrifice of the economy, to maintain a rate that was too high in terms of their capacity. So that we knew our battle was going to be the Fund. We were using the Bank as a device to bring them along. That's why the Charter always said you couldn't belong to the Bank unless you belonged to the Fund. There were other reasons, economic reasons and the like, but basically we wanted to force countries to agree to standards in the monetary field as a condition to get the benefits of the Bank.

In the early days, as long as Keynes had his Clearing Union where he thought it might be accepted, he showed no interest at all in the Bank, and the British delegation by and large manifested no interest in the Bank. And the reason was obvious. You didn't need the Bank if you could write a blank check for all balance of payments problems. But when the British finally realized that they were not going to get this, that they were going to have to start with limited commitments, at that very point Keynes reversed himself and became a very strong proponent of the Bank. The logic of it was perfectly natural. He realized that he was not going to get an open check on the monetary side, that he was going to need reconstruction funds, and he was pushing very hard for the Bank.

Q: But the Bank and the Fund were part of a package, as far as the Americans were concerned.

Luxford: Absolutely. Absolutely. The Bank was not an afterthought. It was started from the word go, the first White[1] document, which was -- I suppose you've seen it. It's a 100-page document and the first part is on the Fund, the last part is on the Bank, or vice versa, but they were always treated as one package.

But the complexities of the Bank were not the same as those of the Fund, and the big point in selling had to be the Fund. What was being done structurally within the Fund, in terms of organization and concepts, crept into the Bank. If you look at the provisions on administration and the like, you'll find them almost identical.

Q: Weren't they in common -- in some of the major issues, as far as the Bank is concerned, for example, what were the anticipations with respect to the total lending capacity of the Bank? And didn't you anticipate that the Bank would have to go to the bond market in order to get funds for lending purposes?

Luxford: There never was the slightest doubt about that. There never was the slightest doubt about that interpretation. Keynes was the one who thought this guarantee device would be useful,

[1] Harry Dexter White, Treasury Department

and our attitude was that it certainly didn't hurt anything, include it. But the whole thing was designed on the basis of going to the market, where you're going to the market with a security that, up to the amount of the United States subscription, was guaranteed by the United States. And the hope was, and it's been borne out, that as other countries were able to cope with their balance of payments problems, restore their currencies, as international currencies, the Bank would have further resources in terms of strong currencies. But it was designed from the word go as a Bank borrowing on a multinational guarantee operation, and the reason there is clear. I mean, US government guarantee of a security to be sold in the market. The reasons are quite apparent, if you look at United States corporations. You're seeing another manifestation of it today, where the Kennedy Administration is trying to get off of direct appropriations for long-term planning, and they're having terrible trouble. Treasury has been through this dozens of times. Treasury knew the problems of trying to get appropriations. For that reason, we set these things up from the word go in terms of a public debt transaction, so that we would create in the Bank and the Fund institutions free of the budgetary control of the U.S. Congress; that we would sink or swim in getting a sufficient capital and a technique for obtaining capital that would not tie us to the US Congress.

Q: Was it a matter of any concern that in the process of obtaining capital this way, the lending operations of the Bank would to some extent be influenced by the ability of the Bank to sell its bonds?

Luxford: Not a major concern, because bear in mind, the secretary of the Treasury at that time and the Treasury of all places knew what it was to sell US government bonds in a hostile banking community. But the facts of life were -- and this was one thing we knew -- that regardless of how much the bankers complained, they bought the securities. It wasn't simply because they loved us or because they didn't like us. Business is business, and people buy government securities. Our whole banking system requires it. We finance the war with the same securities. One is guaranteed, indirectly, the other is a direct US obligation. We know as well as anyone in the world what the difference in points was between a guaranteed obligation and a direct obligation, but we also knew that the spread was very small. There was no doubt in our minds we'd sell the securities whether they liked it or not.

Q: At least up to the amount of the United States government guarantee.

Luxford: And this whole device had been formulated with the view that it was open end. You could always increase the amount. It would take Congressional action. But our theory was that even the Bank with the resources that we were entrusting to it would show that it was doing a job that warranted further commitments on the part of the United States, in which event we would be able to sell it; or alternatively it would be a fiasco and nobody would be interested in it.

Q: How about the total lending capacity, given the original capital subscriptions to the Bank? Did you feel that this would be adequate for handling problems of reconstruction, for example?

Luxford: Well, bear in mind, at that time the Treasury was right in the heart of financing the liberated countries. You had the Army, you had Lend-Lease, UNRRA was being planned by another group of the Treasury with State Department people right there. These were not regarded as single items. You had Lend-Lease on the one hand. You had UNRRA, you had Food and Agriculture -- each one of these, if you'll note back in the first Bank drafts, were commodity stabilization proposals also. But people who -- and I've heard this many times in this Bank and elsewhere -- look what they regarded as the magnitude of the redevelopment problem in the postwar period, or reconstruction problem. But all those things failed to understand the pattern. The most shocking thing that happened in this country, following the death of Franklin Roosevelt, was the stupid announcement that we were terminating Lend-Lease. It fell like a ton of bricks on everyone that had been working. We had no idea that the Bank was going to take over and do the job that had been done by Lend-Lease. This was one of the problems of an unanticipated change in government. Roosevelt's death permitted people who had previously had nothing to do, in terms of working in this field, to move in and express their own particular views on an opportunistic basis. I think this is one of the Leo Crowley was one, as I recall -- who was in theory involved with Lend-Lease, but in fact was, I would have to say, more a Congressional front for it. He permitted himself, because Truman was not at that point, being more of a line officer approach type of man, thought the man in charge of Lend-Lease should be the man who could advise him on this. Crowley of course was being crowded all the time by Congress, "When are we going to cut this off?" Well, what could be happier from his point of view than to say, "We're cutting it off."

But nobody had done the thinking in terms of what it meant to the rest of your program. So it was the death of Roosevelt, not because it was merely the change of power and the change of responsibilities that resulted from that death, that upset all your plans. So it's foolish to talk about the miscalculation in terms of the Bank and the Fund. They were part of a calculation of how much can we possibly get through these avenues, assuming we can hold Lend-Lease for a further postwar period, and we have UNRRA and Food and Agriculture and Commodities, etc., coupled with the real miscalculation made at Bretton Woods and in the planning at Bretton Woods, which was that we didn't know that we would have a cold war. The problem of the rehabilitation of the war-torn areas might have been very substantially different, if you had had the participation and cooperation of the Communist-controlled areas -- in particular, the resources that we were having to plow into preparing ourselves to defend ourselves against that war were the very resources that could have been used to rebuild these war-torn areas. But in terms of the unanticipated development, that's the one that I put my finger on as being the most significant.

Q: But the Bank was only thought of as being one of a number of supplementary approaches to reconstruction.

Luxford: That's right. In other words, the Lend-Lease -- that's why the Bank was supposed to handle specific projects. The Bank wasn't going to cover a blank check for the needs of a country, in the early days. That was part of UNRRA's job. It was part of what Lend-Lease would continue to do.

Q: What the Marshall Plan eventually did do.

Luxford: Yes, it comes back to the same thing. Sure, you were forced irrevocably to do it. But we had to go through this hiatus that was frightening in terms of its impact on our allies and on the rest of the world.

Q: Was there any consideration as to the relative importance of reconstruction and development in these early discussions?

Luxford: In this context, that obviously reconstruction had to come first. Secondly, reconstruction of Western European productive resources was going to provide the productive capacity to make more valuable the relative resources of the World Bank and Fund, and permit them in turn to use these resources in other areas.

Bear this in mind, too, that there was a second point of miscalculation, major miscalculation on the part of the people planning postwar planning in this period. Their greatest concern was that the end of World War II would find this country and the rest of the world sliding back into the Depression-like economics of '30s. We had only pulled ourselves out of that Depression by virtue of the war. The great problem would be that of sliding back into the same kind of recession. To what extent that was a miscalculation in economics and to what extent it was a corollary of miscalculating the position of Russia -- in other words, we have continued on a wartime economy, in terms of the amount of our production that's going into "defense."

Q: Do you imply by this that the Bank was thought of substantially as a counter-cyclical lending organization as distinct from a long-term development organization?

Luxford: No, but the forces -- if the Bank would be healthy and would be desired, it would be in a position to go back to Congress for more money, because if you were in a period in which we were having trouble to maintain employment abroad, you would have a further reason for saying, "Look, let's make some sound loans here through the Bank, and get something in return for our money." It's the same thing as the pattern of RFC. RFC never had any trouble in Congress in getting money. Whereas if you said "We're going to have a WPA program or a relief program," you had all kinds of hostility. This was again a continuation -- concrete solid projects in which we have not just the United States backing but the rest of the world. So they tie together.

Q: I wonder if you'd comment on the anticipation with respect to the organization of the Bank, particularly the relationship between managers and the executive director.

Luxford: You have to discuss this question historically in terms of tactics (?). Once the British made up their mind that they couldn't have the Clearing Union[1] approach, their great concern was addressed to management of the Fund, and their concept of Fund management was designed to make drawings at the Fund automatic or as automatic as they could be. The United States, on the other hand, for the same reasons that it opposed the Clearing Union was opposed to permitting countries to draw their

[1] i.e., "Keynes Plan"

full quota, with perhaps no restrictions or virtually no restrictions. In that, we well realize that in every balance of payments problem there are two solutions to it, one of them requiring the country itself to apply pressures within its economy, and the other of obtaining aid from abroad to adjust that balance of payments problem. We saw the Fund as a means of giving the country the time to take corrective actions without having to take desperate actions, but we saw no reason for financing balance of payments deficits, without evidence that the country was taking steps, and this was the concept that prompted the United States delegation to insist on strong management. The ultimate --

Q: -- when you say strong management here, you mean management by the representatives of the countries?

Luxford: A combination of management, in terms of administrative management, plus the board -- in other words, that was management. The ultimate fight on this was the showdown at Savannah in terms of whether you would have full-time or part-time executive directors. But it was part and parcel of forcing the administration of the Fund into the hands of people that were full-time experts, or were fully cognizant in advance of what was going on around the world. One thing that we were always fearful of was that we would be confronted with a fait accompli, that some day a country would come and say "Look, we need so much money because we're out." White said that always to Keynes in private -- "Look, if you've got a staff that will study these problems, it's impossible for any country to find itself by surprise in balance of payments troubles. It doesn't happen that way. That's why we want a good strong staff, that's why we want that staff reporting to people who can act for their governments in terms of having all the facts."

Q: Still, you wanted the governments through their executive directors to be the final --

Luxford: -- they had to be. These were not technical decisions, they were very high policy decisions, but we wanted the directors of the Fund to be in a position to talk intelligently to their own countries and point out the facts of life, because through the countries that were going to vote on this, or the key countries that were going to vote on this, might be willing to say "We'll act on this basis," but we wanted them to be fully informed and be responsible people. White's feeling was that we had to get away from voting on these purely as political matters. They had to be in terms of what is sound for the country, on the one hand, and the Fund and the other countries on the other. But this is why the fight at Bretton Woods on this was one of the biggest fights at Bretton Woods. When it started there it was on management, and one of our big fights was in terms of getting weighed voting. But surprisingly enough that did not produce as much opposition as we'd expected. But the battles in Commission 3 on the Fund at Bretton Woods were bloody battles of politics, in terms of power politics. I don't say that in a critical way. This is where they were fighting for their lifeblood, in terms of who was going to control the Fund.

These same concepts carried over to the Bank, but not with the same degree of self-analysis or independent analysis. It was more that here was a starting point, let the burden of proof be on someone else who wishes to justify the distinction in terms of the management of the two institutions.

Q: I wonder if we might talk about the time period when the Bank was actually getting under way, in other words, the period immediately after the Savannah Conference. I understand it had been generally agreed that the United States government would find a president for the Bank. Was this so, and how did it work out?

Luxford: In the planning for the Fund -- I start there again because the Bank and Fund managements are functions of each other -- in the planning of the Fund, there were -- there was a strong group in the United States that had always thought Harry White would make an excellent managing director for the Fund. There was an equally strong group who hated his guts and would have done anything they could to have prevented it. I may say this, that on the whole White was one of the most popular men at

Bretton Woods. I'm not addressing myself necessarily to the British delegation or to some of the Western European delegations. I think they highly respected him. But in terms of Latin America and elsewhere, so many countries having dealt with the man for years in various problems, had confidence that here is the man who will understand our problem and who, if he sees our problem, will fight, and he's not afraid to fight. They were afraid that they would be submerged by an administration by people who had no real knowledge or any real sympathy for their problems. So again the death of Roosevelt created problems, in that you had a complete switchover in the executive branch of the government, as witness the fact that by the time we got to the British loan and to Savannah, and Savannah was immediately following the British loan negotiations, Frederick Moore Vinson was the Secretary of the Treasury. Vinson was at Bretton Woods, and Vinson, Bernstein, Harry White and I used to sit in our room (Bernstein's and my room, we had a large room up there) and discuss all phases of the problems that were going on at Bretton Woods, postwar, and we really used that as a period of educating Vinson. Nobody could see that he was the man that was coming in as Secretary of the Treasury, but he liked to drink bourbon, we liked to drink bourbon, and this would start at 1 or 2 in the morning when we got through work and go through to the wee hours of the night. We spent that time educating that man on the problems of world economics.

Q: This was before Savannah that you're talking about?

Luxford: I'm talking about Bretton Woods, where Vinson first got his indoctrination into the problems. He was pulled in there for political reasons, to begin with. He always had warm relations on the Hill. Morgenthau was delighted to have him, because he knew he could work with Vinson. What we did was to educate Vinson. We took the opportunity, and I know he was anxious for the opportunity to really learn something about the problems. But he'd always -- Keynes and he never saw eye to eye, in terms of personality clash. You know Keynes was a highly controversial figure then, and any Congressman who could yap at Keynes took the occasion to do it, and this gave Vinson the opportunity to show that he wasn't going to be sucked in by Keynes. It was a chip on the shoulder attitude.

Well, I say all of this because when Vinson became Secretary of the Treasury, he had the highest respect for Harry White, but he never had the personal relationship or friendship for White that perhaps he'd had for Eddie Bernstein and me. He would come talk to us about problems, and talk with Harry about it, but you had a feeling that perhaps Bernstein and I had the confidence of Vinson to a greater extent than White.

Vinson also at this time -- incidentally, this is Edward Bernstein -- Vinson at this time also was beginning to get the indoctrination by the banking community in terms of the bonds. How are we going to sell these bonds? And mind you, this happens to every Secretary of the Treasury when he comes into office -- how are you going to sell these bonds? We were still going through the war loans and he was having his problems. He was viewing the problem of selling the Bank's bonds in the light of what he was learning with regard to selling US government bonds, which was all a new experience to him. Dan Bell was really operating it as Under Secretary, but obviously he would discuss these problems, and the bankers would come down before every big issue of US government bonds and they'd discuss the terms and the like, and it was a very interesting operation to a spectator in terms of what they'll tell you that you can do and can't do and so forth and so on.

So he was being indoctrinated, we have got to have a US president for the Bank. Mind you, there was never any difficulty about that. We'd all agreed there should be a US president for the Bank, the only question was who he should be. And he was also having discussions with others, because if there was one man that was hated, well hated, it was Harry White, and Vinson didn't like to run a shop in which he was having to constantly carry the battle for a fighter like White.

Q: He was hated in the banking community?

Luxford: Oh, White was hated in the banking community as perhaps no other man in the United States has been hated. He was equally hated by people within the departments of every part of the executive branch of the government who had to deal with him -- I say, by some people; he was loved by others. I have seen occasions on which White upset the position of a Cabinet officer like nobody's business, and they remembered it. He would do it in various ways. He would do it either by crucifying them in an open discussion, with other people watching, or alternatively by calling one of his trusted friends in that department and saying, "Hey, set this guy straight."

No, he was a very strong personality. He was hated by many as well as loved by a few. Perhaps that's an easier way to describe it.

Q: The point was, Vinson was aware of this.

Luxford: Oh, my, yes. He had high respect for Harry White, but he could naturally have reservations as to whether or not he wanted to ride this along. And he had the further reason -- everyone would concede the Bank should be run by a US president, the only question was whether or not that precluded a US national from being the head of the Fund. He soon sensed that Vinson was going to come out saying we can't have both. At Savannah, this came as a shock to a number of delegations that White was not going to be the head, because they would have been happy to have him as head of the Fund and forget what was going to happen to the Bank. This was a thing that came to me repeatedly and came to Ed Bernstein because they knew we were close to Vinson. I can recall that Ed Bernstein and I spent two evenings down there, the whole evenings, just going hammer and tong at Vinson on this one score, that it was going to take a strong man like White to be able to make something out of the Fund during the critical period that we were going into. And he said no, it wasn't going to be, willy-nilly.

I do know this, that even Keynes spoke to Vinson and told him that they would prefer White to be the head of the Fund, and they would do that and still concede the United States the presidency of the Bank. Keynes having seen this, became one of White's greatest supporters. In other words, he then saw that White politically would be a far greater protection to the British and European interests than would a man of Vinson's mentality as Secretary of the Treasury.

Q: When did Vinson became Secretary of the Treasury?

Luxford: Two or three days before Potsdam. He was supposed to go to Potsdam with Truman. Morgenthau was upset because he thought he wasn't getting the support he should get out of Truman on the German program, and he went over and had a showdown, and he ended up resigning right then and there. So Vinson didn't get to go to Potsdam.

Q: So he'd been Secretary of the Treasury for seven or eight months before Savannah.

Luxford: Well, you can check the dates. I wouldn't want to say.

Well, all of this means that there was this kind of interregnum occurring between transitions of administrations, and personalities involved, that made it -- well, left no question whatever but what the head of the Bank would be an American. The only question that remained was who that American was going to be, and Vinson had a very major voice in that decision.

I would again recall that I had long and very serious meetings with Vinson on the question of whether or not he was going to name someone from Wall Street to be head of the Bank. He was having great pressure put on him in particular for Lew Douglas, and I did not -- there were a number of others thought that would be a tragedy, were the Bank to go in under the auspices of "Wall Street bankers," and the weapon that was being used was that if you don't you won't be able to sell your bonds. Whereas what we were most alarmed about was, you'd start with people who were hostile to the whole concept of the Bank and Fund. We had fought these people for years. They had bitterly opposed, in the early days, both the Bank and the Fund, and as far as I'm concerned, it was a tactical maneuver to accept the Bank and oppose the Fund. It wasn't that they had any real love for either. It was that this was a tactical device so they wouldn't appear to be negative across the board. But they saw or thought they saw where they might make a fight and control the management of the Bank, they knew damn well they'd never get the management of the Fund. I'm not addressing myself in saying that to Douglas having this point of view. I wouldn't know what Douglas's point of view was. All I know is that the people who were pushing for Douglas were the group who challenged the fundamentals of the Bank and Fund.

Q: Douglas was at that time in what position?

Luxford: President of not Equitable, was it Mutual of New York? One of the large insurance companies. Then you can see, we ended up with Eugene Meyer. And we were all very happy. He was the second choice, so to speak, after Douglas. I won't say he was the second choice, I'd say he was the compromise, and I'll be very candid with you, nobody consulted me about these things, although I would be shouting my head off about it. Vinson was the greatest guy in the world to listen and listen very carefully and argue with you, but never once tipping his hand as to what he was going to do. Actually this is what the British hated in the British loan negotiations. He listened and listened and listened, but he was a wonderful poker player, he'd never say anything, and that was true of the way he handled NAC[1]. He had everybody there saying how much will go to the British, but never once did he pick the figure until the last minute.

Well, I think this, that Vinson was making a happy choice, that the market, to the extent that that was a problem, would not regard Eugene Meyer as a wild-eyed liberal. On the

[1] National Advisory Council

other hand, those people that knew Meyer and more particularly knew what he was doing in the Washington Post had confidence that that type of man was the kind of a man that could do a good job.

We had a very vivid example of this when Ned Brown was named to the US delegation going to Bretton Woods. He was president and chairman of the board of First National of Chicago. I know Bernstein said, "For God's sake, we're bringing a banker right into this thing when they're all opposed to it."

Morgenthau said, "No, I've dealt with Brown a long while. He's got great integrity. If Brown goes to Bretton Woods he'll go there because he believes in it. He won't go and in any sense take advantage of his position to hurt us later."

Well, the next day up comes Brown. And it was Eddie's job and my job to educate him, because he said, "I'm not going up there unless I'm satisfied this is a good deal." Well, Brown spent the better part of two weeks day and night with us, and we just went hammer and tongs at this proposition, why you needed the Bank and the Fund.

Q: You're talking about the Bretton Woods conference.

Luxford: That's right, to give you an example of where you have a man of that caliber -- at Bretton Woods we could not have had a better supporter, and he knew about these provisions and articles. He was a lawyer in addition to everything else. He knew that he could answer, and it made the best thing in the world. When Ned Brown, whom people realized was sympathetic to this, said, "You can't do this," it wasn't a wild-eyed New Dealer saying it, it was somebody who spoke with real authority and the Europeans would listen to him.

So, too, we had the same kind of feeling that given a man with that open-mindedness and integrity, we would not have any trouble with him in terms of management. And it was in that context that we would welcome a man like Eugene Meyer. Here was a man that by his whole record indicated a willingness to re-examine things. His own paper had shifted from a pretty stogy Republican paper down to not a Democratic paper but a first-class liberal paper, in terms of being willing to judge every issue on its merits, and he had taken a forward position in the international field early in the game.

So that's about how we got that done.

Q: Was there any consideration that Harry White be president of the Bank?

Luxford: No. Not under the Vinson regime. Incidentally, there were rumors that -- while we were down at Savannah, there were rumors that Harry White's nomination was being held up because of either some remarks -- well, Winchell had broadcast over the radio during the Savannah conference that his nomination was being held up at the White House because of his tie with one of these Red operations. I think it was the one coming out of

Canada. Finally down at Savannah Eddie and I just asked Vinson, "Is this the reason you're doing this? It would make sense. We're not fussing about it if that's the basis of it, but for God's sake let's come down and deal with these things on their merits."

He said, "That hasn't a thing to do with it. Don't worry about that. That just isn't in the picture."

Q: Did Vinson himself interfere at all in the Bank?

Luxford: Yes. Perhaps it was part of, I hate to say deviousness on my part, but I was not the least bit troubled about fighting New York by getting Vinson interested in taking the presidency of the Bank. I say that for the same reason that I have described what we did with Brown in terms of developing enthusiasm in the man, seeing that he understood the situation. Brown would have been an ideal man. We couldn't get him. We couldn't even get him as a good candidate for the position. On the same basis, we had this same go-round with Vinson at Bretton Woods. He'd had the benefit of working on these things at Savannah, and prior to that in terms that half of his work was in the international economic side. He was getting a real indoctrination, and I've always said that Vinson, while he had the cold fish attitude on the British loan, was making the most cautious appraisal of how much he could get for the British through Congress, and but for Vinson that British loan would never have got through Congress.

It's easy enough for everyone to say the loan should have been twice that amount. It's the guy that gets it through Congress that perhaps has reasons for what he did, and Vinson did a magnificent job on that.

Q: But what about Vinson's interest in the presidency of the Bank?

Luxford: Vinson was in this position in his career. He had come into the Secretary of the Treasuryship rather fortuitously. He had left the Court of Appeals bench at Roosevelt's request early in the war to do special work for Roosevelt. I don't think he regarded the Treasuryship as his dish of tea over any period of time. I talked with him about this after a speech one night. He was a good personal friend of Jimmie Byrnes, cronies, as with Truman. The three of them were cronies. But it was apparent even then that Byrnes's days were limited, that Byrnes was too high-handed in his attitude toward Truman. Vinson had discussed with me on two or three occasions going back and running for the Senate in Kentucky. He always loved politics. And I said, "Why start there?"

He said, "Look, with the caliber of the Senate we've got, junior Senator means nothing, if he's a good man. You go to the top in a hurry. I just like that kind of work."

But the trouble back then was, the judge just did not have the income. He had no real resources except those that he could draw from his salary, and it's very hard for a Cabinet officer or a man going places in the top echelons of the government to go too far without some other means of support. I remember he told me early in the game, he said, "Get out and get into private practice so you can get some financing to go ahead and move on the political side. But you'll never do it the other way."

Well, this is what he was saying -- "I'd like to become Senator, I can't do it, can't afford it. I don't know what I'm going to do."

The job he had as Secretary of the Treasury I think he regarded as transitory. He was being sounded out then for Secretary of State when Jimmie Byrnes was to leave, and he asked me -- he didn't want me to come over to the World Bank or the Fund, he wanted me to stay there with him, and I told him I couldn't afford it. He said, "I'll make you Assistant Secretary."

"That only makes it worse, then I have to do the entertaining and I haven't got the income for it."

He said, "Well, is there any job in the government that would keep you here in the government?"

I said, "Yes, if you go to State as Secretary I'll go over there as Assistant Secretary in charge of Administration."

He was a little surprised, but that was because I had some particular ideas on State Department and personnel. But I tried to show him where, given his position, he would be a lot better off as president of the World Bank than he would living hand to mouth as either Secretary of State or of Treasury. It was the same kind of decision *I* was being forced to make myself, on a much lesser scale. It wasn't that I didn't like the work in Treasury or wouldn't like the work in government, it was just getting damned hard to live, in terms of responsibilities.

So I've always had a feeling that, again it was a fortuitous matter of Stone dying and Vinson probably even then discussing with the President the possibility of him becoming president of the Bank, when he becomes Chief Justice. Again, I can see where Truman was saying, "This is the way we give you at least a little more income and certainly the prestige to which you're entitled, and a lifetime tenure."

Q: Was it -- Vinson or Byrnes, or the two together that finally selected Mr. Meyer?

Luxford: I don't know. I have guesses and opinions on this. My opinion is that they talked together, worked very closely together on these things, but that in the field of the Bank and the Fund, primary responsibility was in the Treasury, in the sense that we had succeeded in getting the Secretary of the Treasury named as the head of the National Advisory Council where Acheson was breaking his neck to get that for State. You had established a pattern in which primary responsibility in the international financial and economic field was in Treasury.

Vinson had the attitude that he was not out searching for authority, but he was very jealous of his prerogatives within his jurisdiction.

Interview 2

Luxford: To pick up the thread of the conversation on the last tape, I'm certain that Byrnes and Vinson were working as a team in terms of selection. I wouldn't have any way of knowing which of them had picked the name Meyer or whether either of them had, but knowing Vinson, I know that he would have a very strong position in terms of the selection of that character.

You mentioned the problem of why the executive directorships were divided in the way that they were, in terms of State and Treasury. I think this is part of the horse trading that both Vinson and Byrnes were experts at. They saw that there was a role for both in the international economics field. There was never any suggestion that Treasury was trying to make its own foreign policy. It was a question of what the relationships between the two should be in this field. And the happy compromise was that the Fund being primarily a problem with highly technical characteristics, and requiring the most intimate knowledge of the financial and fiscal policies of the United States, it was best that the United States executive director for the Fund should be the prerogative of the Secretary of the Treasury. Similarly that left the Bank for State Department, but bear in mind that Collado[1] was a choice that Treasury would have

[1] Pete Collado (Emilio Gabriel Collado) - State Department Economic Expert; first U.S. Director to World Bank; fired as part of Jack McCloy deal as president of World Bank; now Treasurer & Director, Standard of Jersey.

had no difficulty at all in accepting. They'd have been delighted to have a man like Collado.

Q: He had in fact been in the Treasury in his earlier years, had he not?

Luxford: That's right. I can tell you this, that before the death of Roosevelt, White expected to be -- I'm sure with a real basis for it -- to be the head of the Fund, and he wanted me to become US executive director of the Fund, and he talked to me several times about it, and I had been a little bit reluctant. I said, "That's nice, Harry, but you aren't really in a position to offer it."

He said, "Well, let's think in these terms. You're in a position to ask for it or to get it."

I was troubled about it, and I went one day to see Colonel (Bernard) Bernstein who was a good friend of White's as well as mine, and had been my boss in the Treasury before he went into the Army.

Q: This is Bernard Bernstein?

Luxford: Bernard Bernstein. He knew us both well, and I went to see him. He had an office down in the Tower Building, part time, for his New York office, and I went over and spent a couple of hours with him discussing this very problem. I said, "White and

I get along very well working as a team where we are equals, but I could never work under Harry White. And I'm a little bit worried that his concept of him being the head of the Fund and me being the US executive director would be that I would be under an obligation to support White on positions where I didn't happen to agree with him."

It was a soul-searching proposition -- the idea of being executive director of the Fund would have been attractive. I liked the field. I liked the people. But I was sorely troubled about working in a relationship with White in which he would think that he was speaking for the United States, when in fact I would be speaking for the United States. Fortunately, in this context at least, I never had to resolve that question.

But to get back, you will note too that the State Department was always the vice governor of the US delegation, and this was just a working relationship that evolved, and its good sense is recognized by the fact that that's very largely what Treasury and State have done ever since. There was never any signed agreement anyone could balk at, but it is a practical way of dealing with a touchy problem.

Q: Now I wonder if you could tell us something about what was happening in the Bank after Savannah, when the Bank was really getting organized? You came to the Bank immediately after Savannah?

Luxford: I came as temporary alternate executive director of the Bank. Vinson asked me what job I wanted in the Bank and the Fund. I told him that I would prefer to be general counsel of the Bank, in terms of my long-range interests. I thought that the role of the lawyer in the Bank would be more attractive, and secondly I knew that E. M. Bernstein wanted to be research director of the Fund. I knew White was going to be executive director, and I had a feeling that it was wrong for Treasury to commit all of its top staff to one institution and not to the other. The trouble was that there was no president of the Bank at this early day to carry on discussions of who was going to get these positions. Gutt[1] immediately asked me to be general counsel of the Fund, and I told him that under the circumstances I was honored but that I preferred to go with the Bank. Also this would make it possible for Brenner to take the assistant general counselship of the Fund, for it would have been very difficult to have had two of us in those positions.

Well, when I get around to the appointment of Meyer, it became obvious that Meyer had other things on his mind, and Vinson said, "Well, go see Meyer," so I went to see him. He said, "Look, I want you on the staff. I want you as assistant general counsel. I don't want you as general counsel, you're too young -- I think I would have trouble in terms of pulling other men in if I had to pull in men older than you in pulling a staff together. Play along with me, and I assure you that you won't

[1] First Managing Director of the Fund, Belgian

lose by it. More than that, I assure you you'll get the same pay that you would have as general counsel of the Fund."

I didn't like it. At the same time, I had a great deal of confidence in Meyer. I was satisfied that he was not being pushed into this position, and I decided myself, rather than to resort to pressure, I would rather go in and work with Meyer on his terms than to have him feel that I was forced down his throat, so that's the deal we made. I went over as assistant general counsel, and, oh, I guess it was maybe ten days later, Chester McLain came in as general counsel. I had never met him until he came in.

The early days of the board, Pete Collado was acting as chairman of the board in the absence of a president. The meetings were, by and large, a continuation of the friendly spirit that had developed at Bretton Woods and Savannah. There was a little byplay going on in terms of this or that, but bear in mind, without a chief executive officer, there was very little that could be done in the way of actual operations.

I think one of the first things that was done before Meyer took office was of course calling in our first capital money. There were minor discussions with regard to -- none of particular substance. So I think that about covers as much as I can give you, in terms of policy deliberations prior to Meyer taking office -- housekeeping duties.

Q: What were some of the issues that arose after Meyer became president? Did the question of a bond issue begin to be discussed?

Luxford: This I think you would do better to get from Hooker[1] and from Collado, because you must bear in mind, as assistant general counsel I did not sit in on board meetings. I knew in general what was going on, but in terms of firsthand witness to these matters you'd be better off to get them, on what was said in board meetings.

Q: Did the staff begin to explore policy questions and prepare papers on lending policy, borrowing policy, and so on?

Luxford: Again I can't speak for the staff. Speaking for myself, no. My own opinion of what was happening was that McLain had a very special relationship with Meyer, and obviously -- I say obviously -- it was McLain who was carrying on these discussions with Meyer. Whether and to what extent others were consulted, it's hard for me to know. You could sense that Meyer was confronted with a strong board, being led by Collado, but Collado had the moral backing of a number of the directors, but not official backing, in the sense that governments weren't going to come to blows over these issues. But as far as the moral

[1] Hooker, ex-State Department; Collado Assistant Executive Director following me

support, you would sense it in talking to various directors of the board. The board was not going to take laying down that the executive was going to do the operating and call them in to approve it. You'll hear rumors, but I don't think you should fill your record with rumors and secondhand information when firsthand information is available.

Q: Were there any loan applications outstanding by say the fall of ?

Luxford: Yes. I think Chile filed an application. I don't think I ever saw it, but I know there was some difficulty about that, because of some suggestion that the US executive director intimated to Chile that they'd get the loan. There may have been others. Very soon, of course, we get away from this whole concept of loan applications; it became discussions, and you filed the request for a loan after you decided to grant a loan.

Q: I don't understand that. Will you explain this?

Luxford: I would not know who to give credit to for this approach. I know Collado's experience in representing State in Export-Import Bank deliberations could have been one source of origin. Another could have been McLain or McCloy. But the Bank was very careful early in the game, and I think it's still the case today -- no country files an application for a loan until it has been decided to grant that loan, so that no country is in the position of having been formally turned down in an application by the World Bank. These things are done informally. The country will come in and say, "We've got a project." Well, let's look it over, let's get the data. Never any application, until you finally got the thing to the point where you're satisfied that this is a loan that can be made, and they say, "Well, let's put something in the files." But diplomatically and politically it's obviously the proper way to act. Countries do not like to lose face by announcing that the World Bank rejected their loan today. And yet, if you were to look at it as a practical matter, in the early days the Bank would have had to reject hundreds of applications because they weren't well conceived, in terms of the problems of that time.

Q: Have you any idea how the Bank got started on its investigation of the French loan?

Luxford: Well, I have, and I've had discussions with the French, off the record discussions with them early in the game on that one, and I told them that it was going to create some real problems for the Bank in terms of being the first loan, because as far as I could see it was basically a balance of payments loan. They said, "Well, we've got a plan," and I said that was going to be their job to sell to the Bank, but this was a project, a specific project within the terms of the articles of agreement for the Bank to finance.

You might be interested in talking to my partner John Pehle who served as counsel for the French on those loan negotiations, and I'm sure that he could give you a better fill in on what the French were thinking about than I could.

I was in -- I'm not sure, I think I was in Geneva when that loan was negotiated. I was there on the ITO (International Trade Organization, i.e. GATT) so that my knowledge of that particular loan is only at the very early stage, and I think I went over one of the loan agreements on it, one of the final drafts.

Q: Was there any feeling on the part of the Bank staff or elsewhere that operations were moving very slowly?

Luxford: Oh, yes, there was a great deal of feeling of that character. I think that you had a feeling that in terms of the Meyer regime -- I'm going back now from the French loan, going back to the Meyer regime -- that damn little was being accomplished. That there were too many board meetings and very little time being addressed to the actual day to day work of the Bank. It was a difficult time. It takes real time to pick staff. If you have -- what was my impression, that it was McLain and Meyer making the decisions, and they were busy fighting a flanking battle with the board, they had damn little time for anything else. And Meyer -- from what little I saw of him, in discussing problems with him after he became president, I was disillusioned, very quickly disillusioned, not at all in terms of the man or in terms of his point of view, but in terms of -- as far as I was concerned, he was senile. I mentioned to you earlier that -- the illustration that he used to me in talking about the French loan the first time was, "Well, the French are going to come in and want to borrow a lot of French francs."

I rather patiently explained to him that the French didn't need to come to us for French francs, they'd be coming for dollars. It took a long while to explain that to him, only on the basis that, like most American bankers, he had a banking background with the board of governors[1] -- they didn't then know beans about foreign exchange, they didn't know beans about balance of payments problems, and to him the problem was as simple as though they were going to lend French francs to the French. So I would have to say that Meyer never came to grips with the problems of the Bank, and I question whether or not he had the vigor and vitality at his age to do it. As a consequence, McLain was de facto president of the Bank. When we talk about Meyer, it's my impression that it was a battle between McLain and Collado. My relationship was never particularly close to McLain. You could expect that it might not be, my having been appointed before he was. I tried to cooperate. I think he respected me. Obviously his background was utterly different

[1]i.e., Federal Reserve Board

than mine, his approach to problems was utterly different. He was a practicing lawyer, a trial lawyer, and thought you slugged things out, whereas in government very frequently you should negotiate about them, especially in dealing with foreign countries. There's no need to insult them. There's no need of assuming that anybody who'd had previous government experience was either a bureaucrat or a longhair and couldn't be practical. Yet that was the feeling I think that McLain, coming out of the Cravath law firm, (Cravath, Henderson and de Gersdorff) had -- I think he had that attitude toward government and government people. He felt that he was making a great sacrifice to work with the Bank, undoubtedly he was making a financial sacrifice. That's a decision you make, and you can't keep resenting that and resenting the people you're working with on account of it.

Q: Were working parties set up during Meyer's regime to study loans?

Luxford: So far as I know, none. There could have been.

Q: Were any investigations of lending or borrowing made?

Luxford: My problem is this, that the Bank was set up on paper in April, May -- began to jell maybe within a month of that time, but by October -- as I recall, it was October -- I was over in London on the first meeting of ITO, six weeks at that time, and beginning June the following year, there were problems on ITO that were going on even during this period, so a substantial part of my work was in a field not directly related to loan operations. We were also researching various points on the legal side, issues that were coming up, and I introduced some research along those lines, but as far as actual loan discussions, I have little or no recollection of that.

Q: Were there any legal interpretations at this period which you think should be mentioned?

Luxford: There were of course the legal interpretations that Congress had directed the US executive director to obtain interpretations on a couple of points, as an incident due to the fact of the Bretton Woods agreement, as part of a compromise. In my personal opinion, there was a lot of fussing and laboring over a very obvious kind of law. We would not have conceded for a minute these requests for interpretation unless we as lawyers know in advance that they were perfectly appropriate interpretations for the Bank to make. In other words, we weren't going to start out by asking the Bank to make an interpretation that would run counter to its own articles of agreement. But I know that there was an awful lot of time wasted around here, on interpretations. And I thought the opinion we wrote was crazy. As I recall, there was very little reasoning to it, just, "I have spoken, this is it."

In retrospect, there's a certain merit to not giving reasons, because they don't come to haunt you the next time you come to interpret, but at the time I thought it was much ado about nothing.

Q: I wonder if you could tell us --

Luxford: -- oh, there was another problem came up, and this was so vague in my recollection that I will not try to do more than point out that as an incident to our first bond issue, we -- the New York market, counsel for the New York investors, insisted on an opinion on the part of the board, not an opinion but an interpretation, which, given this long period of time and the fact that I wasn't here actually working on it -- I think I was in Geneva at the time -- was addressed to the availability of the US guarantee to cover these resources, and I think it also was addressed to the fact that the obligation of the United States to honor its guarantee was a binding obligation regardless of whether any country met its share of the guarantee. It was not couched in terms of the United States, but the full purpose of it was to establish that when they bought the bonds, they were getting the specific guarantee of the United States, and the United States could never say, we don't have to because someone else has not. That's what it was -- which was no serious problem, because that definitely was the intent.

Q: Could you tell us about the conditions of Mr. Meyer's leaving and Mr. McCloy's arriving?

Luxford: Only, again, and this you should check with men like Collado and Hooker -- I was in a peculiar position, in that McLain at that point (things changed later as we got better acquainted, but at that point) McLain, for probably good reasons, I'm just speculating, assumed that I must have been part of the (Collado) administration cabal, namely, that by virtue of my close ties with State, Treasury and the like in the past, obviously probably knew that I had something to do with ditching Lew Douglas -- could very well feel that I wasn't the guy he wanted to confide in with regard to problems he was having with Collado et al. On the other hand, I had never been particularly close to Pete (Collado). We were professional colleagues, he speaking for State on many occasions, me for Treasury. I respected Pete a great deal and we were friendly, but again, given this posture of me being in the executive side of the Bank at a time when he was fighting in terms of the paramountcy of the executive directors, he had no particular interest in confiding in me. I felt that I could not be in the position of going around the back of the Meyer-McLain group and dealing with Collado. So it left me in a position of only hearing secondhand what was going on, and not firsthand, from either side. I've never been particularly interested in the details of these kinds of battles. You've been through hundreds of them when you're in government. I would say this, that when the announcement of Meyer's resignation occurred, and there was this very substantial delay in naming a successor, I had the impression, very strong impression, McLain told me in so many words, that if Collado was named president he would resign on the spot. Again that could have come through somebody else that he'd said that in board meeting. It's too long to go to try to reconcile. It's only the fact, out of that statement, that I'm certain of, and I think, after the resignation, I went around and talked to Pete, on one occasion that I can recall, and I asked him, "What the devil's happening here?" And he said, "Well, it's a real knock down and drag out fight."

Then I said, "Pete, that's not good for the Bank, A, not to have a president, and B, not to be doing anything in the meantime."

He said, "Well, what can we do?"

I said, "In terms of your own position, if you want to knock the heart right out of the position of your opponents, put out a bond issue and put it out without waiting." We could get one out in a month's time. This could establish, once and for all, whether or not Wall St. can call the tune on our bond issue. Well, he didn't have the guts to do it.

Q: Could he have done it?

Luxford: Why couldn't he? He was de facto chairman of the board, the executive directors were with him. But this would have been the beginning of the end -- either the issue would have been bought, or it wouldn't, and Pete and I were completely satisfied that when the chips were down, we'd been in the Treasury too long, you'd sell the issue.

Q: So you don't feel it was necessary to have Wall St. management in the Bank in order to sell the bonds?

Luxford: Not for that reason. Not for that reason, no. I wouldn't have put out a big issue. I just would have put out an issue big enough to demonstrate it could be done.

Just to finish up on that, following the announcement of McCloy's appointment, I had known McCloy when he was Assistant Secretary of the Army. We were working on the liberated areas' problems with McCloy. In fact, I'd gone out to the West Coast with McCloy on an emergency trip when he got into the problem of the Japanese on the West Coast, and the Army didn't know what to do. They'd been given instructions to move them out of the cities, and on the other hand, their property was being grabbed by anyone who could take it. There was no one protecting it, and so Treasury went out and we set up a protectorate system, blocking their property and setting up a system so that the Federal Reserve Bank would in effect take over temporarily the trusteeship and protectorship of the property. But I had known

McCloy before, and I thought that if we had to have a Wall Street man, he was obviously a very happy choice. He happened to be married to -- his wife and Lew Douglas's wife are sisters, if I recall correctly. But I soon got a call from one of his counsels, asking for advice on the tax side of the contract that McCloy was negotiating with the Bank. I don't know why he called me instead of McLain. Bear in mind, I'm sure that it was McLain that sold McCloy on taking this job.

So I went in to see McLain, I said, "Look, Collado's resignation has been forced, and if this is an indication that there isn't a place in the Bank for liberals or people who do not share your point of view on these operations, then I'm resigning too."

He said, "Oh, no. Don't feel that at all. You've conducted yourself throughout this with propriety. You haven't been involved, and I don't want you in any respect to feel you can't express your view on anything any way you want to, and I want you to remain here." Well, on that basis I was happy enough to ride along, and I'm glad I did. But for a while I was very much upset.

Q: This interview you say was with McLain?

Luxford: Yes. This was after McCloy was appointed. Well, with the arrival of McCloy, Black and Garner, you had the first move of the Bank towards really going into operations. That would be natural in the sense that there was no longer any debating in the board, they had time to do their work. The board was a very chastened -- and curiously enough, as you'd expect of men who'd been Collado's supporters one day, they were just as warm in seeking to become the supporters of McCloy -- as would be natural. Again, their personal feelings had nothing to do with what they had to do in terms of their responsibilities as government officers. And in the final analysis, they obviously did not have the authority or courage to try to name Collado against the wishes of the United States, on the one hand, or the authority or courage to turn down the nomination by the United States, once McCloy was there.

Q: Do you know anything about the behind the scenes negotiations with the United States government itself on this issue?

Luxford: I only know them again by hearsay, because I can't tell you for certain who's left who can give you this. Some of it might come from McCloy. I doubt it.

The very definite impression, and it's been told to me later on, was that the same fight that was going on here, Collado versus McLain, was also going on in the US government. Whatever you may think of John Snyder -- I never thought he was a particularly strong Secretary of the Treasury -- he was new to his job at this point. He was even newer in terms of what the hell is the Bank and the Fund. And for the same reasons that I'm certain Vinson was troubled about the threat of the bankers that they'd never sell a bond in New York, Snyder would have been troubled by the same thing. At the same time, I think his instincts would have been to support Collado. Otherwise there wouldn't have been any fight. I'm certain that Collado did not come into this fight without the backing of NAC. He was not carrying on a private little fight of his own. He was in here battling with the authority of NAC. But bear this in mind -- it was a NAC without a strong man as a chairman, and Collado was a strong man, an articulate man, and I'm sure that he would present these problems and the NAC say "Yes, yes, go ahead," -- not really focusing on what the implications were of what they were doing. In other words, the Meyer-Collado fight was not something where Collado didn't have the backing of the United States. If I criticize the United States it's probably that there was not close enough liaison within the United States to hearing the other side of the question, so that they turned out to look foolish. Collado had very close relations of course with Will Clayton, who was the acting NAC member I believe at that time for the State Department.

As a consequence -- well, Collado was always an ambitious man. More power to him for being ambitious. And also, devious, but not in a sense that I'm going to be critical of him. He'd been in infighting in government for long enough that he was an expert at it. It just so happened he got licked. But, to come back to your question -- in that context, I would say McCloy called the tune. This is not a question of McCloy pushing for the job. It was embarrassing. It was comparable, to some extent, to the final appointment, the last month, of Woodword to be Assistant Secretary of State for Latin America, after 20 people had turned it down. Because, as I would put it, the bankers on the street wanted a clear-cut victory, no compromise. They wanted it -- they felt that they wanted it, or else. The Treasury and the US government felt they had to have someone of that ilk. McCloy was obviously -- could meet the qualifications from the point of view of the government, because the government knew McCloy was a man we would work with. His work in the liberated areas was the clearest proof that the man had to appreciate the problems.

At the same time -- I think this was largely on the advice of McLain, and McLain and McCloy were extremely close. They'd come from the same law firm. McLain was probably the stronger of the two, and I'm sure that he was the one that was dictating the terms for capitulation. And in effect, the capitulation was that McCloy would take the job on the condition that the first time he didn't have complete US support, he resigned. That's it.

Q: He did resign in '49 –

Luxford: -- that had nothing whatsoever to do with that. That was to become High Commissioner in Berlin. At the time of his resignation, there was another battle going on in terms of the succession, essentially between Garner and Black.

But I think the conditions that McCloy laid down have been carried over as far as Black is concerned, not in terms of Black -- neither Black nor McCloy function in terms, say, of "take it or leave it," but I'm sure McLain hammered it out, and Black has had the benefit of that.

Q: Once Mr. McCloy became president, what sorts of policy decisions began to be made? I wonder if you could talk about the rule of the economists in the early days in project planning and so on, some of the economic factors.

Luxford: Well, I would say this to you -- that in the initial operating setup of the Bank was a single loan department, with a research department as a separate department, and in theory the head of research being on the same status as the head of the loan department and the head of the legal department. And I would regard those three as the policy making departments of the Bank, where together they furnished the Bank with a pool of policy making. McCloy's first step, of course, was bringing Garner in as vice president. And Black in as head of -- well, as executive director on the one hand, and almost director of marketing on the other. In fact, he brought in a man from Bankers Trust who took the position, a good man, but Black's job was to go out of here and sell those bonds, and indeed he was the sweetest bond salesman you've ever seen. The technical problems of selling the Bank's bonds were real, in terms of its long-range program. You had to get the laws changed in various states. You had to sell -- well, is the security behind these bonds? Especially if you're going to have a big market and an active market for the securities.

Black had wonderful experience of this character in New York, his last place being with Chase, and that was his job. But in time he developed a much broader basis. He was not a narrow gauge salesman. You see the results today.

But Garner represented, at least in my opinion, the McLain mentality -- very provincial initially in his outlook, extremely suspicious that any foreigner was probably going to try to cheat you. If there was a polite way to say something to someone who was discussing a loan and an impolite way, he would unconsciously select the impolite way. This is not any reflection. Garner didn't know he was rude. Garner, in the Southern tradition, could be very courtly. But when his banking tradition would get the better of him, and he was judging these in terms of "they're all probably lousy goddamned loans," and he had the feeling, like a banker in this country can call the tune on most corporations in terms of, "these are the terms you're going to get for credit, and you change your operations this way or else " that rubbed off on almost every interview you'd have, in the early days. Obviously Garner's come an awfully long ways, and so did McLain, in his period of time, but in terms of their initial posture, I don't think there was a borrower that came in to borrow from the Bank that didn't just hate Garner's guts, and perhaps McLain's, in the early days.

Nevertheless, Garner was an operator, and every division head reported to Garner. I don't know whether McLain did or not. I doubt that -- even in terms of the chart -- I think on the chart, he probably did, though. But the fact is, the Bank was then being run by McCloy, McLain, and Garner. Black sat in on what was going on, but in the early days I don't think he was having any real impact on policy. It was those three, with McLain and Garner being the intellectual doers of the Bank, -- McCloy has a very fine mind and very deep understanding, but the execution was occurring primarily through Garner and McLain, and the negotiations would end up in their hands, as against McCloy getting himself into the middle of these negotiations.

And Garner is a good administrator. But Garner was presiding over staff loan committees most of the time. McCloy would be, if he were in and present, but whether McCloy was there or not, Garner had his piece to say, and it took a courageous man to talk back to Garner, particularly when you would have the impression, rightly or wrongly, that before the meeting there'd been an earlier meeting of Garner, McCloy and McLain, at which the problem had been resolved. Now we go to staff loan committee meetings, and pass on these problems.

Well, it took a very courageous man to stand up and say, "I don't agree with what you're doing," because Garner or

McLain, depending on which one had had a breakfast that didn't agree with him, would bang you over the head. Still, if you were persistent -- I don't want to exaggerate, but it wasn't a pleasant thing -- to people who had tough enough skins, yes, you could do it. But I'm thinking of particular foreign nationals in positions of responsibility. It must have been a rude awakening to them, to be treated as though they didn't know what the hell they were talking about, whether they did or they didn't.

But this problem was not so bad for Iliff, in the loan department, in the sense that they had concrete proposals, and were supposed to be servicing a loan application, which -- McCloy, Garner, or McLain wanted to make loans.

But it was the unfortunate role, and yet the necessary role, of the economists to first have to establish a credit basis (what is the long-term prognosis for this kind of thing?) and if you had the instinctive feeling of a man like Garner, at least at this time, that none of them were any darned good, what are those long-haired professors trying to tell me they're good for? So it was awfully easy to sneer at them, even though their material ultimately went into the loan committee report that would go up to the Bank's board of executive directors and be considered. It wasn't a pleasant job. The economists were infinitely more cognizant of the nature of the problem the Bank was dealing with, its inadequacy in terms of the magnitude of the problem, and in terms also of the inadequacies of the policies that were evolving in terms of the Bank, and to the extent that they would address themselves to that, they took the brunt of the Garner-McLain anger.

Q: Can you illustrate this difference of opinion with respect to any specific loan, for example, or issue? Is this a difference in just looking at things from the financial point of view, or looking at them from the total economic point of view?

Luxford: Well, I will illustrate it in many ways. Let me try to give you a couple. McCloy's first speeches always carried this note: "I'm in a temporary job with an institution that I hope is temporary. Our job is to be the catalytic agent to get private investment back into the international field. You couldn't possibly provide the financing that's going to be necessary for economic development in all of these countries. They have got to provide the basis of good economic climate to permit and attract foreign capital. But the happiest day of my life will be the day we can close the Bank up and say we've done our job and private capital has now moved in to take over the job."

Now, it is not for me to say whether that was not merely a technique of getting the camel's head under the tent of American confidence, on the one hand, or whether McCloy really believed it. I could state the statements as made and perhaps agree with them -- if American private capital will do the job, fine, you don't need any World Bank, I agree with that. But it begs the question as to whether or not there was any possibility of private capital doing the stuff. And I think that it was shocking to the staff, it was shocking I think to the people on the staff who had done any thinking on this problem -- I'm not talking about the operating people, I'm talking about economists and others who had been working with it for a period of time -- to hear this kind of statement being made. They just didn't ring true. They didn't ring sincere. Either they were the product of ignorance, or of bad public relations. And there would be complaints about that. "What are you making these kinds of statements for?" But you got short shrift on that. I always thought that the fellow who wrote the speeches for an important political officer or anyone else was making policy in a very fundamental form, because once you get the man to make the statement, he begins to believe it, until somebody writes a speech to a different effect.

Now, I give that as one illustration. The second type of illustration I would give is the great difficulty some of the economists had of educating the operating people, Black, Garner, McCloy, McLain, to the proposition that the countries of Europe, in going through their programs of reconstruction, were in desperate need of what amounted to balance of payments loans; that they had reproductive capacity to produce the heavy capital goods, even despite the war, for a good part of their reconstruction, but what was happening was that that was placing a very serious burden on their balance of payments, in terms of consumption goods that they needed. To give full credit to the management of the Bank, there is no question about the fact that this stretched the Articles of Agreement, but the Articles of Agreement had a provision just for this purpose, "except in special circumstances." And the economists hammered away at it, and I think many of them had their morale broken, in terms of being shouted down. Finally the Bank went along with it.

I think the Italian loan is the loan that I first associate that with. It was just about the time I left the Bank. The Bank properly and early took the position that it couldn't meet the problems of reconstruction in terms of the need in the postwar period, having Lend-Lease cut off on the one hand and the cold war on the other. And it really saw no reason to make a loan where there was not sufficient resources to make the economy viable, and that was the problem. We were dealing with it in large parts of Europe.

The need for Marshall Plan aid was obvious, but that called for real soul searching on the part of the Bank. I think McCloy did a -- I compliment him on his speech there. He urged the Congress not to make fuzzy loans that would only undermine the ability of the Bank to make loans subsequently; what they needed was in effect grants.

I would probably be critical myself that the Bank did not play a larger role in the administration of the Marshall Plan funds, one way or another, or seek to play a larger role. I can see why the Bank, from its own point of view, would say, "Let's not get ourselves confused with an agency that on the one hand is making grants, on the other hand is making loans. There'll be a temptation to make too many grants and not enough loans or vice versa."

Be that as it may from an institutional point of view, my regret is primarily that, giving Marshall Aid more of an international consultation premise, you would have been better off. Now, we did that in the early OEEC, where in effect you said to the countries, "You work out your needs and thrash out amongst yourselves what you're going to do in terms of formulating the program and implementing it." To that extent, OEEC filled a bill that the Bank might have filled on its own. It could be very well said that this should be the countries involved directly and not the rest of the world. I think the Bank could have been more helpful than that, but I see it in a broader context, that ICA aid seemed to be a matter of merely financing Western Europe, as it did within a reasonably short period of time, left the United States with what I regard as a ridiculous position with the rest of the world.

I'm amazed even today when I go out to a country like Turkey to see huge apartment buildings -- all filled as offices for U.S. ICA experts -- for one little country, Turkey. Yet I know if I want information on Turkey I can get far better information out of the Fund and get it in a minute. It's Parkinson's Law at its worst. And I know if somebody wants to talk to Turkey, the people in the Fund who know the Turks can talk to them far better than our people.

What we have done, by trying to push full economic control in each country, has meant that we just loaded ourselves with such amount of personnel that it's criminal. The Bank and Fund, with their small staffs, probably are doing just as good a job. And politically, the United States is in the very bad position of having to call the tune, instead of having an international institution calling the tune.

I made a speech not long ago, that this part of the program of Kennedy for Latin America had not been given sufficient emphasis, of forcing the countries to work out jointly their sights, rather than having the United States say "You don't get any aid if you can't do thus and so."

I think to revert back to illustrations of what was wrong in the early days of the Bank, the Bank's management misconceived the amount that it could dictate to a country by virtue of lending them money.

Q: I would like to ask about the feeling of other governments that you have approached with respect to fiscal and monetary policies, but we're almost at the end of this tape, so I wonder if we'd better stop for the moment.

Luxford: All right. I'll be around here, and if there are further things you want from time to time, let me know.