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Transcript of interview with

Luis Machado

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Interview with Luis Machado

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Q: Would you tell us who you are and a little bit about your background before coming to the Bank.

Machado: Well, I always find it embarrassing to talk about myself because if I tell all the truth, some people will question why I have reached the position I have in life; and if I don't tell all the truth, then I may not be doing justice to myself. I'll tell you something about my background.

Q: Your name . . .

Machado: My name is Luis Machado. I am Cuban by birth. For many years I have been interested in international problems, particularly in those dealing with international economics and monetary problems. My first experience in international conferences was in 1919 when I had the privilege of being one of the young members of the Cuban delegation to the Versailles peace treaty conference which put an end to the First World War. After that I maintained my interest in international problems; I have written a few essays on international questions; I was interested in aviation; but, as I say, particularly in economics. For many years I've been engaged in the practice of law. The Cuban

government have often asked me to attend international conferences where I had the honor of representing my country, and one of the international conferences was the Bretton Woods conference in New Hampshire at which the International Monetary Fund and the World Bank were organized.

Q: Are there some things that you recall about that conference that would be interesting to preserve on tape for history?

Machado: I think that conference is one of the turning points of history. The reason why the conference was called was that the Allies that were fighting the war against the Nazi powers thought that something should be done so that at the end of the Second World War the world would not find itself in the economic chaos that we experienced after the end of the First World War. And the purpose of this conference was to create some sort of an international organization that might face the very acute exchange and monetary problems and also the staggering task of reconstruction of the devastated areas of Europe. That's why the conference was called.

At that time we had no idea of how large a task we would be confronted with, although we knew that the problem was going to be very, very big.

The conference was held in the short span of three weeks. We were pressed for time. At that time during the war all hotels had been commandeered by the government. We really had

difficulty finding a place to meet. And the hotel had to be vacated in three weeks because some other organization was coming to hold a convention. So actually the remarkable thing is what good work was done in the short span of time.

Q: What were some of the major issues that you recall from that conference?

Machado: At the time of the conference the delegates attending were much more interested in what became the International Monetary Fund than in the Bank. They were naturally dealing with the problems of currency devaluation, and all countries were actually running their printing presses overtime to meet their financial needs, and the great hopes were placed primarily in the International Monetary Fund as a way of stabilizing the economies of the countries after the war was ended. Very little attention was given to the World Bank. The idea was acceptable primarily as a basis for reconstruction. The Latin-American countries, of which I took an active part in representing them – we explained that while reconstruction was very important, actual development was just as important, because underdeveloped areas of Latin America, Asia and Africa not only had to be reconstructed, they had to be constructed. And that is why as a compromise the Bank was born with the title, the International Bank for Reconstruction and Development. Actual facts have proven later on that the actual task of reconstruction was important but not

as important as the task of development, so much so that in fact in all our history we're going to make three reconstruction loans. And almost 300 loans that we have made have been loans for the purpose of development, which shows that development – the Latins were right at that time – was the most important work to be undertaken by the Bank.

Q: You think that it was the anticipation of the delegates at Bretton Woods that the Bank could handle the entire reconstruction job?

Machado: At that time we knew that the job would be very big, but at the same time the idea was that an institution which would have the guarantee of all the big powers would have no difficulty in raising funds for the job of reconstruction. When the war ended we realized that the task was beyond any of our dreams and that a special institution had to be created. That's why the Marshall Plan came into being. I do not know whether or not the Bank would have been able to handle the task of reconstruction alone, but certainly with the backing that the Marshall Plan received from the United States, if the Bank had received the same backing from the other powers, we might have been able to do it.

Q: Do you think that the people at Bretton Woods anticipated that the Bank would get most of the funds that it needed for its own loans by selling bonds itself?

Machado: The idea in those days was that the Bank was more an insurance company. We thought of the Bank as an institution that would guarantee actually the operations of the reconstruction or development. And we felt that if the people knew that the bonds that were issued by the Bank were guaranteed jointly by all the members of the Bank, they should have no doubt, as the war experience proved, that the countries had no difficulty in placing their own bonds. So a bond that would be guaranteed not by one country but jointly by all other countries would be a much more acceptable piece of paper than just the ordinary government bonds.

Q: Was it anticipated that the Bank would sell its own bonds, or did people think that the Bank would simply guarantee the bonds of the individual borrowing government?

Machado: Well, at that time we felt that there were many points of operation the Bank could do. That is why in the Articles of Agreement we provide for the Bank selling its own bonds to the public or the Bank's underwriting bond issues or the Bank guaranteeing existing issues. And that's why we made our articles very flexible, so that we could actually act as either

an issuer of bonds or a guarantor of bonds issued by another country.

Q: I wonder if you would say something about the anticipations at Bretton Woods with respect to the role of the executive directors in the Bank.

Machado: At Bretton Woods we concentrated all our efforts during two weeks in the organization of the International Monetary Fund. I can say that, actually, the Articles of Agreement of the Fund were drafted in the last week of the meeting.

Q: Of the Bank you mean.

Machado: Of the Bank. After we had the experience of the Articles of Agreement of the Fund, we used that as a basis and adapted to the new organization. At the time the thought in writing up the Articles of Agreement of the Fund was that the executive directors would take a very active part in the management of the institution. And that is the way it should be because they are dealing with the currencies of the member countries, and currency is a very vital part of the sovereignty of every nationality. What the par value of a currency is and how it can be converted into other currency is of paramount importance to the country.

Now, the problems of development are quite different. The problem of development is the problem of providing financing for usually long-term projects. There is no reason why the directors of the Bank should take actual management of that type of transaction, and I think that in setting the Bank as we did, following more the pattern of corporations, we acted wisely. And I think in actual practice, the fact that the management of the Bank is responsible for the actual operations and the Board is more for the establishment of policy and general supervision I think has worked out very successfully in actual practice. There is a basic difference between the Fund and the Bank. Most people don't realize it, but there is. We are dealing with two different subjects although we may be housed in the same building.

Q: Well, after the Savannah meeting and the Bank had been ratified by enough member governments to get it started, the executive directors begin to meet almost immediately, did they not? Could you tell us a little bit about these early days?

Machado: I was elected a director on behalf of 12 Latin-American countries at the Savannah meeting, which was the organization meeting held after the Bretton Woods agreement had been ratified by the necessary number of countries. I've been associated with the Bank ever since its creation. I've been a director since the organization of the Bank in 1946 with the exception of four years

at which time I was Cuban ambassador to the United States. When I resigned as ambassador in the election of '52 I was again reelected by the Latin-American countries to represent them, and at the present time I've been representing ten countries on the board of directors.

At the time of the Savannah meeting naturally we had to navigate through uncharted seas. We had no precedent to be guided by. This was a complete new institution for which we could find no parallel. I remember in the early days before we had selected a staff and before we had what we now call the management, many of the directors had to perform actual administrative work. I remember that at one of our first meetings we appointed an administrative committee of the Bank, and I was chairman of it. As such it was my privilege to sign the contract engaging the services of Mr. Eugene Meyer, the first president of the Bank. We also selected some of what later on became heads of departments. In the early days we didn't even have a secretary. I had to do my own typing because I couldn't find an English-Spanish secretary to do my work. But fortunately we soon got over that, that gradually the Bank became organized to what it is today - quite an institution with almost 800 staff members in addition to the directors.

Our main difficulty was that having no precedents as to the type of loans we would make we started out by finding out what other similar institutions have done, and we were largely guided by the experience of the Export-Import Bank, particularly on what

we called end use supervision. They had a good system, and we studied it and we adapted it to our own needs. But the question of the study of projects, the presentation of projects, the necessary technical advice on projects, we all had to build actually from scratch.

We were also handicapped at that time by the fact that many of the well-known business institutions developed a feeling of antagonism towards the Bank. I remember that in the early days we could not sell one bond anywhere. People thought that the Bank was headed for failure, that in a few years the Bank would probably exhaust all its money and become bankrupt.

Q: How did you know you couldn't sell any bonds?

Machado: Well, we tried to. Our main market at that time was the United States. You must remember that after the end of the Second World War, neither England, France or the Netherlands were in a position to lend us any money. At that time Germany and Japan were not members of the Bank, nor was Italy – they were occupied countries. So our only market was the United States, and we found out that the business community not only misunderstood the purpose of the Bank but actually was against the Bank. We had to do a lot of pioneering work to try to convince them of what we were trying to do.

Q: I wonder if you would explain in more detail what you mean by you tried to sell a bond issue.

Machado: Well, in this country, in the United States, you cannot sell a bond on a public issue unless you are authorized by the Security and Exchange Commission. But then we found that the institutional buyers, such as insurance companies and savings banks and trust funds, which were the potential big buyers of bonds in the amount that were needed to keep the World Bank in financing, were prohibited from buying our bonds because they were regulated by the local state laws. And actually having at that time 48 states we had to start converting every one of these states to the idea of allowing the World Bank bonds to be sold. And that was actually an excruciating job, which was started by Mr. Emilio G. Collado, who was the American director, and continued by Mr. Eugene Black, the second American director, and I think due credit should be given to Eugene Black, particularly because of his untiring effort in opening the United States market to our bonds. Well, having now opened the United States market for our bonds, we have been successful now in floating issues elsewhere. With the recuperation of Europe we have bond issues not only in the United States and Canada but also in the United Kingdom, in France, in the Netherlands, particularly in Switzerland, and recently in Germany. Most of our recent borrowings have been in Europe and actually at the present moment

I would say that about 60% of every dollar that we lend comes originally from European countries.

Q: Now, the very early days, again, you didn't actually put out a bond issue that failed, did you?

Machado: No, we had to wait almost a year and a half after the organization of the Bank before we could float our first bond issue.

Q: So when you say that you tried in the early days, you mean that you simply discovered . . .

Machado: Well, we explored the possibility with potential buyers, and our first issue was put out when Mr. McCloy was president, John McCloy, and we were able to make our first flotation of \$250 million. It was a very successful issue because by that time enough states had been converted to the idea of allowing insurance companies, savings banks and trust funds to invest in World Bank bonds.

Q: You mentioned Mr. Collado as being one who helped begin the work towards the selling of the bonds. Would you amplify this?

Machado: That's right. He was quite a crusader, and I think he went to practically every state in the Union. In many cases he

did not succeed. I think it was either Minnesota or Wisconsin where they didn't want to hear anything about foreign bonds. We had a hard time convincing the other states that a World Bank bond is a bond that is guaranteed by the United States government as well as by the United Kingdom and France and all the other big powers, actually by every member country and that it was not a foreign bond in the sense that it was an institution of which the United States was a part of and in which it has a substantial voting power.

Q: Were Mr. Collado's activities along these lines in the period before Mr. Meyer became president?

Machado: Mr. Collado was the first director representing the United States on the Board, and Mr. Eugene Meyer was the first president of the Bank. Mr. Collado, being the director representing the United States, was in charge of contacting his own government and the governments of each of the states of the country he represented, this was a domestic problem with him. Mr. Meyer, being president of an international institution (although he was an American), we felt that it was Mr. Collado's duty to do it to open the market of the country he represented.

Q: So at that time it was not assumed that it was the responsibility of the management of the Bank as such who opened the market for the bonds?

Machado: At that time there wasn't much management. I mean we hadn't the type of organization we have today. We had a director of administration, and that covered a lot of territory; and we had a director of research. It took us a long time to get a loan director. At that time the directors had to do a lot of work that normally directors shouldn't be doing.

Q: So it was only because management has not yet staffed, so to speak . . .

Machado: That's right. It took time to build the staff of the Bank, particularly in an organization where we have to be careful to make it truly international by drawing the personnel from various corners of the world. I think that's one of the reasons for our success - the personnel here is so international. We have members on the staff from every corner of the world.

Q: Were the executive directors themselves hiring people?

Machado: We never did that except to the point that in the early days we had to hire the heads and then the heads in turn hire the personnel.

Q: Well, after you hired Mr. Meyer, after he'd become president of the Bank, what then was the hiring that was done after that part of his--?

Machado: He was in charge of that, but there were many details that he had to assign to the directors, because we didn't have enough top personnel then to run the Bank. We had the problems of housing the Bank, providing furniture and equipment and translation job. We did a lot of errands in those days that were actually outside our field, but we did it in a spirit of cooperation to get the organization moving.

Q: What were some of the other issues that you recall from these early days – things that were discussed at meetings of the executive directors?

Machado: Well, our main difficulty in those days was to educate the member countries that the Bank existed and the Bank was ready to lend them money. We had a lot of pioneering work to do there, too. I remember that when Mr. McCloy became president, I suggested that one of the things he should do was go around and visit the countries of Latin America, which he had never visited with the exception of Brazil. He did not know all the other countries. I suggested, not only that he acquaint himself with what I called the potential customers, but also have an educational program for the countries to realize that the Bank could do some service for them. And Mr. McCloy accepted the idea, and I was privileged to accompany him on a tour – in fact, on two trips all over Latin America, one trip covering what is actually South America, and the other Mexico, Central America and

the Caribbean. I convinced Mr. McCloy that he should attend the Pan-American Bogota Conference, at which he appeared; and he made a statement on behalf of the Bank, and I think it was very useful because it brought him in contact with the Secretaries of Treasury and the Ministers of Economy of all these countries. And actually business was generated there for the Bank. So we had a double problem. We had to convince people that they should buy bonds, and we had to convince the countries we represented they should borrow money from us. I think our record shows that the work was fruitful.

Q: Did you ever suggest to Mr. Meyer that he take such a tour?

Machado: I did, but he was too busy at that time with the problems of getting the Bank moving, particularly on the sale of bonds. Mr. Meyer was president for a rather short time, about a year. And, you know, time flies when you're in the process of organizing a big institution like this. But he said he was prepared to go and visit the countries, although he also wanted to visit the European countries, which was necessary because eventually the European countries after being reconstructed would be a great source of financial assistance for the Bank. And that has turned out to be true.

Q: So Mr. Meyer was so busy with getting the staff organized that it was premature to have had a trip . . .

Machado: And he had to make speeches on the Bank, particularly in New York, Chicago and Boston, trying to educate the people to what the Bank was and explain what the Bank was not. A lot of people thought the Bank was a place where you could come and get easy money and then go on default, which was not the case. I think our history proves that in 15 years of operations we have not made yet an unsound loan – so much so that we haven't had yet any default on any of our lendings, either as to principal or interest. I think that's quite a record, having been able to lend at this time over \$5 1/2 billion.

Q: Did it seem to you at the time that either Mr. Meyer or his staff were more concerned with developing the market for the Bank's own bonds than they were with investigating loan applications?

Machado: Well, I think then both things ran parallel, but the big thing at that time was to open the money market without which the capital of the Bank would have been soon exhausted. Because of the Bank capitalization we have to operate with only 20% of members' capital subscription, of which 2% has to be paid in gold, and the balance, 18%, in national currency. A great deal of our work at that time was to make this 18% part of the subscription available to the Bank for its operation. The United Kingdom, because of their distressed financial situation, could not do it; France could not do it; the Netherlands could not do

it. And Mr. Meyer had to fight to open the wedge so as to make all this money available to the Bank. The United States was the first country that did it right from the beginning, and Canada followed suit later. At this point now we practically have all the European countries, and many of the Latin-American countries have made their 18% portion of their subscription fully available to the Bank. So the problem of raising funds with which to operate is no longer a big problem for the Bank today. I would say that our problem today is the intensification of lending activity.

Q: Do you know anything about Mr. Meyer's resignation, why he stayed such a short time as president of the Bank?

Machado: I think that . . . Mr. Meyer, you know, was not a young man. He accepted the presidency of the Bank as a sense of duty to his country. He did not seek it. It was a very hard task for him. He had been chairman of the War Finance Corporation which he ran very successfully during the First World War. Naturally trying to raise money for a new institution without much favorable response was rather a new experience for him. I would say that he ran in many cases against a stone wall. I was sorry to see him go. I was very fond of him. He was very pleasant to get along with, a very nice man.

Q: His relations with the directors were cordial?

Machado: I would say normally so, certainly with me. I was very pleased to work with him. But he often felt that the job should go to a younger man. He confided in me at times that he thought that the Bank should be looking around for some younger man to take on this job, which was at that time a formidable task, opening the United States bond market to the Bank, without which the Bank would not have been able to operate successfully.

Q: Were there any loan applications outstanding during Mr. Meyer's term in office?

Machado: Well, I remember we had a request I think from Poland for \$400 or \$600 million without explaining what it was for. We had to go back and explain to them that the Bank wasn't actually issuing a blank check to any member, that we were just to finance projects, and only the foreign exchange cost of the project; that we couldn't apportion any part of the capital of the bank to any one country just because they were members, and that if they had any project, they should bring it to the Bank. In the early days we had many application of that type, primarily because the countries were not yet educated as to what the Bank could do and could not do. I think the directors have done a very good job in educating their member countries as to what the Bank can do for them, and now this type of request for a blank amount of money to finance undetermined projects doesn't ever come to the Bank anymore.

Q: Were there discussions among the executive directors about the Polish application?

Machado: Right from the beginning we saw that it just didn't fit into the Articles of Agreement. If every member country would start asking for a blank check, the Bank would have to close doors the next day. So we had to explain that. The Polish director did that. At that time we had a Polish director – Mr. Baranski, who's been afterwards employed by the Bank; he has been a consultant in Ethiopia and also in the Sudan.

Q: What eventually happened to the Polish application?

Machado: It just died a natural death. Years afterwards Poland withdrew from the Bank.

Q: What were her reasons for withdrawing? Do you know?

Machado: Well, I don't know why any country would want to withdraw from the Bank, but it did – probably because they couldn't get a blank check.

Q: Well, does that imply that the Bank negotiated with the Poles to try and get them to be more specific in their loan applications?

Machado: Well, I think Mr. Meyer told the Polish government to send whatever projects they had for us to take a look at, and that ended the requests of the Polish government.

Q: They never were able to be specific about it.

Machado: As far as I know, they never did.

Q: Were there any loan applications from Latin American countries in these early days?

Machado: Our first loan was to Chile, and it was a very good project. The Chileans presented a very good project. In fact, we were very proud that the Chileans came with such a good project. The first loan made by the Bank was a loan made to France for reconstruction purposes--\$250 million. That being the first application in reconstruction, it was not as specific as a project loan, although the purposes of the loan were very well defined. But ever since the French loan, all other loans have been supported by very specific proposals. I think that is one of the reasons for the success of the Bank in not having any defaults, because we have actually financed projects that increase the national production of a country and in so doing provide them with foreign exchange earnings.

Q: When the Chilean loan request was first received by the Bank was it in a form acceptable by the Bank?

Machado: Normally any loan application always has something that is lacking in information. And when the loan application comes in, the operational department will take a look at the project and send experts and technicians to check the project on the spot. But what I say is that the Chilean loan was unusually well prepared, so that it was handled with comparative speed in the Bank.

Q: When was it first received, the Chilean application?

Machado: I think that the total length of time elapsed was five or six months between the time that they first applied and the time when we approved the loan in the board of directors.

Q: The loan was actually made in 1948, was it?

Machado: No, in 1947, shortly before the time of the Bogota Pan-American Conference.

Q: So that you think the loan application was received some time in early '47?

Machado: Or maybe the end of '46, but it was a very well-designed project which we had no difficulty with -- for hydroelectric purposes. A very complete project.

Q: Would you tell me more about your trip to Latin America with Mr. McCloy? This must have been interesting?

Machado: Well, as you know, this was the first time that Mr. McCloy visited Colombia, and we were in Colombia for four or five days. We left Colombia for Ecuador, and the day after we arrived in Ecuador, a revolution took place in Bogota.

Q: Not because of your trip, I trust.

Machado: I hope not. So we went to Ecuador and then from Ecuador to Peru, from Peru to Chile; from Chile we went into Argentina, which was not a member of the Bank, but the Argentine government invited us to visit, and Mr. McCloy had an opportunity to meet with the then President of Argentina, General Peron, and some of his ministers. From there we went over to Uruguay. From Uruguay to Brazil, from Brazil to Venezuela and from there we came back to Washington.

Q: Did you say you visited Chile?

Machado: We did. We visited Chile. At that time we had an opportunity to inspect the project that we had just financed – a hydroelectric project.

Q: Oh, you financed this project before the trip.

Machado: We authorized the loan, and then Mr. McCloy went and saw the hydroelectric project.

Then afterwards we took a second trip. We went to Mexico and looked at some of the projects in Mexico. We visited all the Central American countries – Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama. From Panama we flew over to the Dominican Republic. And later on in the year Mr. McCloy made a trip to Cuba and visited Cuba.

In all these countries we contacted not only the Presidents of the Republics and the Ministers of Finance and Economy, but also we had an opportunity to sit down with some of the Development Boards and organizations in charge of the development of the countries. And it was very interesting because we discussed actively the projects they had in mind, and we brought to their attention some of the things we could help them on.

Q: Was the main purpose of this trip to actually negotiate loans?

Machado: No, we never thought it was the job of the President to negotiate loans. It was merely a public relations job and getting acquainted, as I said, with the clientele. I mean the President of the Bank in every one of these places had an opportunity in addition to explaining the purposes and activities of the Bank to establish contact with government officials. We met also with chambers of commerce and manufacturers' association, stock exchanges and all types of civic organizations to explain to them what the Bank was trying to do. And I think that this type of propaganda was very useful in having projects come to the Bank afterwards.

Q: I wonder if you can explain anything about the circumstances of Mr. McCloy's becoming president. I understand there was a period of time between Mr. Meyer's resignation and Mr. McCloy's. . .

Machado: Well, there was a time when we were hunting for a president. A number of possibilities were considered. We thought of a number. There was an outstanding banker in Chicago, Mr. Ed Brown, who was head of one of the leading banks in Chicago, the First National Bank of Chicago, who had been a delegate at Bretton Woods. We tried to get him to become president. He wouldn't accept. Then we tried to get Mr. Lovett. We even thought of Mr. Graham Towers, the Governor of the Bank of

Canada at that time as a possible president. We even thought of a Latin-American. But finally. . .

Q: Who was the Latin-American? It wasn't yourself, was it?

Machado: Oh, no. I'd rather be a director than president. We thought of Espinoza de Los Monteros, a Mexican, who'd been very active in the organization of the Bank at Bretton Woods and was the Director General of Nacional Financiera of Mexico. And we also thought of Don Eduardo Suarez, who was a very successful Minister of Finance of Mexico, and who had also represented Mexico at Bretton Woods. Finally the choice narrowed down to Mr. McCloy.

Q: Do you know anything about why some of these other candidates turned the job down?

Machado: Well, Mr. Brown refused because of the claim of his old age. We also thought of getting Mr. Fred Vinson to head the Bank. He was at that time Secretary of the Treasury of the United States. But, as you know, he later became the Chief Justice of the Supreme Court of the United States. It's not easy to get men who would have the outstanding international personality and command the respect at home and abroad. So I think we made a good choice in Mr. McCloy. As you know, he served as president until he was selected to become the Military

Governor of occupied Germany, at which time Eugene Black, who was the American director, was unanimously chosen to replace McCloy.

Again, I had the privilege of accompanying Eugene Black on a tour of Latin America just as I had gone with Jack McCloy. I accompanied him on several trips to Central America and South America so he could get acquainted with all the members of the Bank. In fact, just recently he completed a trip to Venezuela, which was the only other country he hadn't visited in Latin America.

Q: Were there other candidates at the time you chose Mr. Black to be the president to succeed Mr. McCloy?

Machado: We had more experience at the time, and Mr. Black had been so successful in opening the bond market of the United States to the World Bank, and he was very popular with his fellow directors; he's a very pleasant man to work with; he gets along nicely with everybody. He was internationally minded. And we really thought it would be better to use one of our own who had already grown in the organization.

Q: Do you know of any other people who were considered?

Machado: I think it was almost a unanimous choice as soon as we knew that McCloy was not available any longer. Our only trouble was to convince Eugene Black to take the job, because, as you

know, he was the director representing the United States and he was a part-time director. He only came to attend meetings of the Bank in Washington. He had to move from Princeton, where he lived, to Washington. I think he felt like I do, that it's much better to be a director than president of the Bank.

Q: Was there any consideration of Mr. Garner as president?

Machado: Not for president of the Bank. Bob Garner was doing a very good job as executive vice-president of the Bank, and a great deal of the organizational work and success of the Bank is due to Bob Garner. He's a tireless worker. He certainly put a lot of his time and energy into building the organization. We felt that Eugene Black, with his contacts in Wall Street, in the market, would be, you might say, a guarantee of the continued availability of funds to the Bank if he was made president of the Bank. And we felt that with the support of Garner running the administrative side of the Bank, the supervision of loans, that they would make a good team.

Q: After Mr. McCloy became president in 1947, did the executive directors continue to deal with the everyday affairs of the Bank the same way they had before?

Machado: I would say that before McCloy became president the director's part was eased. Once we were able to get the heads of

departments appointed and they assumed their proper functions, there was no need for the directors to do as much outside of their own field. At the time that McCloy became president there was a feeling that the directors and the staff might be in conflict. I felt that there was much more talk about it than actual conflict. My experience is that, as a rule, the directors and the staff get along pretty well together. I think a director has plenty to do if he is going to take care of his own countries. You take my own case. At the present time I represent ten countries. I keep in daily touch with these countries, with their governors, with their ministers of finance, with their planning boards, with their development corporations. I have to keep them informed of what the Bank is doing; and then, I have to inform the Bank of what projects they are thinking of bringing to the Bank. I have my hands full. Why should I be interested in hiring a stenographer or secretary or a translator for the work of the Bank? Or why should I be concerned if so many cubic meters of concrete have to go into the foundation's work of a hydroelectric project? That's not my job. I wouldn't be doing service to the countries that I represent if I, instead of attending to my business, have to look after all these administrative problems of the Bank. You can create conflict if you want to by just putting your nose where you shouldn't put it.

Q: So that when Mr. McCloy became president and the staff had been informed, the executive directors were delighted to not have to deal with the everyday affairs of the Bank.

Machado: I think it was a relief in a way because we had too many cooks trying to do the job. I always feel that the directors are in the Bank like the Legislature in a state government. We are to deal with questions of policy. We are to approve or reject loans. But the actual negotiations of the loan; the actual disbursements of the loan when made; and the supervision of the loan should be conducted by the staff. That's what the Articles provide. The Articles of Agreement prohibit a director from intervening in the negotiation of a loan, and I think it should be so, because we represent governments. We might be in a position where a government wants a loan that is not a good loan, and if our allegiance is to government, we cannot very well defend the Bank. Under the present system no loan is ever approved unless it's first recommended by the loan committee. In other words, we, as directors, cannot originate loans in the Bank. We can approve them or reject, but we cannot originate loans in the Bank, and that's the way I think it should be.

Q: So that today a government does not come to you, for example, with the request for a loan.

Machado: Usually a government informs the directors of what their plans are, and then we are helpful in arranging meetings for them with members of the staff. Sometimes problems come up which they ask us to clear with governments. There are many things that a director can do to help the staff. Now, for instance, in getting member countries to join the International Finance Corporation or the International Development Association, we directors have been carrying the brunt of that work, because the staff cannot address itself to the Minister of Finance or the Speaker of the House of Representatives or the President of the Senate. That's our job. We know those people. We are in touch with them. It's our job to do it.

Q: Has the Bank maintained good relations with the Latin-American countries?

Machado: On the whole I would say yes. There have been misunderstandings on both sides – on the sides of the governments of Latin America and then perhaps sometimes on the part of the Bank. But I think at the present time the role of the Bank, what the Bank can do, the type of financing we can do is pretty well understood by the Latin-American countries. And, as a result of that, the projects that come to the Bank are most of them bankable. We can do something about them.

Now, our main difficulty has been in some of the insistence of the Bank in getting some governments to take austerity

measures, sometimes our demand to control inflation and to control budget deficits, etc. That's the type of problem that comes up not only in the Bank but in the Fund and everywhere. That's our job.

Q: So that there have been some occasions when some Latin-American governments have felt that the Bank was . . .

Machado: Interfering in some internal problems. I think that's unavoidable. An international organization like the Bank or the Monetary Fund or the United Nations, which by its nature cannot avoid sometimes making suggestions which might be considered by a country as interfering with their internal problems. But, the Board's suggestions are not compulsory – they're merely recommendations which can or cannot be followed. The purpose of international organizations is to help, and the only way to help is by making suggestions which the country is free to follow or not follow.

Q: Has the Bank sometimes refrained from making loans to countries which have not followed the Bank's suggestions?

Machado: The Bank has done that at times, and that has created a lot of irritation on the part of some of the Latin-American countries.

Q: Can you give any specific illustrations of this?

Machado: Well, we have countries where, for instance, the Bank is anxious to finance a hydroelectric development, but the Bank feels that the electric rates in the country are not sufficient to take care of the normal amortization, interest, and also leave a reasonable margin for expansion. The Bank has sometimes been very hard on this rule by saying that they will not assist in the financing of this project until the country takes the necessary measures to raise the rates. Well, most countries resent this as interfering with what they consider as entirely a domestic problem, though when the rates have been raised, the authority in charge of the electric development has been very happy that it has been done because it enables them to generate more funds. Problems like this that affect the ordinary man on the street are very difficult to handle. But great progress has been done. I think lately the countries are realizing that without appropriate rates you cannot maintain an efficient service and that the most expensive type of electricity is the electricity that you don't have available. And also the Bank has, in a way, met them halfway, and we have accomplished some progress in this area.

Q: Has your job as executive director ever been difficult because of this?

Machado: My job as executive director is always difficult because, as a rule, these problems do not come to me until they are in a hole and someone has to pull them out. But it's a very interesting and very pleasant job. That is why I think that a director has plenty to do. And I will say that I've always found a great deal of cooperation on the part of the staff and the management.

Q: I think there are two Latin-American countries that have given up their membership in the Bank.

Machado: That's right. One of them is Cuba. They have withdrawn. The other is the Dominican Republic. But I understand that the Dominican Republic, (we were told last week) wants to come back to the Bank. They realize they made a mistake in leaving the Bank.

Q: Can you say anything about the reasons why these countries chose to leave the Bank in the first place?

Machado: I would say they were motivated by internal political problems, because neither one of these two countries ever filed a formal application for a loan to the Bank. From time to time someone from these countries came over to discuss possible projects, which in some cases were dreams more than projects. But actually the Bank has never turned down a concrete project

from either one of these countries. As you know the Bank does not go around peddling money. We're very much in the position of a hospital where sick people can come when they want to, but we don't go out and look for them in the streets. A member country finds the doors open for anyone to come to the bank for the financing of any project, and there's no problem at the present time as to the availability of funds. So any member country having a good project for development can bring it to the Bank.

Q: You say that neither one of these countries that have left ever submitted a formal loan application to the Bank. Do you know whether the Bank ever discouraged applications from them?

Machado: Most of these negotiations have been conducted by missions or small delegations from time to time, and a lot of these things took place at annual meetings of governors. The governors like to meet privately with the head of the Bank. Sometimes the executive directors attend those meetings. Sometimes they do not. That depends entirely on the country concerned. But we cannot say that the Bank has turned down an application from Cuba or from the Dominican Republic. In fact, until recently these two countries were able to raise alone in the market any amount of money they wanted to for a good project. We cannot say that the Bank ever turned them down. They wouldn't come to the Bank anyway and have to pay our rate of interest when they could seek funds cheaper elsewhere.

Q: Where?

Machado: They have been financing their projects in the New York market.

Q: At lower interest rates than the Bank rates?

Machado: Yes, about three or four years ago, but not recently.

Q: Does this suggest that the Bank charges too high rates?

Machado: We always think that the interest rates is high for development purposes, but of course in actual practice I don't think we can complain about our rate. You know, our rate of structure is: we take an average of what we have to pay for borrowed money. We add the statutory commission of one per cent, and then we add one quarter of one per cent, which is what we figured it will cost to run the expense of the Bank. At the present time that complicated formula brings our interest rate to 5 3/4%. I don't say that's too high; I've seen the rate lower in years past, but, of course, at that time they could raise money cheaper than we can now. Both the Dominican Republic and Cuba were able to borrow money in the New York market for specific purposes at 4 1/2 and 5%. I don't think they can do it now.

Q: Well, do you think of any other points that we should perhaps discuss?

Machado: Perhaps you might like to hear about the International Finance Corporation. That is one of my pets. In fact, I've been one of the leading sponsors of this institution.

As you know, one of the difficulties we faced in financing the industrial development of countries is the fact that a Bank loan requires a governmental guarantee. And since it would be complicated to amend the Articles of Agreement of the Bank, which would have to be ratified by 70 countries, we thought that the best way to solve this problem was to create a subsidiary of the Bank under the name of International Finance Corporation, which could lend money for the development of private industry without a government guarantee. I would say that this is a pet child. A great deal of energy was devoted to convincing the Latin-American countries that they should ask for it and later in convincing the United States government and the United Kingdom that they should support it also.

We finally succeeded, and I think the International Finance Corporation came into being and I think it's one of the most useful organizations for the development of industry in the underdeveloped areas of the world, particularly in Latin America.

Q: Has the International Finance Corporation extended financial help as rapidly as you had hoped that it would?

Machado: It has not. Again we ran into an organizational problem. One of our difficulties was that when the organization was created, we had to accept, in order to get the American government to support the creation, a condition that the Corporation could not possibly invest in equity stock. It could invest only in loans or negotiable debentures, convertible debentures. Well, this system is all right in the United States, but it doesn't work in underdeveloped countries, particularly in the area I come from in Latin America. These convertible debentures and stock options are very difficult to actually make transactions because of complications with the local laws. So now we are having the Articles of Agreement amended, and I think shortly we'll get the necessary number of votes so that the Corporation can also invest in stock. I think this will be the turning point that will enable the IFC to sail ahead at full speed.

Q: That about does it, I think.