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Transcript of interview with

Martin Rosen

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Interview with Martin Rosen

By Professor R. Oliver

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Q: You are Mr. Rosen. Would you identify yourself?

Mr. Rosen: I am Martin Rosen. I have been with the Bank since the end of October 1946. For the last month and a half I'm no longer with the Bank -- I'm with IFC, which is all part of the same building and same household.

Q: Where were you before the Bank?

Mr. Rosen: I came to the Bank directly from military duty. I was with the Allied Commission in Austria and was serving as deputy director of the Finance Division of the American element in the Allied Commission and left the military in August or September, 1946, and came directly to the Bank. While there the Allied Commission was a quadripartite commission. The Director of Finance for the French element of the Commission was Leonard Rist. He came as the first French alternate executive director to the Bank in, I think, April or May 1946. After Mr. Meyer was made president, he asked Leonard to become the director of what then was called the research department. Rist had to find some staff, and trying to get some Americans he naturally thought of those he had known and asked me while I was still in the military

if I would come and join the Bank when I left. I came and started work for the Bank at the very end of October 1946 and had as my first assignment organizing the work for the review of the French application for a loan. The French application was the first application filed with the Bank. It was an application for \$500 million, and it was intended to finance the French plan of modernization and re-equipment, what was at that time called the Monnet Plan, because Jean Monnet was the original director of the [inaudible] of France, which had set up the re-equipment modernization plan. France had received some loans from the American government, Export-Import Bank loans, and a large surplus property loan, but these had been used, and by the end of 1946, France was faced with the need of financing a huge balance of payments deficit. They naturally turned to the World Bank--as it was then called the International Bank. The name World Bank didn't appear until Mr. Black came in a few years later. This was the first application. The entire emphasis of the Bank at that time was on the problem of reconstruction. Very little was thought of the developmental side of things. And the French applied in what I think was a two-paragraph or one-paragraph loan application for \$500 million.

Then they sent a negotiating group to Washington to meet with the Bank, a negotiating group that was headed by Wilfred Baumgartner, who is now Minister of Finance and supposed architect of the French recovery and in the De Gaulle administration. Baumgartner at that time was head of the Credit National, which was a government financing institution for

reconstruction. He came and had a small group with him, including a young inspector of finance named Denis. Denis had been with Monnet and in the plan organization, and it was of course the financing of the plan that was involved.

The Bank's staff at the time was very small. I think the total staff consisted of 40 or 50 people and a professional staff of a half a dozen or so directly concerned with operational activities. A working party was formed to begin work on the French loan. A few people who were involved in that are still here. The working party included Lester Nurick, St. [inaudible] and I was a member of it. A few weeks later Jeff Rucinski joined the Bank and became a part of this group.

There was at that time no director of loans. There was an acting director of loans. So there was no formal organizational structure to try to handle the operation.

The study, of course, of the economy of France and of the purposes of the loan request and the uses of the money were studies which it was thought ought to be done by what was then called the research department.

Leonard Rist thought that as a Frenchman he ought to disqualify himself from participation in this work, so he stepped out from the various committees and direct supervision of the studies being done.

Shortly afterward Walter Hill joined the Bank. He had formerly been an editor of the London Economist to become assistant director of the research department, and he took over the direction of the economic work on the French loan. For a

period of several weeks before Hill came and then under him for a period after he was here, I had the job of trying to decide how to go about making an economic study of a country or of a project. This had never been done before. Of course it had not been done by the Bank, because it was the first loan [inaudible] been done by any institution like the Bank since separate considerations were involved.

There was a quasi-legal question involved, too, since the Articles of the Bank called for financing of specific projects. Of course the French loan request and the French needs were not to build a particular project, but were balance of payments needs. The issue therefore came to one as to whether or not a program of investment, a plan, could be classified as a specific project. The lawyers talked to this group for some time and then decided this issue could be avoided rather than interpreted and that if we could find that the plan was economically sound and productive and worth doing, that it would be possible to finance a plan without deciding whether the plan was for specific projects or deciding whether we were using the exceptional circumstances provision of the Articles [inaudible] simple question that would not need to be tackled.

Work on the French loan basically consisted of making balance of payments forecasts for the next three, four or five and then for 10 and 15-year periods for the French, deciding what the gap would be and how it could be covered, determining growth of GNP, national income, the balance of payments effects of that growth both on the imports and exports side; the whole set of

national accounts, including the balance of payments part of national accounts. This, to me at least, was something I hadn't seen done before and didn't know quite how to go about doing. It was also clear that it was not possible to decide on \$500 million or \$250 million, which the loan finally became, on any specific algebraic or numerical evaluation of needs. Needs were considerably more than this. It was clear that neither \$250 million nor \$500 million would fully cover the gap, nor could it be clearly shown where the rest of the money was coming from.

Q: Was there any estimate that you recall as to the gap for any specific year?

Mr. Rosen: We made estimates for each specific year and prepared a report which I haven't had the courage to look at in the last 14 years as to what that gap would be and how it would close. But the plan organization itself had made estimates, and we reviewed these critically, made adjustments, and came down to two estimates on year-by-year requirements [inaudible] size of the gap.

Q: But the requirement on any given year was considerably in excess. . . ?

Mr. Rosen: The requirement was considerably in excess of the amount that was asked for. The \$500 million clearly wouldn't cover it.

Of course, skipping a bit, as I say, this would have been in 1946 -- our studies were finished by the end of January, early February, 1947. The loan was made in May, I believe, of 1947. By summer of 1947, the French economic position had deteriorated to a point that a program of U.S. aid called "interim aid" began, a rather massive program of aid intended for France and Italy (there may have been some other countries but in particular these two countries) -- very large amounts of aid that the Marshall Plan later picked up but which came in the pre-Marshall period. The Marshall Plan was spring of 1948. Of course Secretary Marshall's speech at Harvard calling for the Marshall Plan was in June, 1947. By that time the needs were already clearly enough apparent.

Q: But it was no surprise to you that there was this. . .

Mr. Rosen: It was no surprise to the Bank that the needs were more than we could cover. I think the size of the needs, the \$15 billion that was expected to be needed in Marshall Plan Europe over the four-year period, was bigger than we had realized and certainly bigger than it was when we were working on the four reconstruction loans in Europe. I don't remember how we came down to as the need in France, but I think it may have been a billion or a billion and a half. It was considerably less than the total amount of money which actually went into France.

Q: Was this total or per year?

Mr. Rosen: This was total. We and the plan organization felt that it would be a three- or four-year period to get back to stability and into a balance of payments equilibrium. There was a good deal of conversation as to how long it took for agricultural production to get back to normal. This was thought to be the guts of the problem. We were less optimistic than the plan organization was, but we were certainly far more optimistic than the realities showed themselves to warrant.

Q: Do you think that the negotiations for the French loan could have been speeded up any?

Mr. Rosen: Not very easily. These preliminary negotiations, plus this review of the economy, of course had to take some time. The review of the economy -- I don't quite understand how we were able to do it in the two-month period that it was done in. There were three people working in Washington on France trying to do an analysis of a national economy and a forecast of the needs and a judgment of achievement of an equilibrium position just starting from scratch with no trend lines to project, with no balance of payments data available, because there were no balance of payments data pre-war. This was all something that developed after the war. I think a great deal of imagination was thrown into cooking up figures and philosophies and approaches.

Then, of course, in the middle of this in early December Eugene Meyer resigned as president of the Bank. This stopped the possibility of any effective negotiations. There was a

concentrated emphasis, not at my level but at the board certainly, on trying to find a successor. In January Smith died suddenly of a heart attack, and this completely eliminated any top management in the Bank until McCloy and Garner came in. During this three-month period of December until March no real negotiations could take place.

Then negotiations occurred. By that time a report was ready, a report which recommended the loan to France and which, in fact, we had available prior to McCloy's coming to Washington; it was sent to him, and on one of the holidays -- Lincoln's Birthday or Washington's Birthday -- we had a session here with McCloy and Garner prior to their acceptance of the jobs and prior to Black's acceptance of the job as American executive director. Graham Towers was also here. He was going to be named executive director for Canada. He was at that time Governor of the Bank of Canada. Some of the senior staff of the Bank were also here, all sitting around trying to talk about this report and trying to decide if, in fact, the loan could be made, with McCloy and Garner pretty well deciding that it was very hard to tell from this report whether the loan could be made, but if there were to be a World Bank, it better make some loans and this looked like as good a loan as any to make.

Q: Were the directors in sympathy with this sort of a procedure, making a report and so on, or were some of them pressing to make the loan even before such a report?

Mr. Rosen: On the French operation there was not much pressure. There is, of course, a story, which is a separate story and needs to be told separately, on the pressure for the Chilean loan -- a loan application which was pending at the same time, pressure which came from the State Department, which came through the American executive director through Pete Collado and through some of the Latin-American directors, pressure which in fact was a basic reason for Meyer's resignation, pressure which became resolved in terms of the new arrangements between the management and the board. But I think that's a separate item on your agenda.

That, as I recall it, did not become an issue in the French negotiations. The French negotiation was so big, the loan was so big, that the same pressures did not exist.

Q: Had the French gone to the United States government with requests for lending before they had come to the World Bank, do you know?

Mr. Rosen: Yes, the French had borrowed roughly \$2 billion from the United States, but the United States didn't have any funds anymore at this point.

To put this in perspective, there was first the big U.S. Treasury loan to Britain. France wanted an equivalent loan from the United States. The United States government didn't feel it could go to Congress with the same sort of a proposal, so there were three large loans made to France in 1945 and 1946. I don't

remember the figures. I'm speaking entirely from a 15-year-old memory. But there were, I believe, two Export-Import Bank loans, one for \$550 million and one for \$650 million, which made a billion, too, and there was a so-called surplus property loan of either \$600 million or \$700 million, making a total of a billion and \$900 million. All these, including the surplus property loan, were balance of payments loans. They were to pay for wheat and gasoline and cotton and all sorts of raw materials. The surplus property loan paid for many of these things that were already in stocks in Europe, in military stocks, but they were military stocks of wheat and gasoline and cotton. They were no different from any other sort of balance of payments assistance. The \$1.2 billion of Ex-Im was direct balance of payments assistance. So, that this money, although earmarked against goods, was virtually the same as the British loan. But this amount of lending depleted the resources available of the U.S. government without new legislative authority, and it was at this point where the Ex-Im had been used to the extent possible. It was then a much smaller institution than it is now. The surplus property arrangements had been used to the extent possible. But some other sources had to be turned to. So France and Holland at the same time and Denmark and Belgium to a smaller extent turned to the Bank. In the process of consideration by the Bank, it became clear that the Bank's resources weren't big enough, and that's where the Marshall Plan came in.

Q: Just to finish the French loan, what sort of precedents were set then in negotiations?

Mr. Rosen: I guess I didn't properly answer that. You asked whether that could have been done more expeditiously. As I said, real negotiations couldn't begin until March. Baumgartner came back in either March or April after McCloy came in. And then all the issues which were considered precedents for further loans came up. I can think of two principal ones that were fundamental problems. One is the question of undue supervision. I don't know whether your outline includes that as a separate item to be talked about, but it's well worth it. Well, the charter of the Bank, of course, provides a basis for calling for supervision. This, in fact, meant following through on the proceeds of the money to the ultimate purpose. The issue then came as to whether each gallon of gasoline was going to be traced to each tractor and each taxi cab or whether in fact it would be enough to know that it went into retail distribution channels in Paris or in some agricultural area. This became a bone of contention, of course, in negotiations. The whole concept of supervision being a new concept.

Another fundamental issue that came up was the negative pledge clause. I think that is one of your items of discussion. That, too, was not a new concept in that many of the public bond issues in the '20s had provision for negative pledge clauses. Some of the earlier bond issues, public bond issues, floated internationally had positive pledges--potash loans, railway

receipts and so forth--and many others that had negative pledges. In this case, however, we were trying to get a negative pledge not only on particular resources but on monetary reserves of the country, on the gold and foreign exchange assets of the central bank or of the monetary authority. This was fairly new and this was fondly resisted by the French negotiators. However, there was the feeling that this was an essential precedent, and this became a difficult part of the negotiations.

Terms themselves -- terms of maturities, interest rates -- did not create the same problem. I was not intimately involved in that side of the negotiations, but I do not recall any important controversy on the interest rates. The interest rate was fixed, I believe, at 4 1/2 percent at the time, including one percent for the statutory commission. This was based upon the sale of the bond issue that had been made and the rates at which the Bank felt it could borrow money. This in fact meant a 3 1/2 percent interest rate and one percent commission. This was comparable to the 2 1/2 percent that the U.S. government was paying on long-term money that it was borrowing to the 2 1/2 percent that I think the Export-Import Bank was charging on its long-term war relief loans. It was somewhat above what was being charged but not so much above as to create real difficulty. The loan was fixed with a 30-year maturity which was long maturity, not as long as the British loan but still long enough so that that didn't create any fundamental problems. We fixed an amortization schedule which had relatively light payments in the early years in view of what we thought then were the years in

which the balance of payments problems of France would be the greatest and when there were other repayment requirements. We had an amortization schedule that ballooned up in the last 15 years as compared to the first 15 years.

Q: Who in the Bank was particularly responsible for negotiating, and were these negotiations done with conversations going on simultaneously with New York people?

Mr. Rosen: The negotiations were handled mainly with Baumgartner and the French financial attache here, by Garner, who then was vice-president, and Chester McLane, who then was general counsel. There was an assistant loan director, Stanley Hoar, who was in the negotiations. There were some people on the economic side, who were in the negotiations. But the negotiations were primarily between Garner, McLane on the one side and Baumgartner, Valency, on the other side, with McCloy intervening at times.

Q: Do you know if some people in New York were being consulted about this?

Mr. Rosen: I can't say that this strikes any chord of memory. Now, Black was certainly in this, and Black was in the process of floating the \$250 million bond issue in New York, which consisted of short bonds sold, I think, at 2 1/2 percent and long bonds sold, I think at 3 percent. The 3 percent -- it was felt that bonds could be sold at 3 percent, and that's what fixed the 4 1/4

percent interest rate based upon the pattern of a quarter percent for administrative costs and one percent to the statutory reserve. The idea of fixing an interest rate at 1 1/4 percent above the cost to the Bank of borrowing the money was a proposal that went to the board of directors and was discussed at some length at the time by the board. In fact, a policy paper was adopted around the time of the French loan approving this formula.

Q: Were there any loans from Eastern European countries pending at this time?

Mr. Rosen: Shortly after the French loan application came in, a group of other applications came in, some of them in the same sort of short form. A loan application came in from the Dutch, and I think I mentioned the Danes and the Belgians and one or two from Latin America. We also received an application from Poland; I believe from Czechoslovakia, although I'm not sure of that; one from Yugoslavia; one from Iran. Either the Polish or the Yugoslav application said, as I remember, that the amount of damage done to the country as a result of the war required reconstruction efforts which would require external finance which were estimated at around \$650 million. A loan was therefore requested for \$650 million. It was that sort of a two-sentence application.

Q: This was not unlike the initial letter from the French.

Mr. Rosen: Not unlike the initial letter, but of course the French application was supported by the Monnet Plan, the reconstruction plan, which was a huge volume of specific projects, of targets, of policies.

Q: The point I'm trying to get at, though, is that the Bank itself presumably took the initiative in calling up the French and saying, "Let's talk about your application," and didn't at the same time call on the others and talk similarly.

Mr. Rosen: Well, it did with all of these in a somewhat different form. At that point, first of all, the international political situation was not one in which Poland and Czechoslovakia were looked upon politically as they are by many people in the world today. Czechoslovakia had a quite democratic government, which was considered part of the pro-West bloc. Poland had a coalition government with an important Communist influence, but it, too, was not what soon came to be known as a satellite. The Yugoslav position was a somewhat different one. It had no meaningful diplomatic or economic contacts with the West at the time. The Polish application was seriously considered. There were a number of discussions with Poland. The Poland application got narrowed down to a proposal for reequipping and expansion of the coal mines of Poland. Again, it's necessary to remember that this was the immediate post-war period, and there was an acute critical shortage of coal in Europe at the time. There was also an acute and critical

shortage of shipping at the time, so that coal couldn't be shipped from the United States. So, Polish coal was of tremendous importance to Western Europe for survival. Poland was and could have been a major coal producer.

Q: One interjected question here. You say it got narrowed down. The French loan got narrowed down in total, but it still remained fairly broad in scope in that there was a general purpose approach. Is there any reason that you know that the Polish loan got narrowed down?

Mr. Rosen: I think it probably got narrowed down because, if one had to use one word, of the problems connected with any large loan for general purposes of a country which is fundamentally a Communist country. There was a question of whether a large loan to that kind of country would have made it possible for the Bank to sell bonds in the New York market.

But there's another part of this that ought to be mentioned, and here it's necessary to talk about the Bank's relationship with ECE, the Economic Commission for Europe, and I don't think that is one of the items on your agenda but that's a thoroughly interesting account, too. Gunnar Myrdal was executive secretary of the ECE at the time, and the ECE was looked upon by himself and by New York, by the UN in New York in Lake Success at the time, as being a major point in maintaining political and economic contact between the East and West and achieving East-West trade. Myrdal had as a neutral look upon his organization

as a way of keeping trade going between the Soviet Union and the People's Republic of the East and the Western countries, and this was a place where people could talk in a nonpolitical atmosphere on these issues.

He came up with several proposals for the sponsorship of East-West trade which involved the World Bank participation. One of them was a proposal for a series of timber votes, and these were intended to be loans in Finland, Yugoslavia, Poland and Czechoslovakia for the production of timber, for the importation of machinery to make possible the production of timber, the timber to be sold by these countries under trade agreements to Western Europe and the payments under the trade agreements to go into a special account which would repay the World Bank for its loans to these countries. In actual fact two timber loans I believe were finally made, one to Finland and one to Yugoslavia, quite small loans -- a million dollars or two million dollars on a two- or three-year maturity basis, since they were intended to bring in saw-milling equipment that would pay itself off at once. It was Myrdal who stressed the coal problem. And there was a coal committee at ECE, which at that time I think had even been allocating coal in Europe -- there was such a shortage that there was a problem of allocation.

Recognizing that a large reconstruction loan to Poland created difficulties in terms of the impact of the financial communities of the West, Myrdal came up with a proposal through his coal committee of expansion of coal production in Poland to be exported to West Europe and these proceeds not earmarked for

repayment but, in fact, providing the basis for repayment of the World Bank's loan.

Now, all this developed during 1947. The Polish application I don't think came in until early 1947, whereas the consideration of the French application started at the end of October '46. The Dutch came in in December of '46. I don't think the Polish application, the consideration of it, became significant until early 1947.

Q: When you say application here, are you referring to . . . ?

Mr. Rosen: I'm referring to this two-sentence letter. At this point, of course, no management was here. Nothing could be done until the March to June period -- until the McCloy-Garner team had arrived, until the place had been made a going concern again. By that time, of course, the European economic crisis had become an acute one. The speech of Marshall in '47, the conference in Paris and the issue as to whether Russia would participate -- Russia was invited to participate, the issue as to whether Poland and Czechoslovakia would participate or not -- they were invited and I think they first accepted. Now my memory is slipping, but I believe the forced withdrawal of Czechoslovakia by the Soviet Union from the Marshall Plan was one of the critical elements in forcing Masaryk out of office at the time. So the economic reconstruction of Europe and the political problems had become acutely intertwined by mid 1947. It was at this point that the Myrdal proposals coming out of ECE were intended to achieve

economic benefits and political benefits as well. And that is how the Polish proposal became by everybody's desires one of a more narrow concept of looking at a coal project. Work was done on this here. The Bank sent a mission to Poland. I'm not sure whether this was in 1947 or 1948. I do know that Mr. McCloy did a tour of Europe after the annual meeting in London in September of 1947 that included going to Poland on that tour and visiting the coal mines and talking about the coal mining project. I think our mission of loan officers and economists and coal-mining engineers and consultants went to Poland either shortly before or shortly after his visit. So this was a proposal which was quite seriously considered. It would have been a relatively small loan of \$5- to \$10 million that was thought of as a loan for a seven-year period or eight-year period, a relatively short period, longer than the timber loans, which were two-year or three-year loans, but nevertheless much shorter than the general reconstruction loans. That is the shape of the proposal that began to appear.

I don't remember specifically what happened on the Czech application, whether in fact that application ever reached the point of a further Czech request coming in after the original acknowledgment. I was not involved in this, and I don't remember anything on this or quite what happened on that. I don't think the Czechs pursued that application in the same serious and competent way in which the Poles did. The Poles had very good people on this proposal. Their economic minister in Washington today was in their planning group in Warsaw in 1947-'48. There

was a man at the Bank's mission in Poland and escorted them around on the tour of the coal mines.

Q: What was his name?

Mr. Rosen: I'd have to look that up.

Q: It wasn't Baranski, was it?

Mr. Rosen: No. He's number three man in the Polish Embassy here now and is economic minister in the Embassy -- not financial minister but economic minister. I met him recently at a diplomatic reception in Washington, and we talked about the earlier negotiations. The Polish loan did not go through. There was not any official explanation given, but I think it is probably not a diplomatic secret to say that it did not go through not because it would not have been a useful project to do or a desirable project. Nor did it not go through because the risks, even including the political risks, were so great that it was thought it would be imprudent to take those. But I think it did not go through because there was a serious question as to whether the proposal for such a loan could have gotten the majority vote of the board of directors. It would not have been able to be presented until 1948. By 1948 the East-West situation in Europe had deteriorated further, and the United States government, I think, had serious concern about the desirability

from a strategic point of view of building up the coal production capacity of Poland.

Q: Are you aware of any specific pressure that was brought by the United States government?

Mr. Rosen: I'm sure the records will not show it. None of the archives will show any of this evidence. I think the only place it could be found would be in the memories of Dean Acheson and John McCloy. But I personally have no doubt that Mr. McCloy was advised by the State Department and by the Pentagon that it would be undesirable to pursue this thing.

Q: I wonder if we could talk about the loan to Yugoslavia.

Mr. Rosen: That is a story that's going to take more than ten minutes, which is about what you've got left on the tape.

Q: I wonder if we could talk about Turkey for ten minutes.

Mr. Rosen: The Turkish story might be told in that time. There is a long story of the Bank's relations with Turkey, and this could in fact be told as a continuous story. I'll be glad to fill in the front half and the back half of it subsequently, but I think the interesting story to tell is the story of the rupture of the Bank's relationship with Turkey. This became one of the publicized cases of a country telling the Bank that it could

invite itself out from interference with that country's own affairs.

The Bank had made several loans to Turkey, starting, I believe, in 1949 or 1950, and by mid 1952 had lent Turkey about \$60 million, which was not an inconsiderable sum in terms of the size of the Bank's total loans by that time. Turkey was the fifth largest or seventh largest borrower of the Bank. There had been loans for forests and there had been loans for grain storage and there'd been a loan for a dam; I think there was a railway loan, too. There had been a group of loans, and they had not gone too badly. In 1952, the Bank's relations with Turkey were relatively close. The Bank had, in fact, had a mission in Turkey to do what is called a general survey of the development prospects and needs of the country, a mission headed by a man named James Barker of Illinois, who was an official of Sears & Roebuck and had been president of the All-State Insurance Company. He was a trustee at MIT, rather well known in the American financial community, and a very able person. This was, I believe, the second general survey mission the Bank had ever done. It was intended to make a thorough study of the country and to write a report, which would be published and which would be published in the country and would serve as a blueprint or a framework of action to be taken by the country.

That report was done, was prepared and was delivered by the Bank to the Turkish government. However, in the process of preparing the report and after the mission had been there and while the report was being prepared and before it was delivered,

Turkey had its first free election since the coming to power of Ataturk, and the government to the surprise of everyone changed. A new party came in to replace the previous party. A new group of people, people who had not particularly asked for the report, people who had been swept into power by the dissatisfaction of the peasants. This was the election, of course, in which Menderes became Prime Minister and Bayar became President in Turkey.

The report that was delivered to Turkey was addressed to the President of Turkey as had been the case when the first report of Colombia had been prepared and was delivered and addressed to the President of the country. The Prime Minister Menderes was very unhappy with this, feeling that the report should have been delivered to him. As a result of this, he was very disenchanted with the report, and this started a feeling that he was being slighted by the Bank. Nevertheless, the Bank's relations continued fairly close. A loan was signed during 1952 for the Seyhan Dam, a fairly large loan, and this was a fairly important operation in Turkey.

At the same time, as part of the progress in carrying out the recommendations of the report, the Turkish government agreed that it would be desirable for the Bank to station an economic and financial representative in Turkey who would serve to maintain contact with the Turkish government and World Bank and who would be available for advice on major problems of economic and financial policy. The Bank was very fortunate in having the right person for this job in the person of Pieter Lieftinck.

Professor Lieftinck resigned in 1952 from his position of finance minister of the Netherlands. He had been finance minister of the Netherlands from the liberation of the Netherlands until 1952. He had, I think, a seven-year term of office as finance minister, one of the longest of any finance minister of Europe. He was a man who introduced very strict monetary policies in the Netherlands which have accomplished the restoration of the strength of the guilder and the recovery of Holland. After seven years of this he thought he wanted to step out. He was a close friend of Mr. Black's and agreed to join the Bank and take on the post of Bank representative in Turkey. He had arrived and was being effectively used by Mr. Menderes and Mr. Polatkan, who was finance minister, in this advisory role.

However, during 1952 there was some deterioration of the Turkish financial position, a deterioration which created inflationary pressures which continued the problems which had become evident even a year or two earlier, which were some of the reasons that it was suggested it would be desirable to have an economic or financial adviser available.

Finally the question came as to what further loans the Bank might extend to Turkey, and an economic mission went to Turkey in the fall of 1953 to consider this question.

Q: Was the mission at the request of Turkey?

Mr. Rosen: The mission was at the request of the Turkish government. It was intended to review a group of projects.

There were technical people along. There were several hydroelectric schemes, a steel mill, other requirements in the Turkish economy, and the mission was intended to review these projects and to examine the economy to see what further loans could be made and whether these were suitable projects. I went as head of that mission. It was a peculiar arrangement since I was also on a mission to Greece at the same time, and I had two separate groups of people, one in Greece and one in Turkey, and I tried to commute, spending two weeks in Greece and then two weeks in Turkey to keep tabs on the progress of both countries.

By this time it was clear that Turkey was on the verge of very serious economic trouble. Turkey had run into heavy short-term obligations with a number of countries, was running into arrears on payments of some of its payments agreements accounts and some of its commercial accounts, was thinking of undertaking a considerable number of projects, which required heavy investment costs, and we came back from that mission convinced that there were real problems ahead for Turkey unless Turkey were willing to review drastically its economic program, policies, and cut back considerably on what was being undertaken. It was at this point that I had to go back to the Barker mission report, the survey mission report. This report, which was done two years or so earlier, had been unduly pessimistic about one possible rate of growth of the Turkish economy, on the needs of Turkey for tractors, on the possibility of expansion of wheat production and so on. And consequently the Turkish government referred back to the report in saying that any signs of caution that were being

given in 1953 were as ill-founded, as the signs of caution that were contained in the survey mission's report. But, nevertheless we came back having real reservations about the depth, about the investment program, about the projects -- not only those submitted for loan proposals, but the projects included in the investment program and the general financial policies of the government. And I came back feeling that we had to go very slowly in any further financial commitments to Turkey. At the same time I knew that it was only fair to Professor Lieftinck, who was our representative in Turkey, to ask him to come to Washington for the policy considerations of what our operations would be in Turkey. He was somewhat more optimistic than I was as to what could be done and as to the possibilities and prospects of Turkey.

In early 1954 -- January or February -- President Bayar of Turkey was invited to come to Washington as a guest of the United States government on an official visit. And we arranged to have him and his party at lunch in the Bank. At the luncheon ceremony that was arranged with him present, there was also Mr. Zorlu, who subsequently became foreign minister and who at that time was economic adviser, representative of Turkey in the Marshall Plan organization in Paris OEEC, and with one or two other sides.

Our recommendations were rather negative on the amount of loans that could be made, and the Turks were familiar with these recommendations. In fact, the evening before the lunch here there was a reception given at the Turkish Embassy for the President and I spent a good part of that evening in conversation

with Mr. Zorlu and the Turkish financial counselor there at the Turkish Embassy in Washington saying that we did not see that very much could be done although we were prepared to go ahead with a further small operation while recommending policy action to be taken.

Mr. Zorlu in particular didn't agree with this at all. He felt that we were unfounded in our pessimism, and he was convinced that Turkey could get all the financial assistance that it needed and would get this on a political basis from the United States government; that Turkey was on the southern tier of countries with respect to the Soviet Union. There had been by this time a Turkish-Greek aid program, and the Turkish Army was very important in NATO; the Turkish contingent of forces in Korea had been a significant contribution. He looked upon this entirely in political terms and was convinced that Turkey didn't need to contract in any way. It would go full speed ahead and it would get whatever money was necessary from the United States on political considerations.

He had received a considerable amount of encouragement in this view from various American political, economic and military representatives in Turkey, so that it was not an unreasonable view.

However, the evening before I had said that we did not think that we ought to spend the lunch talking business, that we would go ahead with carrying forward on small operations that had been talked about earlier, and that in the meantime we would continue to follow Turkish economic developments and see whether

we were wrong or right and whether if we were wrong whether there would be progress along the lines that the Turks were hoping there would be so that we could go further.

A very pleasant lunch was had upstairs in what was at that time Mr. Black's small dining room. I think there were 12 people in all present. The conversation was entirely social. At the end of the lunch Mr. Black presented President Bayar with a portfolio marked "International Bank for Reconstruction and Development" with an engraving on it in commemoration of the visit of the President of Turkey. The President opened this and jokingly remarked: "Oh, I thought there would be a loan contract in here." But it was still in quite friendly form.

During the course of the lunch the President, who spoke no English, used as an interpreter an official from the foreign office, a young man who was an excellent interpreter and who served as official interpreter. At the same time that we were having lunch there was another luncheon in the other room for a group of Turkish and American newsmen who were following the President. And it had been agreed that following the lunch there would be a joint press conference at which President Bayar and Mr. Black would answer any questions that were to be put. The press conference was rather desultory because there was no news that would come out of it and not very many comments made. I think President Bayar was queried about his speech at the National Press Club rather than anything to do with the Bank.

At this point the press conference broke up and we all started to say goodbye. The press started to leave the room. This was our board room, and the affair was over, when while we were all standing at the head of the table, President Bayar said, "Well, I did want to ask you a question about that loan."

Tape #2

Rosen (continued): Just as the press conference ended we were all standing at the head of the table about to say goodbye when the President turned to Mr. Pike and said, I do have one question I would like to ask and that's where do we stand on the Geddes loan? I think that's what it was. It was one of the hydroelectric power project developments. I've forgotten the name of the particular project. At this point a couple of the newsmen came rushing forward to listen to this, and we quickly shushed them out of the room and shut the door while the conversation began. Mr. Black was taken aback by this because he had been told by me and by the Turkish director that no business would come up, and he didn't know quite what to answer. He certainly didn't want to get into a substantive discussion. But he started by saying that we had some question about the Turkish economic position and that we felt that it was necessary to review these questions and to reach conclusions on these questions and to see whether an approach which solved these problems could be determined in discussions with the Turkish government that would make it clear to us that the problems were going to be met and would still be consistent with what the government wanted to do, and that he did not feel that he wanted to talk about the substance of a particular project or whether it would be a particular loan for a particular project until the overall economic questions were reviewed. He went on to say, "We haven't fully completed our view at this point." He then asked

me if I had anything to add to this, and I wanted to keep the conversation as short as possible, so I said that we were working on the review, that we'd be glad to discuss these general economic questions with members of the President's party while they were in Washington and subsequently if he wished.

At this point Mr. Zorlu came into the conversation, and he came in not only directly but in my opinion more importantly indirectly by shunting aside the official interpreter and taking on the role of interpreting. Zorlu's English is very good, so I don't doubt that he could do the interpreting. On the other hand, he was a participant in the conversation as well. And I have the gravest doubts that he was interpreting correctly during this exchange; that he was communicating some of his own views in both the communications back and forth.

Q: Was he the official interpreter from the American State Department?

Rosen: No, this was an interpreter from the foreign office who had been present sitting in a little chair behind the President all the time without getting any lunch and busy talking, and he started to interpret and was pushed aside by Zorlu.

Q: He was Turkish then.

Rosen: Turkish, yes. Zorlu took over. The position Zorlu interpreted President Bayar saying was that the Turkish

government considered it improper for the Bank to be asking any questions about the general economic policies of Turkey or the future economic position of Turkey, that the decision should be made on whether the Geddes project was a sound project. If this was a good project there ought to be a loan for it. What the size of the Turkish debt was or what the balance of payments was or how that deficit was going to be covered or what was going to happen in the future were matters for Turkey to decide and not for the Bank to decide, and that the Bank shouldn't be involved in those questions. Its function was reviewing projects, deciding whether a project was a good project and if it were, then it should loan to that project.

Mr. Black wouldn't accept this approach, but made it clear that we were not yet in a position to say whether the Turkish situation was something we ought to operate or ought not to operate, that we were carrying on our studies and would be in touch with them in the future, trying to the maximum extent possible to cut aside any possibility of controversy, particularly personal controversy.

At this point Mr. Garner intervened to say that he agreed with all this, but he wanted to make very, very clear to the Turkish President that the Bank was very much concerned with the overall economic policy, and unless it could be satisfied with the economic policy, it wasn't going to consider any loan for any project.

At this point a two- or three- or five-minute argument developed between President Bayar and Mr. Garner or between Zorlu

and Mr. Garner on this issue. Mr. Black came back into this and stopped the debate, getting back again to the issue that we would review the position and get in touch with them. And we seemed to have parted on a reasonably friendly basis. Mr. Black went down the elevator to the car with President Bayar, and they more or less parted with arms around each other's shoulders, and everybody seemed to be on a thoroughly friendly basis.

Shortly after this point, I explained to the Turkish financial counselor where we stood, and that this didn't seem like a very happy time to try to review the overall economic position, but that as soon as he thought that this could be reviewed effectively with his government, we were ready to do so. And Pieter Liefstinck departed from Washington to return to Turkey.

He had at that point been named to head a Bank survey mission in Syria. He was going to maintain the office in Turkey but was going to head the survey mission that did the accounting report, a published book, on Syria. On his way back to Turkey he stopped in Paris, where he met with the OEEC. Of course he was just there a few months or a year or so out of being finance minister of Holland, and his influence in OEEC was very considerable. And he met with OEEC at the request of the Turkish minister of the national economy to see what kind of assistance OEEC might give Turkey and whether there could be some sort of funding of the short-term claims on the various payments agreements with Turkey, with the OEEC members with Turkey. Turkey was in a peculiar position in the European interim

payments agreements, in EPU, at that time because Turkey was in such a deficit position with each of the countries that there wasn't offsetting the Turkish bilateral position that there was of all the other countries, but Turkey had special drawing rights granted by the members.

Lieftinck met with the EPU and the OEEC on this and got some encouragement from them as to the help they would be willing to give to Turkey. He got some encouragement from them on their willingness to take larger quantities of Turkish exports of wheat and tobacco, which were two products that Turkey was having trouble selling. I won't go into the issue of the Turkish wheat policy, the price policy and the inflationary impact of this in spots they were accumulating government deficits as a result of this and the monetary expansion that was resulting from all this and all the price pressures that were developing. This was all a very serious problem. Lieftinck did, however, as I say, get some indication of possible help, probable help from OEEC.

He went back to Ankara and spent three days in Ankara on his way to Syria. The Prime Minister, Mr. Menderes, was absent from Ankara at the time, so Lieftinck wasn't able to see him, and so he sent a note to the Prime Minister telling him of the results of his conversations in Paris.

The next thing we knew shortly afterwards was a cable addressed to Black from Menderes protesting in strong language from [inaudible] Turkey arising from Lieftinck's intervention in internal Turkish affairs; that his uninvited, unwarranted representations for Turkey or in respect to Turkey with

international bodies such as OEEC were unwelcome, and saying that this was an action that could not be tolerated, and that the Bank representative should leave Turkey.

We sent back a cable saying that we didn't know all the facts, but we did know enough about the facts and particularly we knew enough about what Lieftinck did to know that anything he did was in the interests of Turkey and in conformity with accepted international practices and we couldn't accept their allegations of improper action, but in view of the fact that the only purpose to have the office there was to try to be of assistance to Turkey, if they didn't want the office, we would be glad to close it.

Turkey issued a set of press releases which got fairly wide publicity in the world press about the World Bank interfering in Turkish internal economic affairs and being kicked out of Turkey, and that really ended the Bank's relationship on any but the most formal basis with Turkey from that time on until the military coup, the arrest of Bayar, Menderes and Polatkan, the finance minister, and Zorlu. Zorlu was considered to be the person primarily responsible for the problem. The selection of a new, now present finance minister, who spent several years with the Monetary Fund, and had a great deal of sympathy for what the Bank and Lieftinck were trying to do in Turkey. But this story, the full parts of which have not yet been published, is one of the interesting tales of the Bank's relationships with a member. It's a rather interesting story, too, in the fact that the person who was blamed by the member country for what they thought was an

unhappy relationship was in fact the person who was the strongest possible supporter for that country in the Bank and who thought the Bank, if anything, was going too slowly in its willingness to undertake new financial commitments.

The annual meeting this year is in Vienna. Mr. Black has been invited by the Turkish government to come to Turkey afterward. Rather interestingly, he has been specifically invited to come and bring Mr. Lieftinck with him if he does come.

Q: I take it that it had been well established Bank policy by 1952 that the balance of payments, the foreign debt, maturities of foreign debts and domestic fiscal policy were all things that the Bank wanted to consider.

Rosen: There are two fundamental tenets of Bank policy, and this, I think, brings us to the expression of Bank policy in the Fifth Annual report, which is one of the other topics we'll talk about. There are two fundamental tenets. One of them is that there are only two conditions the Bank asks for. One of them is that it will get its money back, and the other is that the money will be effectively used for sound projects. The only way you can talk about getting your money back is reaching a positive conclusion that there is ample creditworthiness to incur the debt and that economic policies that are being pursued are such which will permit repayment of debt. When a country is in default, is running into very heavy debt, is faced with a crisis, there is no basis of creditworthiness, and I personally am very proud of the

fact that the Bank as early as 1953 correctly diagnosed the Turkish difficulties, diagnosed them, I think, well ahead of most of the other people involved in Turkish affairs. The Bank very properly felt that it could not go further in Turkey, could not take very much of a further stake in Turkey in view of this position.

Q: Could you say how early in the Bank's history it was firmly established that the Bank was going to consider these?

Rosen: Well, this began as early as in the French loan in terms of trying to give a forward balance of payments projection to show the achievement of equilibrium which would permit the meeting of debt service charges. This was one of the concepts I mentioned earlier that created difficulty with us in France because we had never considered how that kind of a future balance of payments projection can effectively be made. It came from that time on, and it had been very clearly enunciated repeatedly since that time.

Q: One last question about Turkey. Were you yourself mainly concerned about its foreign debt or about its balance of payments position or about its domestic inflation?

Rosen: All these were intermingled. To speak accurately about why I came back in 1953 very much concerned about Turkish developments would require looking back into some of our papers

from the time. The domestic price policy was one of them; the expansion of money supply was another; the incurrence of debts building up of non-exportable stocks of goods; the incurrence of very heavy expenditures by the quasi-public bodies; extra budgetary expenditures. There were all of the elements inherent in overspending and at that time not very wise spending and in overborrowing to cover the overspending. All these elements were apparent at the time. They became much worse subsequently. Turkey ran into a very, very heavy debt, but the items were all apparent then.

Q: Did the United States government ever come through to meet the expectations of Zorlu and others as far as getting them out of the hole?

Rosen: The answer to that is yes and no. The United States government put a great deal of money into Turkey. The United States government was very unhappy with the position which we took towards Turkey at this time. But it became clear subsequently that the United States government couldn't provide the amounts that were thought of. Turkey ran into a position where its debt reached well over a billion dollars, and most of this in short-term commercial debts, a large part of which got into arrears. Additional military aid was given to Turkey, additional budgetary support to make possible the size of the forces of Turkey, the size of the economic aid program was enlarged, but it never reached the point to meet the deficit

without the inflationary pressures continuing till finally the inflationary situation became acute enough that the United States also became convinced that the effective policy to follow would be one of applying pressure rather than trying to inject money.

Q: Did Turkey's affair occur before or after the Bank became somewhat disenchanted with Brazil?

Rosen: After. The Bank still continued to operate in Brazil. That's a very good question, because the symptoms of what could be seen in Turkey were very similar to the symptoms that had become apparent in Brazil two or three years earlier. And I can remember having a discussion with the finance minister in that fall when I was there, telling him the story of the Brazilian experience and how Brazil found itself in very serious difficulty and needed to get a whopping amount of aid, which it's still in trouble over, in order to refinance short-term commercial debts, and saying that it looked to me that Turkey were following the same path, and this was precisely what we thought he wanted to avoid. I can also remember him saying very clearly that he was interested in the Brazilian story, but he could assure me that Turkey would not do the same thing that Brazil did.

I must say that I've always had a great deal of sympathy for [inaudible] position, and I don't think this was particularly his fault. I think the pressures put by Zorlu and the influence of Zorlu were such that the finance controls and the influence of the finance ministry were subordinated.

Q: Well, perhaps we can start next time discussing the Fifth Annual Report.

Rosen Tape #3

Rosen: The story of the Bank operations in Yugoslavia involved an interesting and I think fairly remarkable account of the Bank's participation in an economic problem which developed into a political problem as well.

Yugoslavia as one of the countries involved in the European war was one of the countries which applied early for a large reconstruction loan in the form of one of the first one-page loan applications, but did not do anything to push forward on this. And in the 1947-1948 period Yugoslavia, of course, was one of the countries which had the least economic relations with the West. Yugoslavia was at that time taking a political position in the world more strongly anti-American, anti-West than even the Soviet Union or the rest of the Soviet Union satellites.

A significant political development which occurred in the middle of 1948 was the publication of the break between Yugoslavia and Russia arising out of the role of the Cominform and the extent to which the Yugoslav Communist party was to be controlled by the Central Committee in Russia. This had apparently been brewing for some time but was publicized by a release of letters by the Central Committee in the Soviet Union which involved a fairly acrimonious exchange between the two countries. There was the withdrawal of ambassadors, although not a complete rupture of diplomatic relations, and there was the beginning of an economic blockage of Yugoslavia, again in 1948, by Russia and the Soviet area. Prior to that time a very large

part of the Soviet trade had been going to the East, and suddenly all this trade was broken off. At the same time there were a large number of investment projects in Yugoslavia under the Yugoslav Plan, which were to be equipped through equipment coming from Russia and Czechoslovakia and Hungary, and these were broken off. The deliveries on these were broken off, and these projects came to a halt. Yugoslavia was faced with a critical exchange shortage, both because of the loss of export markets and the non-delivery of goods that were to come in under investment credits.

Consequently, in 1949, early 1949, a few months after the publication of the break, Yugoslavia turned to the World Bank as a means of getting some of the financial aid that she felt that she needed.

She felt she was able to do this because of the fact that Czechoslovakia had turned earlier to the International Monetary Fund and had received a drawing from the Monetary Fund--received this even after the time that Czechoslovakia had had the Masaryk government go out and had become clearly under the Soviet dominance. But the fact that Czechoslovakia was able to turn to the Bretton Woods organization meant that Yugoslavia also felt that she could without it looking as though she were turning to the capitalist West, without getting into the same sort of problems.

Q: Just from the standpoint of timing, I wonder if you could relate this to the Czech and Polish applications to the Bank for loans.

Rosen: Well, the Polish application to the Bank was much earlier, and this was still hanging fire, or I guess about by this time had almost been turned down. I'm not sure of this. I think it was at the verge of being turned down. The Czech application had come in earlier, too, but nothing had happened on it. There had been no significant effort on the part of Czechoslovakia to push the thing forward. By the spring of 1949 I would think that the decision had probably been made, that Poland knew that it was not getting a loan. On the other hand, it was at this time that Czechoslovakia did get its fund drawing, and these two were looked upon as being about the same.

The Yugoslavs in early '49 advised the Bank that they wished to proceed with their loan proposal and were told that if they were to do so, they would need more than a one-page loan application; they would have to present information on the projects for which the loan was to be used and on the economy. And as a result, the Yugoslavs in 1949 sent a mission to Washington. It was, I believe, a one-man mission. It may have been two. But I can remember only one person. The mission consisted of the chief economic adviser at that time in the ministry of finance, a man by the name of Dr. Dragoslav Avramovic, who is now on the World Bank staff; has been for the last few years. Avramovic came to the United States, to Washington, for these negotiations, for the explanation of the Yugoslav desire, coming after a background of fairly expensive negotiations on behalf of Yugoslavia. He had been involved in

three principal series of negotiations before this time with the Yugoslavs.

One of them had been the Yugoslav-United States government negotiations for the release of the Yugoslav gold that had been frozen in the U.S. at the end of the war at the time that the Tito government took over. The gold was released in exchange for certain agreements on a certain amount to be set aside for compensating for nationalized American properties.

The second negotiation Avramovic had had, also involving the West, had been the Trieste negotiations--the establishment of a financial agreement for Trieste. The third negotiation that he had just been through was a negotiation in Moscow with the Soviet Union on an aid and trade agreement, and this was after the break had taken place. The negotiations had not been successful. A very able person, a very reliable person, a very well-trained outstanding economist.

He came and was authorized by his government to present a great bulk of information, a mass of information, on the Yugoslav economy. I was given the job of receiving him, receiving the information, trying to analyze it, trying to get some concept of the economy on the basis of which a decision might be made as to whether a loan could be extended.

This was a unique kind of job, because it meant trying to put together the facts on an economy when there was no published information of any kind available. There was a constitution, or at least a law, in Yugoslavia at the time, which made the release of any economic data of any kind high treason. So there were no

publications. There was no information of any kind even on population, much less on output of any sort. The only available figures prior to Avramovic's coming here were some of the annual presentations to the Yugoslav Parliament on the plan and on the realization of the plan. These were all presented in percentage figures showing percentage fulfillment of target—95 percent or 103 percent. None of this meant anything without knowing what the target was, and the target figures were not available in absolute quantities. There was no data on trade available either. There was no data on production. There was no data on income. It meant trying to get all of the fundamental data, all of it needing to be presented in tight manuscript classified form, that normally is available and has been well worked through before any analysis of an economy begins.

Avramovic had a good deal of this information available. He was able to get more. And more important than any of this was the fact that he had authority from his government to release information to us and release information of a kind that had never been made available before to anyone but the highest placed local Communist party officials. It was not available in any kind before, even to the administrators in the economy.

He spent a few weeks--I don't remember whether it was three or six or eight weeks, a fairly extensive time here--giving us a chance to get the story of the background of the economy, of the investment program, of the status of the investment program, of the expected achievements of the plan, of the size of output to be accomplished by the plan and the use of balance sheets in

certain raw materials, how much copper was produced and how much was used in various activities and so forth. He gave us some of this so that we could put together a position paper.

On the basis of the position paper, we came to the conclusion that the Yugoslav economy was in serious difficulty at that time. It was in difficulty for several reasons: one the post-wartime devastation; second, the complete disruption of the economy involved in the change in economic system; and, third, the further disruption in the economy arising from the need to reorient 80 percent of the trade from eastern Europe to other areas.

We, however, felt that in spite of these present difficulties, that we could see a future position in which there could be a viable economy, and that we thought this was worth sending an economic mission to investigate.

Q: Do you recall whether in the discussions in the Bank itself, there was any parallel drawn to the Polish situation? Or was the fact that the Yugoslavs were having difficulty with the Soviets sort of a favorable point?

Rosen: We were realistic enough to know that if all these conclusions came out the right way and the management could recommend the loan, it would still be necessary to have this loan approved by the Board; and this would require U.S. approval. So someone touched base with the U.S. government to see whether they felt that this kind of a mission was worthwhile and whether there

would be reasons in principle to turn down a loan. Similar checks were made with some of the principal European governments, and the answers were if the Bank were willing to make an investment in Yugoslavia, none of the principal governments would stand in the way of that investment being made. They were not encouraging it to be made for political reasons. They would not either for political reasons say no to the proposal if it came forward. There was this differentiation from the Polish case that made it possible to go ahead.

Accordingly, we set up a mission to go to Yugoslavia. It was quite a mission, a fairly large mission, because we recognized that we would have to be starting from scratch. The mission was headed by Stanley Hoar, who at that time was assistant director of the loan department. We had on it a number of people who are still in the Bank. Raymond Cope, who had recently joined the Bank, went along as a sort of officer or assistant loan officer. Sam Lipkowitz went on the mission as an industrial expert. Arthur Wubnig was along as a transportation man. We had somebody in agriculture, whom I don't remember. We hired a consultant in industry to come along. I was along as sort of chief economist. We had one or two other people. It developed into a fairly large mission. Most of the others went off a little bit ahead of me, arrived in Yugoslavia about a week before I left. I went, if I remember correctly, at the end of August or middle of August.

I remember very well that the day I left New York--I think it was still LaGuardia Airport rather than Idlewild at that time--

-just as I was waiting in the airport before catching a plane, there was an afternoon paper with a huge headline: Russian Troop Movements Expected on Yugoslav Border. The political situation between Russia and Yugoslavia had badly deteriorated, and there was very real threat of war, very real danger of war. I arrived to find that the headlines were by no means exaggerated. There weren't Russian troops; they were Hungarian troops, since there isn't a joint Russian-Yugoslav border. But at any number of border points there would regularly be incidents during which Hungarian tanks would start about a mile back from the border and come charging at full speed towards the border, turning away at the last minute, but with the Yugoslav border guards never knowing whether this was it or not, whether this was the invasion that was expected. This was a probing of nerves that was going on continuously, primarily on the Hungarian border, but also on the Albanian border. But the situation was a very tense and difficult political one. There had been certain defections among the Yugoslav authorities who had gone over to the Cominform, including a vice-minister of finance and one or two other key defections, with about three-fourths of these people caught before they had escaped but clearly had defected. The exchange at the political level was becoming successively more acrimonious.

There was not yet a complete break in political relations between the East and the West. There was still, I believe, a first secretary of the Soviet Embassy serving as chargé, and, in fact, travel arrangements were still going on. I came to

Belgrade via Prague and Budapest; flew on a Bulgarian airplane which flew from Prague to Budapest to Belgrade to Sofia. This route was still open and was still flying. It closed a few weeks later, but there still was that degree of travel among the eastern European countries. But the situation was a very tense one.

We arrived and found that we were given a very warm welcome and very good cooperation. At the top level the government had instructed people to make all information available to us, and we were dealt with by a little steering committee chaired by three people, who had important positions and complete political clearance within Yugoslavia. The three-man group whom we dealt with was headed by Vojin Guzina, who subsequently became governor of the National Bank and is today head of a planning office. There was a man named Kiro Gligorov, who was the vice-minister of production perhaps of one of the ministers, who was the outstanding economic theoretician of the Yugoslav Communist party. There was a third man who was more of an administrator, who didn't have the same position of responsibility that the other two people did--a man named Ripp from the ministry of trade. But they were instructed to make all information available that we asked for and to let us go and see anything we wanted to in the country. We did travel around very considerably, saw lots of projects. I spent my time almost exclusively in Belgrade, however, trying to put together the current economic position.

Q: I wonder if I might ask a question about the information. Did the Bank, for its part, agree that the information it was receiving was to be kept confidential?

Rosen: Oh, yes. Of course, this is part of the banking relationship the Bank has with all of its members, but it was very clear that this was information that was being made available to an international organization and not to governments, and that information was kept confidential.

About a week after we got there we had a meeting with Marshal Tito. Hoar, Cope and I went to see Tito. This became quite a publicized affair because this was the first publicized meeting of any western group with Tito, the first meeting after the break. We found him, as all people who have since seen him of course say, a very impressive sort of person. He stressed the fact that Yugoslavia was dealing with the World Bank as an international organization concerned with the economy of the country. It was not a meeting at which much of substance was discussed, but it did lay down the kind of relationship that we were having with the Yugoslav officials with whom we were dealing.

As I say, I spent my time trying to put together the economic situation. What emerged during the course of this visit was that the Yugoslav economy was at a true crisis point. I think it is true to say that until we had had this set of meetings no one in Yugoslavia, including Tito, realized how close this crisis was, but it was a crisis which developed from the

fact that the country was at that point virtually bankrupt. Its foreign exchange reserves were down to two or three million dollars or less. Its supplies of raw materials for normal purposes of processing and production were virtually nil-- factories shutting down because it didn't have cotton or the wool or copper or aluminum, didn't have the steel to process. Even essential raw materials were available only in a day- or two days of stock at a time. And when the ship arrived the factory was notified and called people back to go to work as soon as the goods could be delivered.

We learned--and this, too, I think even the Yugoslavs themselves hadn't fully realized--that their stocks of petroleum, including the stocks of aviation gasoline were down at the same point. At one crisis meeting that we had after I had been there about three weeks and just before I was leaving I developed this whole picture, showed how near to the breaking point the economy was, showed that in fact the stocks of aviation gasoline that were available to the military to keep military vehicles and planes going was a stock that could last only two days. Obviously, if the Russians had known this at the time, I have no doubt there would have been a military movement in.

This desperate situation was one which the World Bank could not do anything about. Investment loans, even if they could have been made, would not have helped this kind of situation. But it was at this point that Yugoslavia decided to try to get an emergency drawing from the Monetary Fund. At that point an emergency drawing I think of only three million dollars was

enough to provide aviation gasoline and fuel for military vehicles and a few other raw materials on a two months' basis, a two months' stock of these key materials. They had about two days' stocks up to then.

So during the course of our putting together these figures, when we saw what the position was, they thought of--and we agreed with it--a proposal to try to get an emergency drawing from the Fund. They asked for three million dollars. I agreed to come back immediately with the picture and to present the problem as it existed to the Fund and to the principal western governments on the Fund, telling them what the needs were and why the drawing was required.

Q: Did the Yugoslavs have any objections to your disclosing their situation to the western governments?

Rosen: No, they thought that this was necessary if they were to get this drawing. They saw it was needed.

Q: Had it occurred to them, do you know, to apply directly to the western governments in the first place?

Rosen: Oh, no. That would have been completely impossible at the time, because applying directly to the western governments for government aid would have meant that they were being brought under the cloak of western imperialism and would not have been a politically possible situation.

At that time (I guess it's necessary to give a little bit more of the political background) the Greek civil war was still going on, and the Greek civil war was a war that was fought largely on the basis of the Yugoslav-Greek frontiers. It was Yugoslavia who was supporting the Greek Communists. It was a Yugoslav general, whom I subsequently met and saw a good deal of, who was the leader of the Greek Communist forces. The papers were filled and the radio with blistering attacks on the decadent Greek monarchial oligarchy and on the West for supporting it, so that the concept of going directly to the United States or to Britain at this point was completely unthinkable. Going to a United Nations organization was different. But this was the situation as of mid-September, '49.

I left Belgrade, as I say, to come back with this story and to try to help the Yugoslavs get some aid, get the Fund drawing. I had to come through Prague at the time. This was the only way of coming back. And I remember this very well: I had to spend six hours in Prague at the time with a briefcase filled with information that I was sure that the Czech and the Russian intelligence services would have given a good deal for and would be able to do a fair number of knifings to get. I stayed at the airport in Prague in order not to have any possibility of any incident. I was under fairly close surveillance by the Czech authorities at the time, but there was no incident or any problem.

I came back to Washington directly from Prague, flew straight through, and arrived at the time that the annual meeting

was going on, which, in one sense, was fortunate because it meant that it was possible to get a hold of a lot of people rapidly. I told Mr. Black this story the next morning at breakfast after I got back, and he arranged for me that day to see some of the State Department people who were concerned with economic affairs, and I saw some of the British and French; talked to the American, British and French directors on the Fund and to the deputy managing director of the Fund. The Yugoslav application had just been received and was granted, I believe, about a week later, which was of fundamental importance in meeting the immediate crisis need.

This was, in some respects, though obviously a very exciting experience, but a very fortunate experience for the Bank because this created in Yugoslavia the impression that the Bank would be able to be of assistance to them over and beyond the normal furnishing of financial assistance. It created a feeling of mutual confidence in terms of willingness to divulge and analyze problems. Also, the analysis which we had put together provided the first chance the Yugoslavs had had of having this kind of an analysis made--having a group of objective minds put to work at trying to give an objective picture of the economy. Their people, of course, were all members of the Communist party. Most of them had been trained in Yugoslavia, and they had not had the advantage or the opportunity to keep up with current techniques or methods of economic analysis and to get the benefits of this approach to consideration of their own problems. This was also something for which they were very grateful.

We came back, and the Yugoslavs subsequently made another drawing on the Fund, a somewhat larger drawing on the Fund. This one they arranged themselves and worked out some banking credits in some European countries to help provide a little backing for their short-term needs.

In the meantime, we prepared a report on the economy, an analysis of the investment program, a review of the economic position of the country and a judgment as to where it would be possible to go.

At the same time there was one fundamental problem standing in the way of Bank lending to Yugoslavia in addition to the very important problem of whether Yugoslavia was creditworthy. That one problem was the question that Yugoslavia had not yet settled its pre-war defaulted debt. There were Yugoslav bonds that had been issued in New York, in Paris and London and some other European countries that had gone into default in the '30s when many international bonds went into default, and no agreement of settlement had yet been reached.

The Bank had adopted a policy much earlier of being unwilling to make loans unless there were settlements of defaulted private debts. This was a policy that was adopted vis-à-vis Chile in 1947 and was the basis of the delay in the Chilean loan and all the implications that that had on the organization of the Bank and the resignation of Meyer and all. But the Bank had this policy of being unwilling to make a loan unless there was a settlement of the debt. The Yugoslavs owed a great deal of debt and were not in a position, they felt, to make a settlement.

They also felt there would be great political difficulties in negotiating a settlement, and they felt that trying to negotiate under these circumstances would result in their being virtually forced to settle at the point of a pistol.

There was a great deal of backing and filling on this between the Yugoslav ambassador in Washington and Mr. Black until finally a deal was worked out between them. This deal provided that the Bank would continue to proceed with consideration of the loan and would be willing to make a loan if justified without a prior settlement of debt but only on condition that Yugoslavia agreed in writing to the Bank to settle the debt by a specific date. I believe it was three years from the time of the loan agreement, two years or three years from the time of the loan agreement, or in the absence of a settlement to set aside annually an amount of money which the ambassador of Yugoslavia informed the president of the Bank in confidence, an amount which of course had to be kept secret because this would prejudice the ability to negotiate. He did inform us about what that amount would be, and after a fairly careful analysis we came to the conclusion that this was a reasonable annual payment on the debt, and that a settlement which would involve payment equal to that amount would be a reasonable one. And accordingly, Mr. Black felt that proceeding on this basis would not be against the interests of the bondholders but probably in the interests of the bondholders. He discussed this with the representatives of the bondholder associations, all of whom felt that in the present political situation there was virtually no possibility of a

settlement with Yugoslavia; in the present economic situation there was no possibility of any settlement with Yugoslavia; and that it would be much better to have a deal along the lines suggested than not to have any deal at all. So that the bondholders' representatives supported the proposal.

Accordingly, Mr. Black agreed that he would go to Yugoslavia in 1950. As I said earlier, my visit was in August-September, 1949, the annual meeting in September, '49, and the Fund drawing in October, '49, subsequent drawing later that year or early 1950; discussions on the debt in early 1950; and by June 1950 an agreement on the procedure on the debt that I've just described. But there still needed to be a decision as to whether a loan could be made, how much, for what purposes, and in what form and in what conditions. Mr. Black felt that the best way to try to settle this would be for him to go to Yugoslavia and to meet with the Yugoslavs directly, to meet with Tito, and see whether a deal could be worked out.

He therefore decided to go to Belgrade in September 1950 at the end of the annual meeting, when the annual meeting was over. The annual meeting that year was held in Paris. He and Mrs. Black went, and I went along with the two of them, and we spent just about a week, ten days I believe it was, in Belgrade. We spent this time, and on the first or second day there had quite a long meeting with Tito. Tito gave lunch for us, had a luncheon for about twelve people and then spent the afternoon showing us the sights of Belgrade.

The lunch I long remembered for quite a number of things that came up. One was quite an extensive discussion of history between Tito and Black in which they discussed and agreed upon the materialistic determination of history. The two men hit it off surprising well, and I think each one won the confidence of the other very soon.

Q: A question about philosophy. By materialistic determination, you don't mean the same thing as a Marxist interpretation.

Rosen: Well, this is what Tito obviously meant - the Marxist determinism. Black meant by this the fact that economic factors are the fundamental factors determining history.

Q: Did the question of class conflict get discussed?

Rosen: A bit, although not very extensively. It was more in terms of the fact that both agreed that war and wars and pressures toward war developed out of economic rather than out of political factors.

I remember the lunch for another reason, and that is that sitting under the table with us was Tito's famous dog, the dog that has been written about in all the various biographies, the dog that accompanied him during all the guerilla campaigns. The dog at this point was fairly old and fortunately quite toothless. But this dog took a liking for my ankle and spent the fair part of the lunch gnawing on my foot. I didn't know quite how to

behave in these circumstances, whether to ask the marshal to have his dog thrown out or whether to keep quiet or to try kicking the dog or just what. But I spent lunch having my right ankle gnawed by this very historic dog.

Q: You should have been reminded of the Spartan boy whose insides were eaten out by the fox.

Rosen: Well, fortunately the dog's teeth were gone. He was licking more than biting, but it was an unexpected occasion.

Tito was a charming host during this period. As I say, he took the Blacks and me to see a couple of palaces, to see one of the art museums. We all had cars assigned to us, and Black's car was of course standing by while we were having lunch. Then Tito suddenly decided we should go sight-seeing, and he put the Blacks into their car and immediately jumped on the jump seat in the back and off we went, no escort, no guard, no anything. I came along with some of the other people in the next car. And about 20 minutes later Tito's normal escort of two jeeps with a couple of tommy gun guards found out that he had gone off and came roaring up to catch up with the procession. But it was rather interesting that he did go right off without any concern of any kind about security.

We spent this time in Belgrade on the economic side doing a review of the Yugoslav plan. We had done much of this, of course, in the time of the mission, and we had had the mission's report, so I had the background for the discussions with the

Yugoslavs. But they after this set up a quite high-level working group to meet first with Black and me, and then when Black went off to Dubrovnik with me, a group that was headed by Boris Kidrich, who was vice-premier in charge of economics, with their minister of finance, their minister of production and one or two other people, we reviewed the plan, reviewed the targets and came up with several key conclusions--conclusions which subsequently Black reported on to the committee and finally to Tito at another meeting with him.

The basic conclusion was that the plan was too big, too fast and it had too much emphasis on heavy industry. In terms of numbers (I'm not sure I remember all of these), I think the Yugoslavs expected to carry out an investment program which involved the need for imported equipment, which is a pretty good measure of the size of the plan, of \$300 million over a two-year period with a little over half of this going into heavy industry. He felt that \$300 million over two years was too big, that it should be \$200 million rather than \$300 million; that the two-year period for this was too fast instead of two years, I think we said either three years or four years; and the composition of the program was wrong with too much of it going into heavy industry. Instead of the 60 percent, there should be no more than 25 or 30 percent going into heavy industry.

We had quite a long argument on this, an argument which reached very vitriolic points. I again shall never forget sitting in the office of Kidrich, who is now dead but who, at that time, was the economic czar of the country, the vice-premier

in charge of economic affairs, and telling him what my conclusions were. And he sat and shook his finger at me and said, "It wasn't more than a few months ago that the Soviet ambassador sat there and said that we were trying to do too much too fast, and we broke off relations with the Soviets. And if you tell us that, that's what we shall do with you."

I told him that we didn't have the kind of relations that could get broken off on this kind of basis. But if he was interested what the Bank's staff's opinion of the program was, this is what it was.

Now, this, as I say, involved very extensive and difficult talks, but eventually on the last day, the evening of the last day that we were there, we had a long meeting with Tito that went on till about 8:30 in the evening, at which he finally agreed to changes in the program along the three points that we had made-- cut the size, cut the speed and change the direction.

We were supposed to have had a courtesy call on him from six to 6:30. We didn't get there till seven because he had asked to postpone it for an hour to get a briefing on what the problems were, and we stayed from seven till 8:30. There was a huge reception which had been planned for us with all the cabinet and all the top party people and all the top military people plus Zinka Milanov, the opera singer, the Yugoslav opera singer putting on a performance for us. We arrived at a quarter after nine instead of 7:30 when we were supposed to have been there, finding everybody pretty hungry and pretty fed up. But we did

arrive at this time because of the delay caused by the meeting with the marshal.

He did accept this, and we had a deal, we thought. This was, however, broken that night by something that one of the ministers told me at the party, saying that they had agreed to this but there was an exception. I've now forgotten what the exception was, but I didn't think this was acceptable, and Mr. Black felt even more strongly that this wasn't acceptable. So I told this to that minister that night. We were leaving the following morning fairly early by plane for Switzerland or Germany, wherever it was. We went to the airport and were taken to the airport. Our escorting officer was a man named Vladimir Velebit. Velebit was a key official in the Yugoslav hierarchy. He had been the Yugoslav military liaison with Churchill's headquarters during the war, during the partisan period. He was one of the leaders in the partisan campaign. He'd had quite a record. He was also one of the people who was named specifically in the exchange of correspondence with the Russian Communist party, with the Central Committee of the Soviet party. He was accused by them of being a British spy and of leading the Yugoslavs in the wrong direction. He is now executive secretary of the Economic Commission for Europe. He has held a number of ministerial positions in the government, a very key official, and very, very close to the marshal. The marshal sent him to see us off, and while waiting for the airplane, we had to re-trade the deal that we thought we had gotten, re-trade in the sense of making it clear that the exception which had been mentioned the

night before was not acceptable. This negotiation at the airport took about an hour and a half while the plane was held for us, but finally Velebit said that he understood our position and he would recommend to the marshal that he accept it and proceed on this basis. The marshal did accept it, and we finally did go along on that basis.

We ended up therefore out of this with a negotiation in principle. But we also had come out of the visit to Yugoslavia with a recognition that Yugoslavia was again faced with immediate crisis needs. These crisis needs were such that we couldn't take care of them. They required balance of payments support, much more massive balance of payments support, however, than could be met by World Bank aid. And we ended up agreeing to a proposed procedure that said the World Bank would make a loan to Yugoslavia and probably two loans over a period of two or three years. These loans, however, were dependent on several things. They were dependent, first of all, on Yugoslavia's being able to modify its policies along the lines we had suggested and upon entering into commitments on economic policy with us consistent with the modified lines. Second, they were dependent upon the crisis needs being taken care of. These crisis needs also had developed because there was a disastrous drought in 1950 which badly affected the agricultural production in the country. Third, there had to be postponement or renegotiation of the short-term deficit Yugoslavia had incurred. The deficit had been entered into in the period between 1948 and 1950 on a tight money wherever you can possibly get it basis, no matter how onerous the

terms might be because the situation was so difficult you had to rob Peter to pay Paul.

This meant that there were very large short-term obligations bearing upon the Yugoslav balance of payments and making it difficult to enter into any long-term obligations. All three of these things were needed.

The first thing, of course, was getting immediate aid to Yugoslavia and meeting the threat of starvation coming from the drought. Mr. Black came back, presented his view of these needs to the United States government, saw President Truman to explain what he thought the requirements were, and on the basis of his presentation President Truman decided to present the proposal to Congress for an interim aid program to Yugoslavia. He first of all agreed as an emergency measure to take a certain amount of money out of the President's emergency fund and use this for aid. This was cleared with the appropriate Congressional leaders. And then a bill was drafted for presentation to Congress which would permit the sending of aid, primarily agricultural aid, to Yugoslavia in substantial quantities. And this bill was presented as an emergency measure. I think there was a special session of Congress on at that time anyway. This was the fall of 1950. The Korean War had begun then. So, there were other matters before Congress. The bill was presented, and the President Truman, in fact, got further authority from Congressional committee leaders to permit money to be spent even in advance of the enactment of the legislation.

Q: Did Mr. Black testify?

Rosen: No, he didn't. His presentation was done both to Truman and personally to certain Congressional leaders. But there was no public expression of this anywhere, although the [inaudible] was, I think, quite widely known.

The U.S. decided also to try to organize a system of tripartite interim aid to Yugoslavia, so that the aid would not only be American but would be Western. They tried to get the British and the French to agree to provide interim aid to Yugoslavia. A conference was arranged in London, a tripartite conference, to arrange tripartite programs to Yugoslavia, a conference in which the Bank participated. Hoar, who, by that time, had become director of the Bank's loan department, and I went to London in, I believe it was, January for a meeting with the three governments on the aid program and how the aid program could fit into a Bank loan. These negotiations took some time, not our part in London particularly but on the governmental action. The French side had required parliamentary action to appropriate money. In Britain it required the equivalent of parliamentary action - the government decision and the tabling of this decision before Parliament. The U.S. side did require Congressional action. All this took through the spring of 1951.

We in the meantime were dealing with the various European governments from whom credit had gone to Yugoslavia to try to work out a program of funding or extension of those credits. This point was also on the agenda of the tripartite groups, and

some of these credits that needed funding or extension were British and French credits--a very large part German, some Swiss, Belgian and Dutch. Almost every one of the European countries was involved in this. We wanted to get funding of these credits, and we dealt with each of the governments, mainly through the executive directors here. At the same time we were trying to work out a loan package. We agreed at this point on a \$28 million loan, a loan package of projects that would make up the \$28 million loan.

We also were trying to get widespread willingness on the part of other countries to agree that their 18 percent capital subscription to the Bank's capital would be released in order to make possible the loan, to make possible having funds for the loan. Mr. Black felt that it was desirable that the loan to Yugoslavia should be in as many currencies as possible, not just in dollars, because he thought that a loan entirely in dollars to Yugoslavia might have adverse effects on the New York market. And we wished to get widespread 18 percent releases. These, too, also involved negotiation.

We needed to tie those negotiations together, those negotiations for particular currencies to be released, together with the needs for particular currencies. And in this we took the Yugoslav investment program, which by that time had been reshaped into something called the key projects program, which was intended to concentrate upon finishing the group of projects which had already been begun, which had been begun perhaps five years earlier when the available resources were thought to be

much larger but which had been stopped because deliveries from Hungary hadn't taken place. This was the case for an aluminum project. Or, because deliveries from Russia hadn't taken place. This was the case for a rolling mill project. Projects where two-thirds or three-fourths or nine-tenths had been invested already, where the buildings had been built but the equipment was missing or certain pieces of equipment were missing. These projects were taken, put together, the selection made among them of the most important ones, those which should go forward and those which might be scrapped or those which could be put in cold storage. And among these, the group which was to go forward, was described as the key projects program; and the Bank loan was intended to provide half a million dollars for this, a quarter of a million dollars for that project, two million dollars for something else. The \$28 was scattered over 20 or 25 different projects. One of these projects was coal mining. That included ten or twelve different mines. There were really many more different projects than this.

Well, we tried to marry together these projects and the needs for equipment, and the currency needs for that kind of equipment, with the kind of currencies that could be available in the form of 18 percent releases to get a package together. And we finally ended up with a \$28 million package of which all but I think either seven or eight or nine million dollars involved European procurement, which could be matched against European releases of 18 percent. And with this seven or nine million-- whatever the figure was--involving U.S. procurement; and against

that we used Swiss francs that we had available through bank borrowing. So we were able to put a loan together which had no dollar component at all. This was the first time this had ever been done, a loan which had six or eight or ten different currencies dispersed in it. This was also the first time this had ever been done. We were able to get postponements and extensions on a number of the short-term credits. There was the tripartite interim aid program, and this then all ended up with the signing of a loan agreement in October, 1951, but getting to the point of this loan agreement had involved almost continuous effort from early 1949 to October 1951, about two and a half years of continuous attempts at activity to solve all of the side relationships.

Q: One quick question: Did this have any effect on the Greek war?

Rosen: I won't say this as such had an effect on the Greek war, but there's no doubt whatsoever in my mind that the World Bank's activity in Yugoslavia and Black's relationship with Tito was of fundamental importance in bringing Yugoslavia out of a political orientation which was pro-Soviet to a neutral orientation, which ended up of course in Yugoslavia pulling out of intervention in Greece. The next time I went to Yugoslavia there were visits being arranged between Yugoslavia and Greek theaters. No, if you say directly, no; indirectly certainly. There's no doubt

whatsoever that the Bank and Black were most important in changing the Yugoslav attitude toward economic cooperation.

Rosen Tape #4

July 25, 1961

Rosen: I'd like to make the focus of this discussion an account of the development of some of the Bank's policy towards making loans. There's loan policy, the application of concepts of how it was helping in economic development or how it was applying concepts of economic development in its own policy, and the extent to which these affected the procedures and to some extent the consideration as it had arisen.

It was early recognized that we had to put together both the banking and the economic aspects of any operation. And the original structure of the Bank called for a research department and a loan department. The loan department intended to negotiate, the research department to provide the economic basis on which to negotiate that was to take place. To some extent, of course, there was inevitably the conflict that always arises from a mixture of a horizontal and a vertical organizational structure: a research department organized more or less vertically concerned with the whole world and with economic principles; the loan department organized or operating horizontally concerned with particular areas and particular operations in particular areas.

The charter of the Bank itself, however, provided some of the basis for this consideration, for the emergence of these problems, both organizational and operational. The charter

provided several specific provisions which were subject to some differences of interpretation and which could and did create difficulties in determining proper policy.

Basically there are two provisions, in my opinion, that created problems. One is the provision that the Bank should finance specific projects, and the other is the provision that Bank financing should be limited to the financing of imports. The legal language in the charter is somewhat vaguer than that way I've just said these two provisions, but these are the two key provisions which created problems. If specific projects are financed and if only imports are financed, it becomes difficult to measure the usefulness of a Bank loan in terms of the economic program and needs of the country. It becomes particularly difficult, for example, to make equivalent the Bank lending with the amount of capital required which cannot be met out of domestic savings - to make that equivalent with the amount of imported equipment needed for specific projects which fulfill the productivity test of the charter, particularly the productivity test as it became a [inaudible] being limited in a fairly narrow way. A project, which provided food for animals in order to increase livestock output was productive. Providing food for humans was not productive in the way that this policy was first described.

There was a great deal of thinking within the Bank as to how this conflict of approach could be reconciled, and whether in fact it would be possible to meet the basic economic needs of a country while still complying with the articles and their

requirements for the financing of specific projects and the financing of imports.

Several times, well, before 1950 and since, suggestions have come up that the Bank finance programs rather than projects. And a number of times both before and since, a proposal has come up, and, in fact, now that proposal is being followed in several countries of financing capital requirements or a proportion of capital requirements rather than financing imports.

A further basis for conflict, conflict organizationally but more important conflict in policy, arose because of the fact that the Bank also has in its articles of agreement a requirement that there shall be reasonable prospects for repayment. The determination of the prospects for repayment when long-term lending is being made is dependent on the judgment of the long-term balance of payments prospects. In that determination of the long-term balance of payments prospects, the relative profitability of a particular hydroelectric project or a particular road project (of course a road project doesn't have great profitability) or a particular port project is quite unimportant even if it is a large project. That project over a ten-year or twenty-five year period of time is not going to have a great impact on the future balance of payments of a country. Far more significant is the overall economic policy being followed. Far more significant is the development plan or economic programming being followed. So here, too, we have a kind of dichotomy, that the repayment of the loan is dependent on being satisfied with the overall economic policy and program and

an impact on the overall policy, an impact on the overall program, means more of a repayment than an impact on a specific project. But the charter provision, of course, calls for the financing of a specific project. So again the question came as to how these two factors could be reconciled.

In the first five years of the Bank's operation, especially as the Bank shifted away from lending in Europe for reconstruction loans and towards the development field, which meant 1948, '49, and '50, the amount of development loans were relatively small. The total amount of loans in those years was relatively small, and we had to feel our way rather falteringly into reconciling financing specific projects with appraising and working on overall programs of economic development.

We found, too, that during these years we were being criticized in the UN, in the Economic and Social Council, and in academic circles and by interested people and intelligent people who knew something of the problems of development, who were concerned with the problems of development, about the fact that we could not properly perform our function if we were to limit our financing to specific projects and to limit financing to imports only, and we should be looking and concerned about the broader picture.

The Fifth Annual Report was in my opinion a basic document in formulating the policy of the Bank and in expressing the policy as it had begun to be formulated. It was intended, and it was written in language which implied that it was a formulation of received doctrine, that it was not an expression of new policy

but a statement of how things were being done. To a considerable extent this is true, but to some extent it is misleading. It's a statement of how things were done in certain cases and by some people. It was not a statement of how things were always done in all cases by all people in the Bank at the time. It was intended by those involved in the preparation of it to present in written form and in organized form and in official form to serve as a binding basis for the future of the kind of policies and the reconciliation of these diverse influences on policy that several people of the Bank felt were the right things to do.

The report for the first time had a second which was headed "Major Operational Policies of the Bank," and this was written, as I say, in order to try to put a statement of policies, both as they existed and those who were writing the section hoped they would exist in the future, in specific form.

Q: Was there any particular reason why it seemed necessary at this particular juncture in history to set forth the Bank's operating policies?

Rosen: I think there were two influences causing this. One was a conflict within the Bank that I referred to earlier on how policies were to be carried out and the extent to which country considerations would be dominant as against project considerations, the extent to which economic considerations as against engineering consideration, the extent to which long-term balance of payments considerations and economic policies as

against specific considerations on specific projects. There was this conflict within the Bank. Secondly, there was growing criticism outside of the Bank. And, third, I think there was a feeling that the Bank was emerging from a rather faltering lending policy in the development field and was becoming much more active and that this was a good time to right this.

Another reason, which is I think of some major importance, why this was done at this time is that a change of management had taken place. This was the report covering the year 1949 and '50. Mr. Black had become president in 1949. He had had about a full year as president at the time this report was being written, and he had an influence on the Bank in terms of its aggressiveness, in terms of its looking towards an enlarged scope of activity, more operations, a willingness to undertake risks more readily. All this had begun to be apparent. Consequently, the operations had reached the point where there was reason to look at the policies.

I think it's also probably correct to say that the statement was put in at this time, because those people at the Bank who were involved in writing this (there was a little group headed by Dick Demuth in which I participated) felt that this was the first opportunity we had had to get the Bank to adopt these policies, and these were the policies we had been fighting for within the Bank, and it seemed like a good way of getting management, getting executive directors and getting board of governors approval of the policy.

But the real thing that we were trying to do was to put down a doctrine which would reconcile these two divergent dogmas. Our primary interest is what is the economic policy being followed by a country and what is its developmental policy, what is its economic program. And, if we can have an impact on that, we're having a more important impact than whether we're getting the roads built with the proper thickness of asphalt--the other dogma being that it's very important that we do sound projects and that our strength and our ability to raise money depends on the dams not collapsing or the roads not deteriorating. I think, without question that most of us at this point realized that neither one of these was an answer in itself and that what was needed was a combination of the two and that we felt the greatest strength of the Bank was that it was a tying together of these two factors; that it had staff and it had the approach which made it possible. And we looked upon the reports and the statement of major operational policies as a way of getting this across outside and to some extent inside the Bank.

The major operational policies were covered under a group of headings. One was character of Bank lending, and this referred to this whole group of things I'd been talking about earlier the specific project provision, in which we had something like two pages explaining that you could finance specific projects but you do so in terms of a review of the overall economic policy, and that we would be unwilling to look at an individual project until we had a view of the economic policy of the country, of a program of a country and of the needs of a

country. There is some language about "the Bank has encouraged its members to formulate long-term development programs". Well, by 1950 relatively little had been done in this direction, but this was a direction in which we wanted to leave the emphasis.

Q: I think it also states that this policy of the Bank seems not to have been understood on the outside.

Rosen: Yes, that's certainly so. There was a great deal of criticism largely of the Economic and Social Council but throughout the Board. It had come up at the annual meeting, and it had come up through academic circles. The criticism of most people was a correct one and valid as stated. The logic was inherently correct that if specific projects only were financed, this might mean that limited resources were going into low-priority undertakings, just because the engineering for the project happened to be ready or just because looked at from within very narrow blinders that project looked like a good project. I think this was an improper criticism of the Bank's operation, because I do not think that even up to this point the Bank had financed any projects on this basis without looking at the broader question of the economic policy of the country and the overall position of the country. And in fact it had to, as I said before, because of the need to come to a conclusion that the country's creditworthiness would permit repayment.

Q: What was there about the public relations of the Bank that caused this misunderstanding to exist?

Rosen: I don't know how to answer that question. I suppose really the answer to that question is there had been an insufficient number of projects up by this time, an insufficient body of activity in the developmental field, and also an insufficient amount of information as to how the Bank was operating, so that people were reading the charter and were reading the press releases on projects without knowing about what other work was being done.

Q: Was the Bank being pretty confidential about the particular reports it was making?

Rosen: Yes, it had always been and still is, so this has meant that the external judgment of the Bank has had to be based on results and on operations rather than upon explanatory material. And when there are not many operations, all that can be looked at are the published documents, the articles of agreement and these could lead to that other conclusion. I don't think there's any need in talking in any detail about the points covered here. There was quite an explanation for the Bank's policy of not financing local currency expenditures. But, the significant part of this is that this opened the door for the financing of local currency expenditures in special cases. This was a door which many people in the Bank felt should be opened only very narrowly.

A number of others felt it should be opened quite widely. It had not been opened at all up to this point. And at this time the Bank was considering its first loan to Italy, a loan which was to be a local currency loan on a doctrine of the impact of local currency expenditure on the balance of payments that Paul Rosenstein-Rodan developed. It was a doctrine but quite a useful doctrine that permitted the door to be open. And what was needed in the report was an exposition of the fact that the door had been opened and the fact that it was being opened only a bit, that it was not being opened for all countries and all circumstances, and yet that this was consistent with what had been said earlier when we were saying that we wouldn't open the door at all. This was a sort of ex post rationale of a change in policy that had not yet been made, an attempt to write this making it consistent with previous policy that had been described.

There was a section which also talked about the character of Bank studies, of how the investigations were to be made. This, too, I think was interesting in that this was more a statement of those of us who wrote this of what we wanted to have done than exactly the way they had been done in the past, at least the way they had been done in the past in some of the different countries.

I guess the theme that I'm bringing, too, here is that this was a report. . . . These sections of the report are of fundamental importance in that they are not only a statement of policy, but they constituted the enunciation of policy. The

drafting of this involved a great deal of work. It was done in a very short period of time, but it involved a great deal of work, involved a great deal of thrashing through of different philosophies on quite important issues, including such things as local currency lending. And the fact that it was put in the report made it possible to get this adopted quickly, get it approved by the board and management in a short period of time. All this I think leads to the conclusion that in terms of the determination of Bank policy, these particular half dozen pages are the most important document in the Bank's history. Much of these sections were then developed and expanded and somewhat modified, basically expanded and put into the publication that was prepared for the Capehart Committee.

Q: What was the Capehart Committee?

Rosen: The Capehart Committee was a committee of Congress headed by Senator Capehart formed to investigate the operations of the Export-Import Bank and to some extent of the World Bank, particularly in Latin America. In preparation for the Capehart Committee, the Bank prepared a book on its record, on its history, on its operations, a book which had been published in a number of different volumes, different series--it's still available, a small blue book on the International Bank's policies, etc. The basic volume on the Bank is still available. This was first prepared as a document for the Capehart Committee. The policy in that came from the policies enunciated in the Fifth

Annual Report. This report, as I say, is the key policy document, I think, in the history of the Bank.

Q: Do you recall how far back before that report was issued the discussion began concerning local currency loans?

Rosen: The local currency lending controversy began as early as 1947 or '48. The articles of agreement are quite vague on local currency. There are two different types of conditions in which local currency lending can be done. The problem with the attitude toward local currency financing and the question as to the Bank's willingness to do local currency financing, the development of the Bank's attitude toward this and the complications involved in the policy of local currency financing came with certain complexities in the articles. The articles of agreement provide two exceptional circumstances under which local currency financing can be done. First, they provide a situation in which local currency financing properly defined could be done--that is, giving Italian lire to Italy or dispersing francs to France or yen to Japan--, the currency of the country itself. It wasn't really very clear where the framers of the articles thought the Bank was going to get the monies. This might have been done out of the 18 percent paid in the local currency of the member country, but real lending money which was paid in, which was in fact at that time held not even in cash form but held in the form of non-interest bearing demand notes, which were really central bank pieces of paper--re-lending these to the country

wasn't much of an economic contribution or even much of a financial contribution. And very early in the consideration of Bank policy there was complete unanimity that there would be no point whatever in doing a local currency loan in which we would lend yen to Japan.

The second type of local currency lending, what we've called local currency lending and what we now officially call local expenditure lending in order to define the term more properly, is where the Bank will disperse foreign exchange, say, dollars to Japan, to cover expenditures on a project which require yen, do not directly require imports.

Now, this does have some basis for justification, and there is a provision in the articles which indicates that under exceptional circumstances this kind of a loan can be made. There's no indication whatsoever in the articles, however, as to what these exceptional circumstances will be; and even the people who were at Bretton Woods say that they recall no particular discussion of this, nor does a search of the Bretton Woods archives show any information on this.

Q: I'm a little surprised at this. The New Zealand delegation clearly put forward this proposal as I have read the minutes, because they were concerned with the Keynesian question of multiplier effects of influence management.

Rosen: I haven't looked at the record for ten years, but, as I recall it, when I did look at it, there was no doubt in the minds

of countries that expenditure in local currency could have a balance of payments impact and that that balance of payments impact ought to be offset. But, what I was saying was that there was no distinction as to why these were exceptional circumstances; that in any country with any sort of an open economy or partially open economy, expenditure of local currency is going to have some balance of payments impact. So, on the basis of a pure economic logic of the consideration, these arguments would be equally valid in all countries. My comment was directed toward the special circumstances. The question is how and why these become special circumstances. And it was on this that, as I recall, we could find no guidance whatsoever.

Q: Perhaps America just didn't want to open the floodgates to giving a whole series of loans for which the foreign currency provided by the Bank was in excess of or even approaching the full cost of the project.

Rosen: That's possible, but I don't think it was a question of financing the total cost of the project that was the guiding element here. I think there was, as far as we could tell, some magic, mystic concept in the U.S. delegation, which thought that financing imports was fine, financing 20 percent of the cost of a project was fine if that 20 percent were imports, but financing 20 percent of the cost of a project would be wrong if that 20 percent were not imports. I wasn't there, of course, and talking

to the people who were, I couldn't find any understanding as to why this developed. There was a kind of mystique.

So we have had no real basis, no basis other than whatever we decided would be a sound policy, for selecting what would be the special circumstances on which to do a local currency or local expenditure loan. There were a number of different approaches taken.

One of the basic approaches was that this ought to be done everywhere. This was the approach that was taken by several people: that there is no particular type of country or kind of country or country of any particular state of economic development which ought to have local expenditure of loans. I think the leaders in arguing this philosophy were Paul Rosenstein-Rodan and Leonard Rist. They, however, would say, of course, that this should be done only when the country is following a sound economic policy; if there are open inflationary problems and the provision of foreign exchange to cover local cost is just pouring money down an inflationary rat hole, that this is not a situation in which it should be done. But they would not have distinctions made based upon stages of economic development.

Others wanted not to do any local currency or local expenditure lending at all. I think the leaders in this group were the people who had been concerned first with the Treasury side of the Bank activities--[inaudible], the first treasurer; Henry Reilly, who succeeded him as assistant treasurer; then succeeded [inaudible], and Bob Cavanaugh, who was assistant to

the treasurer and subsequently became treasurer. They of course have been leaders in the school of orthodoxy, and they felt that by agreement to do local expenditure loans, they were opening up the floodgates to demands which would be very, very great.

Another group who felt a great deal of reservations about doing local expenditure loans were the people most concerned with the marketing of the Bank's securities. This was, in large part, Mr. Black. His concern--and the concern of George Martin and Bill Tucker and Fleetwood Dunstan, who were his predecessors--was that we were using an argument to sell our securities that a very careful appraisal of the creditworthiness of countries and a very careful selection of projects and the fact that Bank lending was on a wholly different basis than lending which had been done in the 1920s when bad foreign loans were made which all went into default. The striking examples of the poor loans of the 1920s were the loans to German municipalities for swimming pools and parks: not productive, didn't raise national income, didn't raise GNP, didn't raise exports, didn't provide any basis for increase in tax base, didn't provide any basis for servicing the loan. They were, of course, loans for local currency, and in the minds of some people the fact that they were loans for local currency, the fact that they were loans for not directly productive purposes became synonymous. A careful distinction was made between the way lending was done in the 1920s and the way the World Bank went about doing its lending. This distinction was used in a number of public speeches. Consequently, people concerned with that aspect of the Bank's activities--raising

money from the investment community and sale of securities--were against local currency and local expenditure loans or for a very restrictive policy.

Mr. Garner was against this policy, too, more again on the grounds that this would open up the floodgates of unlimited demands, that there would be no basis in rationing the monies available to the Bank once you started doing local currency lending.

The policy that emerged, the policy that is expressed in brief in the annual report and which became a clear policy afterwards following the preparation of the staff memorandum at one of the famous lost weekends held in Williamsburg a couple of years later, was a policy that justified local expenditure loans and which tried to define special circumstances. The definition of the special circumstances in that did depend upon the stage of economic development of the country. The special circumstances were contingent upon the country's having reached the stage of economic development where it was able to produce economically most of the capital equipment that it needed, so that it would not be possible to finance imports of equipment for a particular project in quantities or requiring amounts commensurate with both the amounts which the country could afford to borrow and commensurate with the amount the country needed from the standpoint of availability or lack of availability of capital. I guess this is fairly complicated, so let me go over that again. Obviously, the loan had to be limited to the creditworthiness. But it might be possible that a country had a substantial margin

of creditworthiness and could afford to borrow, say, 50 or a hundred million dollars. It might well be, too, that from the standpoint of the availability of capital, the need to carry on an investment program, the size of the domestic savings available, that it was entitled to have an import of capital--that 50 or a hundred million dollars--but it would not be possible to pick a single hydroelectric project or a single steel project or even two or three single projects in the country which would require imports of more than a few million dollars each. And therefore to get the 50 or a hundred million dollars, it would be necessary either to finance 30 or 40 different projects for a million dollars or so or two million dollars each, or to finance some projects on a local expenditure basis. It was thought that the administrative inconveniences of trying to review 30 or 40 different projects instead of 30 or 40 different project agreements to set up supervision and use arrangements for 30 or 40 different projects were so great that we would be better off taking two or three projects and financing 40 or 50 percent of the total cost even if a large part of that expenditure was going to go for local needs rather than for imported needs. But, by setting up these criteria, in fact what was said was that local expenditure lending was limited to countries in an advanced stage of economic growth, the stage at which the production of capital equipment on an economic basis covering a wide range of capital equipment needs had proceeded so that that country could produce its own equipment.

Q: The alternative approach would essentially have excluded countries like Italy and Australia, for example, from borrowing from the Bank almost at all, wouldn't it?

Rosen: Well, the alternative approach, of course, would be to finance a capital import program, to finance \$50,000 of bits and pieces for a hundred different projects, and in fact the first few loans to Australia were on a capital import basis to solve this problem. But, it was the experience with the Australian loan where we were financing a whole import range, and where, by doing this, we were not contributing capital to any particular project, we were having very little impact other than a balance of payments impact on the country. The experience with that was not a satisfactory one. And it was that, I think, which persuaded many people that we would be better off in a country like Australia or a country like Italy to shift to a local expenditure lending basis. Subsequently, the local expenditure loans were made in a fairly wide number of countries. They were originally made in Italy. There were some made in Finland. There were some in Austria, some in Norway, Belgium, Denmark--in the developed countries. Japan, of course, became a field of a very substantial amount of local currency, local expenditure lending. As of the present we still haven't modified policy to do this to any considerable extent in Latin America, although the policy has developed to the point where--particularly in a country like Mexico which does produce some capital equipment--we would not object to procuring any equipment in Mexico on an

international competitive bidding basis if it can be done more economically than importing the equipment from outside. But, the policy still is such which permits a distinction among countries in different stages of economic development and that is a policy which will be carried out in any country only if the argument can be made that each general economic policy of the country is sound, that the country is doing all that can reasonably be expected to mobilize domestic savings; that it has an effective or as reasonably effective as can be expected tax policy, fiscal policy, monetary policy, institutional framework for mobilization of savings, and that it needs in some value judgment sense, in some moral sense, an investment program, an investment rate, higher than it can finance from its own savings. Of course, making that as a value judgment is a difficult thing. But that is a case which needs to be made.

Q: Was a distinction drawn between what I would call a general balance of payments type loan and what I would call providing the foreign exchange to finance the impact on the national income of a specific project?

Rosen: Oh, yes, very much so. The only general balance of payments loans the Bank has made have been the four original loans in Europe, the reconstruction loans, and then the loans to Australia. The loans to Australia were general balance of payments loans. They were intended to pay for imports--in this case only of dollar equipment because Australia had adequate

sterling exchange availabilities; the problem was finding dollar equipment, and dollar equipment in a very wide range of items would qualify for disbursement on this loan. The equipment would be imported and then would be sold for cash, so that from a savings point of view, from a monetary point of view, this did not provide savings to any private sector, industrial sector of the country. It provided cash resources to the government, the counterpart of the foreign exchange sold to the central monetary authority, and of course it made it possible for the government to carry on a larger budget expenditure, a larger investment program as it wished. But it was not a program aimed at providing savings. It was a loan fixed at meeting balance of payments needs for a very wide range of miscellaneous equipment that couldn't otherwise be met, where the local expenditure loan is meant to provide capital to permit a particular project to be carried out.

In the very early days, the first Italian loans we didn't call these local expenditure. We called them impact loans. And, in fact, in that case the concept was not providing capital for a particular project but overcoming the impact on the balance of payments of increased expenditure on a particular project or program. There was a very complicated calculation made in the case of the first Italian loan, for example, which calculated that a hundred billion lire expenditure, an amount of expenditure equivalent to \$160 million, would have a balance of payments effect on the Italian balance of payments of \$40 million; and of that \$40 million, \$30 million would be a balance of payments

effect in European currencies, of which Italy had ample resources; so that amount did not need to be covered, and ten of the 40 million would be a balance of payments effect in dollars, which Italy was short, and that was the amount which should be covered. So, in fact, the first Italian loan was fixed as a \$10 million loan to cover the dollar balance of payments impact of 100 billion lire or the equivalent of \$160 million expenditure. That was used for the first Italian loan, as I say.

Many of us felt that this was a highly artificial, rather mechanical, very imprecise and very unjustifiable type of calculation. I personally think the calculation of the balance of payments effect of the income elasticity of increased expenditure is a very difficult thing to do, and once this is done, the distinction between the dollar and non-dollar part became completely artificial. Of course, the \$160 million expenditure that one year of the program didn't get carried out in one year anyhow. When it got spread over a period of time, the argument could have been made that it had no impact on the balance of payments already because this was submerged into many other factors that were affecting the balance of payments. And we came to the conclusion that we should get away completely from any concept of impact, and that we would not try to fix the amount of foreign exchange which we would make available to a country for a loan based upon any calculation whatsoever of the impact of the balance of payments of carrying out the increased investment. But rather we would, the basis of our general knowledge of the economy of the country, on our view of the

creditworthiness, on our view of the amount of financial stake the Bank ought to take in a country, on the basis of all of these we would reach a judgment as to what was a proper amount to be lent, and that that loan would then be related to the projects for which its resources were going to be applied; and that in general we should not lend a very large percentage of the cost of a project. The figure of 40 or 50 percent became sort of a standard working tool.

Q: This must have been a time when phrases like income elasticity and margin propensity to import were flying about the Bank.