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Transcript of interview with

Sydney Cope

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Interview with Sydney H. Cope

By Robert Oliver August 9, 1961

Interview No. 1

Q: Mr. Cope, would you identify yourself.

Cope: Yes. My name is Cope. I was born in London, as anyone can tell you from my accent. Most of my working life has been spent in banking. I started with a merchant banking firm in London called Guinness, Mahon & Co., an older, established merchant-banking institution, where I think I acquired a very general knowledge and experience in international banking transactions. I was with them when the war broke out, and in 1941 I left them to join the Royal Air Force. For the next three years I was working in uniform in the Air Ministry on radio and telecommunications and radar problems, where I was personal assistant controller of communications. This was very remote from banking, but it gave me a wide experience with dealing with scientists, manufacturers and service people.

With the end of hostilities, I was sent to Germany as finance officer in Madeburg, and from there I went to Luebeck in Westphalia, where I was with the British element of the Control Commission. I remained in Germany until the end of 1945, when I was discharged and came back to Guinness, Mahon in London.

Banking in London at that time was quiet and I decided I should make a move, and I got a job as secretary and treasurer of one of the Standard Oil subsidiaries in London, Esso Transportation. I joined them in the spring of 1947. In August, 1947, I was approached by Walter Hill, who was then assistant director of the Loan Department in the Bank, with a message from a colleague of his, Mr. Hoar, who was also an assistant director of the Loan Department. Hoar I had known in Germany, where he was a colleague of mine in the finance division. And Hoar had sent this message to me to Walter Hill asking me whether I would not be interested in joining the International Bank. I knew very little about the Bank, although I had heard about it. I had a very interesting and promising job with the Standard Oil people. I had no thought at that time of leaving the U.K. But after much heart searching, I decided to come over here and left Standard Oil and joined the Bank in the middle of December, 1947.

Q: I wonder if I might ask a question about Mr. Walter Hill, who was the person I have not had an opportunity to meet. Do you recall whether he was in the Economics Department at any time, or did he spend his whole career in the Bank as part of the Loan Department?

Cope: I'm not sure.

Q: He was in the Loan Department, in any event, in August, 1947.

Cope: His career before had been with *The Economist*, and he was a trained economist.

Q: Well, in any event, when you came you joined the Loan Department.

Cope: I joined the Loan Department. At that time, you will recall, the Bank had made four loans for reconstruction in Europe, totaling 497 million dollars. The Marshall plan had just been formulated, and the Bank was uncertain as to how it would adjust its operations to the fact that the United States would be pouring considerable sums of money into the reconstruction of Western Europe.

There was, therefore, quite a pause while policies were being thought up, and in the following year, 1948, the Bank, as you know, made tentative steps towards a policy of development lending.

At that time I was serving under Rucinski in what was then the Northwest European division of the Loan Department, and my first operation of activities were therefore in connection with Scandinavia.

Q: Do you recall when the Loan Department was subdivided, so to speak, into areas? Had this been done by the time you arrived?

Cope: Well, it was always more or less on an area basis. The structure was rather curious because they had four loan officers at the time. Penton, Dorsey Stephens and Elliott and somebody else. Then, in addition, there were a number of divisional groups, of which one was the Northwest European division.

Q: Was the Economic Department organized similarly then?

Cope: The Economic Department at that time, I think, had just been renamed. It was originally called the Research Department and later became Economic Department. They, too, were concerned with the study of the economies of member countries; they were organized, as I remember, roughly on a geographical basis and there was a certain amount of overlapping between the work of the Economic Department and the work of the Loan Department, which made life rather confusing at times.

There was, furthermore, the certain amount of overlapping between the functions of the four loan officers and the area groups within the department. This was eventually sorted out when there was the reorganization in September, 1952.

Q: Could you say just a bit more about this overlapping between the Economic Department and the Loan Department? How did this manifest itself? Or what was supposed to be the division between them?

Cope: Well, that's rather hard to define particularly at this stage. Responsibilities were not laid down at all clearly. The Loan Department was concerned with loan negotiations primarily. One trouble, frankly, was that there was very little to do in loan negotiations and the people in the Loan Department, to employ themselves, worked on studies of the economies of the countries they might be operating in. And this was considered by the economic staff as impinging on their activities, which were also concerned with studies of the same countries.

Q: What were some of the questions which arose at this time that required policy decisions?

Cope: Well, the policy issues that arose, I think, first of all, concerned the assessment of credit worthiness. The general idea was quite clear even at that early stage that the Bank could lend only if it were satisfied that it could get its money back. Therefore, a study of the economy of the country was pretty fundamental. The considerations to be taken into account in making that assessment, however, were not clear, and a great deal of discussion and trial and error was in evidence in working out general principles, on the basis of which credit worthiness could be assessed.

At that time, most of the major currencies in the world, apart from the United States dollar, were inconvertible and exchange restrictions were common among the principal trading nations of the world. One of the obvious questions that arose was to what extent should the Bank in making a loan assume that this currency situation equilibrium would be maintained and to what extent could the Bank disregard the currency obligation it was imposing on its borrowers, or to what extent the Bank should assume that in due course all currencies were convertible or would be convertible.

In fact, we took a somewhat narrow view of that. We drew a sharp distinction between credit worthiness in foreign exchange generally and credit worthiness in individual currencies, and we tended to take a restricted view of a country's ability to repay dollars and took a more liberal view of their ability to repay in other currencies.

In the event I think we overemphasized the difference. Looking back I think we should have looked to a general resumption of convertibility earlier than we did.

Q: Did this imply that the Bank was more favorably disposed to make loans for projects which would have direct export content and make it possible for the borrowing country to earn foreign exchange?

Cope: Can I put it like this? The judgment of credit worthiness is one that you had to make--judgment of credit worthiness in different countries was one that was based on our judgment at the time of the ability of the country to earn different currencies in the future. And we did not attach much importance to the possibility of currency earnings of one country being convertible into other currencies.

One of the implications of that was seen in our first loan to Yugoslavia, for example, when we told the Yugoslav government that we were prepared to make a loan only in European currencies and there were no dollars at all in this loan. That was done partly on grounds of a judgment of credit worthiness in European currencies. It was also done partly for political reasons, so that we could ensure the New York market that no dollars were going into Yugoslavia. It was thought by Mr. Black that this would have important psychological advantages in dealing with our banker friends in New York.

To go on to your question, I would say that even at the early stage we tried to finance only those projects which were likely to bring in benefits to the country concerned in the way of increased foreign exchange earnings. We attached more importance to direct increments of earnings rather than indirect increments. Perhaps we were too strict on that. Very often in a country's development you find that the indirect benefits of a loan in terms of foreign exchange earnings are greater in the long run than the direct benefits. But I think it was a fairly obvious criterion to take in the early days, and marketwise it was probably right to be able to say in judging projects we attached a great deal of importance to the direct impact of that project on the foreign exchange earnings of the country.

Q: Were there any occasions when a potential loan was not made because the Bank had had difficulty in making a loan in a particular currency that the borrowing country could easily obtain with bilateral trading?

Cope: I can't recall an instance of where we refused to lend. I can recall many instances of our taking special efforts to get the currency that we thought the borrower could repay by asking the country whose currency we wanted to make a special release of 18-percent funds. Yugoslavia is a very good case in point, but there are other examples.

But I can't recall any case in which we were unable to make a loan because we were unable to obtain the currency that we felt the country could repay.

Q: This was a time when very few 18-percent subscriptions had been released unconditionally, was it not?

Cope: That's true. We were able, however, to use a number of conditional releases. As you know, the Bank is precluded by its Articles of Agreement for making tied loans, that is, loans which can be spent only in a certain country. From the start we have insisted on the importance of the borrower being free to obtain the goods needed for a project where he could get them to best advantage.

It so happened, however, that in many cases the results of shopping around or international competition showed that purchases could be made in countries which could reasonably be expected to make the release of 18-percent funds. This was in the days, of course, before Germany had become a member of the Bank, but countries like the United Kingdom, to a lesser extent France, and to some extent The Netherlands and Belgium, were important exporters of capital goods and they, apart from the United States and Canada, were relatively speaking in the best position to make releases of 18-percent funds. So, we were able to obtain releases of funds which, although tied to the point of view of the releasing country, could be made available to the Bank's borrowers who in the process of shopping around or international competitive bidding found that they could buy to best advantage in those countries.

Q: So that in many cases the release of the funds followed the international competitive bidding on a given project.

Cope: Yes. Or, I can put it another way: We got releases of two general sorts at that time. Sometimes we got a release of a certain amount which could be used for any borrower who wanted to buy goods in that particular country. On other occasions we made a loan and we found that a borrower wanted to buy in a certain country and we then went along to that government and said, "Look, for this loan we need some of your currency. Won't you release it?"

Now, we were able to get releases because we found that that was a good talking point with the government concerned. The argument, I think one must admit frankly, was a little bit phony because once we'd made the loan, we were committed to provide the borrower with whatever currency would be needed to buy the equipment, and if we hadn't got a release of the 18 percent in a particular case, we would have had to acquire the currency with another currency. So, the exporter would have got the order anyway.

However, it proved a singularly successful talking point, and for a number of years many of our releases were obtained just in that way, by an ad hoc request on the basis of a specific and defined need for a particular currency on the part of the particular borrower.

Q: Was there ever a time in the Bank's history when a real attempt was made, a concerted attempt, to get all of the 18 percent releases? Or was this just a very gradual affair?

Cope: Well, it has been a gradual affair. I didn't think you were going to ask me about 18-percent this morning. I really didn't come prepared to talk about it, and if you like we can reserve that for another session.

Q: Surely. Please let us return to what you were talking about before. I just thought it might fit in at this point.

Cope: Well, I think it would, but, as I say, I thought this was covered by the Treasurer.

I think it might be useful at this stage to say something about the policy problems involved in the Bank’s lending for local expenditures. You'll recall that the Bank’s Articles of Agreement are singularly obscure on this question. They seem, however, to envisage that the normal Bank loan would be for foreign expenditure, not expenditures in the borrower’s territories. But they do in Article 4, Section 3 make certain provision for other sorts of loans which may be made in exceptional circumstances.

The drafting of these provisions is not very good. We have had many discussions in the last 10 years about what was really meant, but they appear to envisage two exceptions to the normal type of bank loan. One is a loan in foreign exchange made in respect of local expenditure, and the other is a loan in local currency, not in foreign exchange, for local expenditure.

Now, those two types are clearly very different although they've often been confused. The first type, I need hardly say brings an accretion of real resources to the borrowing country. The second type, although it may facilitate the activities of an individual borrower, clearly brings no accretion of external resources to the economy of a country as a whole. These are the basic reasons why we have not regarded a loan in local currency, that is the second type of exception that I just mentioned, as being a very useful kind of activity, and we've only made one loan of that kind.

Q: I didn't know the Bank had made any. What particular loan was that?

Cope: Well, this was a very special case. It was a release of sterling in the amount of 10 million pounds for a loan to Rhodesia. Now, technically, the Federation of Rhodesia, being part of the territories of the United Kingdom, has a currency the same as that of the United Kingdom, although in fact, to the ordinary layman, Rhodesian pounds are quite different from pounds sterling. And, legally, there is a difference. But from the point of view of the Bank's Articles of Agreement, since the United Kingdom has accepted membership not only in respect to itself but in respect to all its territories, we have to consider that all the currencies used within the area are the same. But that is a very peculiar situation and only exists in cases where there is a country with colonies or with territories.

Q: Do you recall about when this Rhodesian loan was?

Cope: Yes, this was a loan to Kariba, a loan for the Kariba Project, which was made in 1956.

Q: But this was a loan of British pound sterling for financing a project in Rhodesia.

Cope: Yes, for financing the project in one of the territories of the United Kingdom. So, for that reason one has to, strictly speaking, regard it as a local currency. As I say, that's rather an exception, and apart from that we have never made a local-currency loan.

The controversy on this point has been evolving and is still evolving around the advisability or inadvisability of making foreign exchange available in respect of local expenditure.

Thinking in the Bank has been very divided on this and the Bank has attached a great deal of importance--in my view, too much importance--to the possible repercussions of a policy of financing local expenditure on opinion outside the Bank as to the soundness of the Bank's activities. Some people have reminded us that in the ‘20s a great many loans were made to countries in Central Europe in dollars and pound sterling and the proceeds were spent for local expenditure in Germany and Czechoslovakia and Poland, Austria and other countries in Central Europe. And the fact that these loans went into default, wholly or partially, in the early ‘30s has led uninformed people to believe that there was a connection between the default and the fact that the loans were made for local expenditure.

I am not concerned at this point with the rightness or wrongness of that theory, but it was one factor which has induced the management of the Bank to adopt a very cautious policy on financing local expenditure.

The second consideration which has been in the minds of the management right from the start is that in most countries there are many more projects which are being carried out which require wholly or mainly local expenditure than there are projects which require substantial amounts of imported equipment. And it's been the feeling of the management that once the Bank lent freely for local expenditure, it would be opening the floodgates to application from countries that we’re not anxious to lend substantial amounts to for projects which we felt were of a low priority.

For example, municipal improvements in Latin America or elsewhere in the underdeveloped world--there is no shortage of projects for housing, municipal services--and at that stage in our life, we felt that we should emphasize whatever barriers there were in the Articles of Agreement to being flooded with requests for financing of that sort.

Now, that consideration has colored very much the Bank's attitude toward local expenditure financing.

You will, I think, see from what I've said that the arguments against local expenditure financing have been practical and empirical rather than theoretical. And the economists of the Bank, right from the early days, have been saying that whatever practical reasons there may be for drawing a sharp distinction between financing foreign-exchange expenditure and local expenditure, there were few, if any, economic grounds for drawing the sharp distinction. Professor Rosenstein-Rodan, who was on the economic staff, in the Economic Department at that time, was one among several who continually drew attention to the absence of a theoretical objection to the Bank's financing local expenditure and was advocating that the Bank should take advantage of the exceptional-circumstances provision in the Articles of Agreement of the Bank and regard with a little less horror the idea of local-expenditure financing.

Q: Could you mention any other people who were on this side of the controversy? Many people have mentioned Dr. Rosenstein-Rodan, and I begin to get the impression that he was almost alone in this, but you suggested that there must have been others.

Cope: Well, I think that's because my colleagues have hesitated to rope in other colleagues who are still on the staff of the Bank. But I think it's true that other people who have had similar ideas to Professor Rosenstein-Rodan's would include Martin Rosen, would include me, but I'm sure there'd be others. I think Martin Rosen and I were perhaps the ones chiefly concerned. I think Sir William Iliff (then Mr. William Iliff) did not share entirely the very extreme views against the local-expenditure financing; he took a somewhat middle position on this.

Q: But at any rate it wasn't a controversy between the Economic Department, on the one hand, and the Loan Department on the other.

Cope: No, this cut across completely any departmental frontiers. It was, frankly, a discussion between people who thought in economic terms and people who thought of more practical considerations.

Dr. Rosenstein-Rodan had been interested in the early days of the Bank in the development of Italy as an intellectual exercise. It was fairly early in the history of the Bank, in fact, that the Italians asked us for a loan. Italy was one of the many countries who filed applications with the Bank in the first year of its activities, but for a variety of reasons nothing much happened. There was no formulation of projects or definition of a program in the first approach. In 1948 they did put up a few specific projects and, indeed, we sent a mission to Italy to look at these projects. They didn't come back with anything that the Bank regarded as acceptable, one of the reasons being that the projects that they had seen to be important were those requiring a great deal of local expenditure.

It was about this time that Professor Rosenstein-Rodan came up with the idea that it would not be a bad plan for the Bank to give assistance to Italy in financing the general development of the south of Italy. That was sometime in 1949. The Italian Government at that time were working out a very large program involving the investment in the south of Italy of something like a thousand billion lire and were thinking of setting up a special body to handle it, a body which was eventually set up under the name of Cassa Peril Mezzagiorno. After much discussion in the Bank, which I can't recount, I'm afraid, because I wasn't involved in this myself, the idea was accepted by the management that the Bank should be willing to accept the program for the development of the south as the basis for lending to Italy. Mr. Black decided to approach this question very cautiously and the initial loan was small--it amounted only to 10 million dollars. This decision was made, as I say, in the course of 1949, and Mr. Black visited Italy in April, 1950 to talk with the people on the spot. He came back rather enthusiastic about the potentialities for raising the standard of living in the south, and later that year, later in 1950, we accepted the idea that we would envisage a continuing relationship with Italy in helping them develop the south and that we would envisage lending foreign exchange for local expenditure.

The Cassa was set up in the same year but it was not until almost a year later, namely in October 1951, that we made our first loan of 10 million dollars. This was a loan that was to be disbursed in dollars, it was to be disbursed at the rate of a dollar for every 10,000 lire invested under the plan.

We were, however, concerned, somewhat, about the public relations aspects of embarking on this path, and we therefore decided that we ought to be able to tell people that we knew where the money was being invested. The device was accordingly adopted of setting up a counterpart fund created by the sale of the foreign exchange by the Cassa to the Banca d'Italia, and this counterpart fund was to be used for so-called supplementary projects in the industrial sector which were to be agreed with the Cassa people.

This loan was made and was disbursed in accordance with this formula, but it wasn't easy to find satisfactory projects. Those that had tentatively been agreed upon, for one reason or another, found that they couldn’t use the money or they could get it on better terms elsewhere, and the use of the counterpart lagged and we eventually had to change almost completely the projects for which the counterpart was eventually used.

In general, however, we were satisfied with the reaction to our association with the development of the south of Italy, and two years later we made another loan of 10 million dollars. This time we made it without any idea of the projects for which the counterpart would be used. This loan, however, caused within the Bank a certain amount of discussion of the theoretical basis which had been behind the earlier loans, namely, the impact. The impact argument is a familiar one to economists. It runs that expenditure within a country which is not completely covered by increased savings has an inflationary impact because it increases the demand for imports directly or indirectly and that therefore one is justified in providing foreign exchange in respect of local expenditure.

In a sense, of course, all our lending has been impact lending. The real distinction is not between impact lending and other lending but between direct impact, which is the orthodox loan which is disbursed against imports, and indirect impact, which is the Italian case.

Q: Was this concept of the indirect impact not an important matter in connection with the first loan to southern Italy?

Cope: Yes, yes. That was the theoretical basis on which Rosenstein-Rodan justified the…

Q: I thought you were drawing a distinction between the first and the second 10-million-dollar loans.

Cope: If I did convey that impression, I didn't mean to. I was really intending to lump the first two together. In both of those the justification put forward for the use of the counterpart was that it was a technical device adopted for public relations reasons. But the whole theoretical foundation of both loans was the impact and was the same in both cases.

The idea of impact, however, was found to be rather theoretical; some people didn't like it very much, and towards the end of the year it was decided by the management to tacitly drop the impact justification. We had many meetings in the course of 1953 at which were arranged on one side the theoretically minded people and on the one side people, as I've said, who had practical considerations very much in mind and wanted to limit as far as possible the Bank's activities in financing local expenditure.

Q: Would it be fair to say that the practical people were people who were substantially concerned about the attitude of the New York investment market toward loans of this sort?

Cope: That was one element, but I think a more important element was the possibility of opening the doors to many applications from applicants that we weren't very enthusiastic about and for projects that we didn't think were very important. It's that second consideration, I think, more than the first, but they both played a part in it.

Although the impact justification was officially abandoned in 1953, there was no intention of abandoning the idea of making loans for local expenditure. But we rather tended to shift our ground and to justify them on the basis of there being a need on the part of a borrower carrying out a high priority project for money which he could not raise in his own market. It was perhaps a part in the growing emphasis in the Bank on the project as the basis for the Bank's lending as opposed to the need for foreign exchange on the part of the country as a whole.

Before I go on, perhaps, with our later lending in Italy, it might be useful to interject that the Bank started off in 1947 by making loans which were not related to projects at all. They were loans whose justification was the general need for foreign exchange on the part of the borrowing countries. And that thought dominated our lending in the early years; even though we moved over to projects we tended to be presented with projects whose real raison d'être was not so much the priority of the project but was the need on the part of the economy's problem for foreign exchange. As conditions in Europe and in the world generally as far as exchange shortages changed as conditions improved generally, thinking in the Bank, I think quite unconsciously, moved too in the direction of giving greater weight to projects and less weight to the need for foreign exchange on the part of the economy.

Now, let's get back to Italy.

Q: Do you want to mention the Australian loan in this connection?

Cope: We'll come to that a little bit later. I just wanted to dispose of Italy because two years after that second loan, in 1955, we took another step, or Mr. Black took another step, which was also in response to the thinking of some of the more theoretical people. And this step was namely that we ought to take a longer view of the needs of borrowing countries than would be encompassed in one single loan. Dr. Rosenstein-Rodan and others had been advocating that we think in terms of a program, a series of loans to a particular country, so that it would be in a position of being able to plan ahead and to look for regular increment of external sources over a period of years.

In 1954 Mr. Black went over to Italy to review the progress of the Cassa program in which he'd been interested right from the start, and after a meeting with Mr. Vanoni, who was then the Minister of the Budget, and with Menichella, who was governor of the Banca d'Italia, he indicated that, subject to working out of satisfactory loans and approval of the Bank's Executive Directors, that he would be prepared to envisage an amount of 200 million dollars of lending to Italy over a period of years.

This loan, unlike the first two loans, was not disbursed on the basis of a formula. It wasn't disbursed on the basis of a relationship between expenditure on the plan as a whole and the disbursement of the loaned monies. Instead we concentrated on the projects which came within the Cassa program. These were not necessarily projects being carried out by the Cassa itself; these expenditures were very largely for infrastructure. But this loan was to be used in part for industrial enterprises put up by private capital but enterprises which needed the inducement of loan money from the Bank in order to encourage them to make investments in the south. It was one thing, said the Cassa, to put in infrastructure; it was another thing to get Italian industry to move south. And the use of the counterpart of the Bank loans was regarded as an important element in the industrialization of the South.

The treatment, therefore, became, as far as the Bank was concerned, more or less orthodox. That is, projects were submitted in the industrial sector, in irrigation, in electric power. These were examined in great detail by Bank engineers and technicians. They were looked at from the technical point of view, financial point of view, economic point of view, just as though they'd been orthodox projects. And they were unorthodox only in respect of the fact that we did not concern ourselves at all as to whether what we financed was foreign exchange expenditure or local expenditure. And, in fact, a great part of it was local expenditure.

That pattern was repeated in subsequent loans and altogether we lent something like 250 million dollars to Italy this way.

I think that's all I need to say on Italy, because with the making of the loan in 1955, the pattern had been set and the subsequent loans followed.

Q: I'm just a bit mystified about the ‘55 loan in connection with this controversy about the impact of lending, where it seemed to me that it follows the same pattern as the earlier ones, and yet I understood you to say that the management of the Bank had to come to the point where it sort of rejected the idea of impact lending.

Cope: Well, the difference was that under the 1955 loan we did not attempt to calculate the impact and we made no reference to it and we justified on the grounds of the necessity to provide capital for Italian enterprises to move south, and so set up businesses and help industrialize the area. We justified it on the need to help carry out infrastructure. We justified it on the basis of the need to provide irrigation, to facilitate the settlement of farmers in the poorer areas of the south.

Q: Was there no concern that this also might be opening the floodgates for sort of loans that the Bank didn't want to make?

Cope: There was still some concern, I think, on the part of the people who were most conservative on this matter. I think what was of key importance was that Mr. Black himself was very much sold on the idea of helping the development of the south. I think it was also true that the individual project examination and the concentration of the counterpart of these loans on industrial projects and infrastructure projects, which the Bank had examined and felt were good for the economic point of view, was thought to take a good deal of the sting out of the objections to the local expenditure. But I think it is also true to say that certain people were still somewhat unhappy about the Italian precedent and were afraid that it would be used elsewhere.

Q: Has it, in fact, been used elsewhere?

Cope: Yes, it has been used elsewhere, and this perhaps will bring me to a discussion of the Congo lending, which covers roughly the same period and involves roughly the same situation. The discussions with the Belgian Government about the Congo started in 1949. Now, the Belgians were anxious to get the Bank involved in financing the Congo because they themselves were investing heavily in the Congo; they had a general need for foreign exchange, and they thought that if they could induce the Bank to lend for the Congo that would help them meet the impact of their investment of their expenditure in the Congo.

The Bank, at this time, had been thinking about its policy in lending to dependent territories and there was a feeling in the Bank that it would be a good thing to get as close to the borrower as possible, and possibly with an eye to independence, later on, associate very closely with the Bank's lending the government of the territory concerned and, if possible, lend to that government rather than to the colonial power.

Perhaps reinforcing this feeling was a certain distaste for colonialism on the part of some in the Bank, but in all events there were sufficiently sound reasons to justify an idea of getting close to the borrower and to cause the Bank to take a rather firm line and say to the Belgians in discussions in 1950 that in any lending in the Congo we want to be associated pretty closely with the Congo administration.

The Belgians were not enthusiastic about this for the simple reason that they wanted to get the foreign exchange themselves. Things didn't develop very fast until in March of 1950 the idea came up--if I remember rightly it came up from the Bank's side--that there should be two loans made which would be linked. One loan would be to the government in the Congo, and the other loan would be to Metropolitan Belgian. The Belgian Ministry of Finance would be getting some money out of it, and the Belgian Minister was very anxious to get something for internal political reasons, both to give cash in the Treasury and to provide a justification for his giving a guarantee of the Congo obligation.

This idea seemed to appeal to the Belgians, as it seemed to make good sense to us, and in June a mission was sent out to the Congo to examine the Congo economy and to study the 10-year plan for the economic and social development of the Congo which had just been formulated. This mission spent quite a long time in the Congo. I was with them for only two weeks. I saw something of the Congo on my first visit to Africa, and the other people spent much longer time and got to know the area much better. They came back with the conclusion that the development plan made sense and they came back with the conclusion that we could justify making a loan of 30 million dollars to Belgium to cover the impact of Belgian investment in the Congo. This figure was worked on in Brussels on the basis of discussions of the economy which my colleague, Dr. Kamarck, participated in. They also came back with the conclusion that we could reasonably lend 40 million dollars for the plan itself, and that loan would be made to the Congo.

We were not--this idea was accepted by the Bank--prepared to make the 30 million impact loan to the Belgian government without any sort of strings. And we used much the same sort of device as we'd done in the case of the Italian loans. We said that we would disburse foreign exchange with respect to this 30 million but the counterpart had to be set aside and had to lend to the Belgian Congo for the development plan, so that we could say, in order to satisfy critics, that although 30 million of the 70 had been made to Belgium, in fact the equivalent of 70 million was used for the development of the Congo.

We also made a further requirement which was that we would not be satisfied merely with disbursing on the basis of the progress of the plan as a whole, which, as you'll remember, was the basis we used for the first two Italian loans. We felt that since even then the importance of the projects in our thinking had been increasing, that we ought to have something like a project in this deal. We, therefore, selected Otraco, which is a transport monopoly in the Belgian Congo, as the project, and that we would limit our disbursement to expenditure on Otraco which we had investigated as being a sound project to carry out. And so, we could claim to the outside world that this was no exception to our general rule that proceeds of bank loans had to be allocated in some way or other to specific projects.

The deal that we worked out, therefore, was somewhat complicated in that we based disbursement on the progress of expenditure on the development plan as a whole but subject to the limitations that we could not disburse at a rate faster than that which represented expenditure on Otraco. So the disbursement had to be within the lower of two limits. Disbursement was made for both loans at once, and each disbursement was divided in two: three-sevenths for the Belgian Government loan and four-sevenths for the Belgian Congo loan.

The counterpart of the three-sevenths, as I've already said, was set aside by the Belgian Government on a special account on which eventually the Congo drew for its local expenditure. You can see that there were strong conceptual links between the Congo loan and the Italian loans and you can see that in the Congo lending, as with the Italian lending, we were very anxious to retain the idea of projects being financed.

Interview No. 2

August 11. 1961

Cope: One of the loan operations that I had been concerned with that has given rise to a good deal of discussion and comment was the operation which was started in August, 1950, when the Prime Minister of Australia, Mr. Menzies, came to Washington. He saw Mr. Black on August 2, 1950, and with his customary eloquence and persuasive powers, he explained to Mr. Black Australia's need for outside finance, explained the potentialities of Australia, and asked that the Bank give Australia what was tantamount to a commitment to provide 250 million dollars over a period of five years. This was a very large sum. We had never before made anything like a long-term commitment of this sort.

Not only was this commitment large, but the initial tranche of the 250 million amount was also to be large. He asked that this should be 100 million dollars and that the rest of the amount, 150 million dollars, should be made available at roughly yearly intervals.

Mr. Black was convinced of the case put forward by Prime Minister Menzies and in response to the Prime Minister's pleas of urgency, Mr. Black agreed that we would try to get this loan through at the end of August and, if possible, by the 22nd of August. This was something unprecedented in the history of the Bank. Most of our previous loans had taken many months of negotiations and never before had we got a loan in three weeks from start to finish. Extraordinary measures were, therefore, adopted. In the first place, it was obviously out of the question to send a mission to Australia. We had to rely on information which was brought by an Australian delegation which was already in Washington, supplemented by such other information we could get by cable or air mail from Canberra.

We got to work immediately with writing an economic report. We had never made an economic report before on Australia. We have a certain amount of printed material and we had the written material which the delegation brought with them. And we worked together as a team, the Bank people with the Australia group, and within a very short time produced an economic report.

The negotiation of a loan agreement was simple. In the first place, the borrower was the Australian Government, which meant that there was not the complication of another borrower with a guarantee agreement. There was furthermore the fact that this was simplest type of loan, namely, a list-of-goods loan. The Australian need of that time was for foreign exchange to make possible the import of a wide range of capital equipment. Examples: agricultural equipment, tractors, harvesters, and so on; trucks, diesel electric locomotives for the Australian railways; machine tools and other machinery for private industry, and so on.

Because of these factors it was possible to get documents in such a form as we could start formal negotiations on the 15th of August. We sent the documents to the board on the 18th. The board met on the 22nd, approved the loan, and we signed the same day.

This was a tour de force, but it was also I think an example of how not to make a loan. It gave rise to various questions, which I think the principal ones are these: First of all, should the Bank give a long-term loan commitment of an amount as much as 250 million dollars? That was criticized because it was felt that this was something the Bank had always declined to do before. The other requests had come from less developed parts of the world, and here was a country, Australia, whose need for external capital was undoubtedly less than in some other countries. And here we were giving a long-term commitment.

I won't say whether we were right or wrong, but that certainly is a question that was raised.

The second question was: Given that you do make a long-term commitment, wasn't 250 million too large a slice of the Bank's available resources? And, furthermore, wasn't a hundred million a very large amount?

Thirdly, was it right to that a loan should be made purely against a list of goods without tying it to specific projects? You will recall that the Bank's first loans to Europe for reconstruction had been of this type, but since the end of 1947 the Bank had abandoned that technique and had made its loans only for specific projects. Here, apparently, was a reversion to an earlier method which had been discredited, and it was felt that this might create dangerous precedents for the future.

If it didn't create dangerous precedents, the objection could be made that we would discriminate in favor of Australia and deny to other countries a very easy way of getting money which we had given to them.

The other points that it gave rise to are rather of an operational character. There was the question: Is it wise to make a loan without a mission to the country? None of us liked this particular method at the time. We produced an economic report which I think was the best that could be done under the circumstances, but none of us would pretend that it was a very good economic report, and on reading it it was obvious that it was based on secondhand material and didn't represent the sort of thorough investigation that we normally make. It had a certain danger, again, that it would be cited as a precedent.

The final operational point that I mentioned was the question of timing. It was, I said, a tour de force to do it in only three weeks, but it threw into rather violent contrast the many months we had spent on the other loans and working to the deadline that we were given meant that the work wasn't done as thoroughly as we would have wished.

Well, those were the criticisms that were raised and are still in people's minds when the loan to Australia is recalled. On the other side, I think you can say that Australia was a sophisticated country, with a sound economy. The administration and the business community were a sort of people that you could lend to with confidence. And we've never had any anxieties about our lending to Australia. But, as a model and as a technique, we have never been very happy about it.

Just to complete the picture I may say that we tried hard, bearing these disadvantages in mind, to get away from this pattern established with the first 100 million of the 250 million. I was, myself, concerned with many heated discussions with Australian representatives on the three subsequent occasions when we made up 250 million with three loans of roughly 50 million dollars each. We tried hard to tighten up the terms. We subsequently investigated more closely the particular sectors of the economy to which the proceeds were to be devoted. We shortened the term of the loan. The first loan, of 100 million, was for 25 years. We cut the next one to 20, and the two subsequent loans to 15. But that was about all we could do.

We made one further loan after that of the same type, so that Australia altogether received just over 300 million dollars of loans of this type. And, thereafter, we said, you will get only loans that conform to the normal bank pattern, and in the discussions that we are now having with the Australians, we are looking into a project of an orthodox type, which will be financed in an orthodox way.

Q: May I ask some questions about the Australian loan?

Cope: Yes, please.

Q: When the Government of Australia borrowed the money, and then used the money to buy agricultural equipment, for example, did the government itself maintain ownership of the equipment or did it in turn sell it to the private people who were using it?

Cope: The technique follows this pattern: The equipment was destined either for private users or for state enterprises which had funds of their own. Our loan went to the Australian Government. The Australian Government sold the foreign currencies, which were U.S. dollars and Canadian dollars almost entirely, to the Commonwealth Bank of Australia, and that counterpart, that Australian pound equivalent, went into the capital resources of the budget.

The accretion of foreign exchange, which went to the Commonwealth Bank as a result of this, enabled import licenses to be issued to people who could prove that their equipment was needed on high priority and came within the general categories that we'd established under the loan. There was a special screening committee. There was a special series of import licenses issued for people whose import needs came within the scope of the loan, and these import licenses were examined and approved, and the foreign exchange they got was in effect the foreign exchange represented in the loan.

Q: Was any question raised as to whether this loan violated the Bank's general principle that it was not going to make loans for Government enterprise if the Government enterprise tended to compete with what might be private enterprise?

Cope: Well, the loan didn't go to government enterprises. As I say, the users of the equipment were either private individuals, farmers or businessmen, large and small, public utilities, railways. In other words, the ultimate recipients of the goods financed by the loans were of the same character as those who received proceeds of other loans. The only difference was that in this case they didn't get any capital. All they got out of the loan was a rubber stamp on an import license. The capital went to the government and increased the capital resources of the Commonwealth Government and filtered through the economy that way.

Q: Which brings up the next question: It sounds to me rather like this was a loan designed to supply the Australians in particular, and the sterling area in general, with short currency, namely dollars, and that it was really dollars that were short rather than capital per se, which would perhaps be classified as a balance of payments or even a long-term currency stabilization loan rather than a development loan.

Cope: You can classify it like that. But after all the shortage of foreign exchange is only one facet of the shortage of capital. The two are very closely associated. But it can be called a balance-of-payments loan if you like, but I think I would answer you by saying that a shortage of foreign exchange is evidence, that there is not enough capital in the country to do all the development which that country is undertaking.

Q: Or, I suppose it might be argued theoretically that it's a sign of disequilibrium of exchange rates.

Cope: That's true, but the disequilibrium is caused by the country trying to do more than its resources permitted to do. So, if you go back to the basic cause of the disequilibrium, you'll see that it's a shortage of capital.

Q: Well, it's an interesting question to me because, as you no doubt recall, the United States Government in the Bretton Woods Agreements Act insisted that the Bank be permitted to make long-term stabilization loans which the International Monetary Fund might regard too long-term for its activities. It sounds to me like this might have been such a loan, and I just wonder if that issue was ever discussed in the Bank at the time.

Cope: Well, from time to time the question of the stabilization loan has come up. We have decided that we don't want to make loans which are called stabilization loans; therefore, the issue was never raised in that particular form. Clearly, however, it did provide foreign exchange needed by the Australian economy at a particular time and, undoubtedly, helped to stabilize the economy at a given level of economic development.

Q: I have heard that one of the reasons why the Bank was asked to do this loan very hurriedly by Mr. Black, in particular, was because he was anxious to keep the Australians from going over to the Export-Import Bank and getting a loan. Can you comment on this?

Cope: There might be something in it.

Q: You said that you were obliged to use secondhand material in working up the report and that you were unhappy about this. I am just wondering if you could comment on the Bank's reports in general in connection with material it uses, for it seems to me that in the case of statistics at least the Bank is always obliged to use material which it has not itself derived.

Cope: Well, when I said secondhand material, I was using the term rather loosely, and this is what I meant: When we normally sent a mission, or whenever we sent a mission into the field, that mission has direct access to the various departments of the government who are responsible for economic activities of various sorts, and moreover we have access to public authorities and private companies, universities, official and unofficial bodies of all sorts. We always try to get as close to the ground as we can.

Now that means if we are interested in power development, we go to the ministry of power, if there is one, or we go to the electricity commissions, and get the statistics from them. Now, that wasn't possible in the case of this loan. The statistics that we had were fed through this little group that came over here. I'm not saying that they didn't behave in a perfectly straightforward way, but you don't just receive statistics, you discuss them. And there's a world of difference between writing a report based on statistics that you discussed with the people who are responsible for that particular sector of the economy and had a hand in formulating them and collecting them, and a situation in which statistics are presented to you by another department, even if it is the minister of finance, which doesn't have any direct contact with the sector concerned. That's what I meant by secondhand.

Q: Now, this was obviously a very good loan from the standpoint of repayment, the Australian Government being stable and honorable and so on. And yet it was clearly not the general sort of project loan which the Bank insists upon in its dealings, say, with Latin America or with the African countries in general. I'm wondering if this suggests that one of the main reasons for the Banks insisting upon the project approach most the time is that it is dealing with governments which it regards as politically unstable or at least less mature than the Australian Government, for example.

Cope: I think that's part of the truth but perhaps not the whole truth, and I think if you take that facet by itself, it gives a misleading picture of the reasons behind the Bank's anxiety to finance specific projects. One reason we like to finance specific projects everywhere, even with the best of borrowers, is that we feel that we can exercise an influence on the way the projects are carried out and on the selection of priorities within the development plan.

A second reason is that the market likes the idea of specific projects. There's a feeling that if you know exactly where the money goes, it must be a sound thing. I think that's only partly true, but it's a factor.

So that it's the Bank's policy irrespective of the credit standing of the borrower to require that loans are made for specific projects.

I might say that in the Australian case there were very cogent constitutional reasons why it was different to make a project loan. And that's one reason why in the interval between that series of loans and the present day we had many discussions with the Australians about lending but we haven't come up with anything very much, apart from one relatively small loan.

This situation is this: that the States making up the Commonwealth of Australia which as you know, has a federal constitution, can't borrow abroad without the permission of the Loan Council, which is a body on which the Commonwealth and the six States are represented.

The proceeds of all foreign borrowing are divided among the States on the basis of a formula, although by agreement the States and the Commonwealth, sitting together on the Loan Council, can vary this formula. However, since each State wants to get maximum amount it can, it's very difficult to vary this fixed formula. That's one aspect of the problem.

The other aspect of the problem is that the Commonwealth itself doesn't have any economic activities. Most of the public economic activities in Australia are in the hands of State governments, either the State governments themselves or more often statutory commissions, corporations, which are owned and run by the States. The New South Wales Railways, the Victoria Electricity Commission, and so on.

Now, if a bank loan were made to, say, the New South Wales State Railways, that would require a departure from the principle that States don't borrow and that only the Commonwealth borrows, and the Commonwealth Government is not willing to give up that practice because it is afraid that the States, being less responsible, would incur too much debt and overburden the Australian economy. Therefore, the Commonwealth Treasurer is very anxious to prevent the States from borrowing.

You can then ask: Why didn't we lend to the Commonwealth for the Commonwealth to relend to one of the state bodies? The answer is that that could be only done with the approval of the Loan Council, and the other States on the Loan Council, who were not recipients of money like that, would not agree, because that would upset the formula providing for the division of all foreign borrowing among all the States.

So, there was a real constitutional and political problem in the way of any orthodox loan for Australia. There are two ways of overcoming that, theoretically. One way would be to lend for Commonwealth projects, but, as I say, there were very few of them. We are now considering one, as a matter of fact; we're now considering the possibility of lending for a hydroelectric development scheme. That bypasses these constitutional problems.

A second way would be to make a series of loans in which each of the six States got its cut, and, therefore, you'd be able to get agreement within the Loan Council on this particular operation.

Now, that's a peculiarly Australian problem. Australian politics are very intense, I might say, and it proved an obstacle to lending in the orthodox way.

Q: Just to pursue my question one step further. I gather that in the case of many of the recent loans to India a more general balance-of-payments approach or program approach has been used than in the case of the less mature-government countries.

Cope: Yes. We recently made a loan to India for a railway, equipment, and coal mining industry, which has got a good deal in common with the Australian type of loan. This is not likely to become a common pattern. It's justification, to some extent, the same as in the Australian case: that the borrowers were fairly sophisticated, that we, moreover, had very intimate knowledge of the development plan of India, and we felt that as an exception to our normal practice we could make loans of this general list-of-goods type.

Q: I've heard that in the case of, I think, the first loan to Southern Rhodesia, even though the Bank said it was making a loan to finance a specific electric project, that in fact the Bank computed what was going to be loaned by finding out what the foreign currency requirements would be for a development program and decided that was the amount the Bank would lend, and then found a project within the program with which it could tie the particular lending to. So, in a sense even this was a more general-purpose loan than a specific-project loan.

Cope: Well, every loan that the Bank makes, you see, has a balance of payments aspect. There is not a hard and fast line to be drawn between a balance-of-payments loan and a project loan. In the Rhodesian case, as almost everywhere else, before we lend, we want to be satisfied that there is a need for foreign exchange by the economy as a whole. That’s a balance-of-payments consideration; it’s present everywhere.

However, in the Southern Rhodesian case we made a very careful examination of the capital needs and the development program of the Electricity Supply Commission, and we found that by taking a slice of their development program, we could establish...That gave rise to the need for import of capital equipment and it was a specific need for this program, and we felt that the loan was justified. I don't think it's right to single that loan out as being any different from the majority of loans the Bank has made. There is always a balance of payments evident in our lending, and in nearly every case there is a project aspect.

Q: I guess what I'm really asking is: Doesn't it really in fact turn out that the Bank is less concerned with specific projects than it sometimes appears, and that it puts a great emphasis on specific projects partly for public relations reasons and partly for the reason that you mentioned, that the Bank wants to satisfy the market that buys the Bank's bonds, that the Bank's bonds are tied to something physical which can be seen and pointed to thereafter.

Cope: Yes, I would agree. I think that's the importance of this policy of financing projects.

But I will say this, on the other hand, that even with our best borrowers we have found that we have been able to do a real service to the borrowing country by insisting on a detailed, technical and financial examination of a project. I can give you a recent example of that.

We were approached over a year ago to make a loan for the Uganda Power Board. We sent people out and we found that their finances were in a mess. They'd made bad mistakes of judgment in the past about the probable rate of expansion of demand. That caused them to enter into a long-term contract with the Kenya

Government for the sale of power on terms which didn't give them an adequate return on the capital invested, and because of this their revenues had been less than they felt were necessary. They'd been reduced to borrow at a short-term, and they were faced with heavy maturities over the next few years. Practically everything was wrong with the financing of that that could be wrong.

Now, we looked into it. We laid down very tough conditions for putting that right. I am quite convinced that if we hadn't come in and investigated that and insisted on a reorganization of it, it would never have been put right. The Uganda Board, in the end, were very grateful to us. We've been able to help them to do what they knew should be done and which they would never have had the political power to do on their own.

Now, that's not the only example; it's just one that happens to occur to me at the moment. But if you talk to other people, they can cite innumerable examples of that.

Q: You mentioned that at the time the Australian loan was being negotiated there was concern in the Bank that this might be cited as a precedent by other prospective borrowers. Has it in fact been so cited?

Cope: Yes, many times.

Q: What is the Bank's reply?

Cope: The Bank's reply is that that was a special loan made to meet a special situation, that the peculiarities of the Australian scene are not repeated elsewhere, that in other countries there are projects which are suitable for Bank financing, there are other countries in which there are no constitutional and political problems of the nature found in Australia, and there is therefore no obstacle to the Bank following an orthodox proceeding.

Q: I believe you also mentioned that Australia was relatively mature. And this raises the question in my mind as to whether you've had loan requests from other mature economies, European economies, for example, in the last decade, say.

Cope: We have found that the demand for capital in Europe has been falling. At the moment, we are concerned almost entirely with lending on the periphery of Europe, that is, Finland, Scandinavia, and then the Mediterranean area, Yugoslavia, and we may be lending for other countries in the Mediterranean area in the future.

If you were talking about the more highly industrialized areas, say, countries in the Common Market and the United Kingdom, there hasn't been any demand for capital from them for at least five years. And even before then, we were taking a very cautious view about lending to them. The last loan we made in that area--if my memory serves me right--was a loan made to Belgium in 1954. We've never lent money to Germany. We've not lent money to France since the original loan of 250 million in 1947.

Q: Well, I wonder if you'd care to go on and talk about the 18 percent.

Cope: Yes, I'd like to say something about the 18 percent. It's a highly technical matter and a highly complicated subject. But I'll just try to sketch the main phases of the story.

Starting with the initial period, one has to recall that the United States released the whole of its 18 percent very early in the history of the Bank, in April of 1947, before we'd made any loans. And that, in the amount of 571 million dollars, provided us with a cash basis on which to start lending.

For the next year or so the releases were negligible. We got only another two million that year. The Canadians started releasing at the end of 1948, and Denmark made a very small release in 1949.

So, I think it's true to say that until the end of 1949, we had practically no release of 18 percent, other than the release of the whole United States sum. This concerned Mr. Black very much, and he felt that, for many reasons, financial, psychological and political, we had to make a drive to associate the other members of the Bank in the provision of lendable resources and get them to release their 18 percent.

Early in 1950 we approached the Board to agree to make certain technical changes in the rules relating to 18 percent, which I'd needn't bother you with at the present time. These changes were approved, and Mr. Black made an appeal in the spring of 1950 to all members. This appeal wasn't really very successful. We had a number of responses, but in many cases the response didn't help us very much.

A number of countries said they would release part or the whole of their 18 percent subscription on condition that it was spent in their particular countries. And even that was sometimes watered down to exclude their principal export commodities. So that in practice they were unusable. For example, Ecuador released the whole of its 18 percent, but we couldn't use it on the cacao, coffee or bananas, which were the only products exported by Ecuador in large quantities. And, anyway, we were most unlikely to be able to spend it for anything that Ecuador exports. So, it meant that, in fact, it was not usable.

In many cases, countries--and this applies more to the European countries--there were releases of substantial amounts, subject to consultation, which really didn't help us very much because it meant that each time we wanted to use some of their 18 percent currency, we had to go back to them, and you never knew whether you were going to get it or not.

Q: Did these conditional releases interfere with the Bank's principle of international competitive bidding on its projects?

Cope: No. The Bank insisted that it could lend only for projects, the equipment for which was procured on the basis of competition. It meant, however, we might well, in financing a project which used equipment made in Italy--and it might be that the Italian government would not release the lire required for that—have to acquire the lire with another currency that we could use universally. And at that time the only currency was dollars.

There were one or two cases in the year or so that followed, after 1950, which represented a relaxation of this rather rigid and unfruitful period. For example, in 1951 we made our first loan to Yugoslavia. Now, we felt at the time--as I think I mentioned the last time I spoke to you--that our lending for Yugoslavia should only be in European currencies. Now, because of the nature of the releases that we'd had from European countries, we hadn't any usable European currencies for Yugoslavia. So, we made a special approach to them and said it's politically important and it's important for other reasons that we should make this loan to Yugoslavia. Would you make a special release for Yugoslavia in a certain amount, that amount being based on our expectation of the purchases in the countries concerned?

Now, we did get releases from about a dozen countries on that basis.

That pattern was characteristic of this third phase of 18 percent releases. That is to say, specific releases for specific countries and for specific purposes. It meant that a great deal of work was involved in getting a release, because a case had to be made and sometimes argued with the country concerned, and you had to put up arguments which you didn't wholly believe in.

One of the arguments that you tended to put up was that this was a good thing because it helped the country to export capital goods. Well, that would be true, of course, if we didn't insist on international competition, but there is a complete inconsistency between an argument which rests on the interests of the releasing member and a policy of international competition. International competition means that the cheapest supplier gets the order irrespective of the release of the 18 percent funds.

However, there were certain political advantages in the releasing country of playing up this connection between the supplier and the user, and it worked in many cases.

The next phase, I think, was perhaps that started by the U.K. release in February of 1953. This was a deal worked out between Sir Edmund Hall-Patch and the management of the Bank, and was resolved after a great many discussions Mr. Black had had with U.K. representatives over the preceding year or so. The United Kingdom agreed to release an amount of 60 million pounds of her 18 percent over a period of six years, that is, a rate of 10 million pounds a year. It was restricted for borrowers within the Commonwealth, and it was laid down that the greater part of this amount should be spent within the sterling area, although the portion that could be spent outside was never closely defined and there was some flexibility there.

But each case had to be approved by the United Kingdom before we could use it. This meant quite a substantial amount of additional 18 percent. Sixty million pounds was equivalent to 168 million dollars, and in relation to our resources then, this was quite a step forward.

It did usher in, however, a period which was very troublesome for the people who had to administer it. Careful records had to be kept to see that you didn't exceed 10 million pounds. You had to agree as to whether you could carry forward the unused balance of the 10 million from one year to the other, if there were one. And the U.K. was not always agreeable to the approval of projects that we put up. But it worked, and as time went on, we got gradual relaxations, and before the six-year period was up, we got much more working flexibility.

The next phases in our obtaining of releases of 18 percent occurred about the same time, and that was the phase of matching transactions. This means that a country would agree to release a given quantity of 18 percent, if the Bank would, at the same time or within a given period, purchase with another currency the same amount of the releasing government’s currency. This started with the French in 1953, when they agreed to release five million dollars worth of French francs a year, if the Bank agreed to buy a similar amount of francs with other convertible currencies. It wasn't unduly burdensome because in most cases we had to buy much more of that country's currency anyway, but it was, again, administratively a nuisance.

The Germans made a similar deal. They agreed to release the balance of their 18 percent quota, which at that time was 56 million dollars, in annual tranches, each tranche having to be matched by the purchase of at least an equivalent amount with convertible currencies, and each case being subject to consultation. That, again, was influenced by the U.K. release, which required individual consultation, but it had the initial gimmick which is common to the French and the German releases of matching.

All these arrangements have to be accepted by the management of the Bank because the member country has the last word. This was not a matter that we had any negotiating power about; it was the member to decide whether the release should be made or not.

We felt, however, that more and more we had to generalize the releases, and in the summer of 1950, the idea of having a pool of convertible currencies came up, not tied to the releasing country, and we fixed on amount of 50 million dollars as being sufficiently large to make it worthwhile and not so large that it would frighten any of the countries concerned. And we asked a member of the leading European countries to chip in to a pool of this amount.

We didn't get a very satisfactory response to that. A number of countries did agree. And for about a year and a half we drifted on with these complications of matching arrangements, releases of sterling tied to the Commonwealth, and so on.

By the year 1957, Mr. Black and Mr. Iliff had been giving--and I suppose other people had been giving--a good deal of thought to this whole problem, and it was decided to make a drive to get much freer use of 18 percent currencies. There was a subcommittee existing at the time called the non-dollar subcommittee of the staff loan committee, which had been concerned in the past mainly with the allocation of scarce European countries to various loans. This was under the chairmanship of the Treasurer, Henry W. Riley.

At this meeting I came up with the idea that we should start a drive by sending letters to all member countries, whether they released their 18 percent or not, so that nobody could say that they were being discriminated against by being asked to make a release. Even if we didn't think we'd get any 18 percent, we'd nevertheless send them a letter. The letters were tailored, of course, to the needs of the situation, but in each letter we laid down firmly the management's view that it was an obligation of the member to release its 18 percent subscriptions as fast as its economic conditions permitted.

We sent letters in April of 1957, and in making this case we pointed out that tied releases were no good in that releases had to be transferable and convertible into other currencies.

We got quite a good response to that, much better than I had expected and I think that anybody else had expected, and by the end of 1957 we had a total of 200 million dollars as a result of that drive.

Since then we have been following up the cases where no immediate release was made, and we have been trying to loosen up the releases which were made with restrictions. We still have a good way to go to get the full amount of 18 percent released, but I think it's fair to say that we've broken the back of the problem, that for the most part the countries that haven't made releases are not in a very good position to do so, and we're pretty near the end, I think, of a campaign to get the release of 18 percent. There are perhaps a dozen countries that can make a release and haven't but that's probably about the size of it.

Q: Two questions, if I may, about the currencies. Surely the Bank doesn't really intend to use all of its members' currencies in its lending operations.

Cope: Well, the Articles of Agreement of the Bank are not very explicit about this, but I think it's not an unfair inference to draw from the Articles of Agreement that the 18 percent subscription was intended to provide the Bank with usable funds. There's no statement to the contrary, and the provision, which applies to every member, permitting the member to give its consent to the release, can be interpreted by implication to express an expectation that the member would give the release as soon as it could. That, at least, is the interpretation that we've given to the Articles within the Bank.

Q: But my question is: What's the point of asking a country to release its currency if the Bank is not in fact going to use that currency in its lending operation?

Cope: If it's transferable, we can always use it to acquire the other currencies that are needed, and that was the whole point of the drive in 1957. We knew that it was no good getting Ecuadorian currency because no borrower wants to buy capital equipment in Ecuador, but what we can do if we get currency of a country like Ecuador, is to convert into dollars or Swiss francs or pounds sterling, or whatever currency is needed by the borrower to make its purchases.

Q: Well, then, the other question is: What is the point of using the currency in this way of a country which is in turn borrowing from the Bank itself?

Cope: The justification, I think, is this: The concept of the Bank is that of a cooperative organization. It's like a credit union. All the members of the credit union take up a certain number of shares or put in a certain amount of money, and then the credit union makes loans to the members, and that doesn't preclude--in fact, it makes inevitable--a situation in which a member is both a contributor and a recipient.

Q: I wonder if I might ask two questions about organization of the Bank. I don't know whether you want to answer them or not. I understand that very shortly after Mr. McCloy became president and Mr. Garner became vice president, a number of economists were shifted out of the Economics Department and into the Loan Department, and that people in the Economics Department felt this was rather shifting the emphasis of the Bank's operations away from the Economics Department and into the Loan Department, so that the Loan Department was becoming more important in the Bank's operations than had been intended under Mr. Meyer, when the departments were originally set up. Would you comment on this?

Cope: Well, I think we were feeling our way both as to the way in which we could handle loans and the way we should be organized to do our lending work. I think it's awfully easy be wise after the event and to say that there were better ways in which the Bank could have been organized. I think a certain amount of trial and error in organization is inevitable when you're starting something as new as the World Bank.

Q: Well, I understand that some of the economists were then shifted back again to the Economics Department sometime around 1948 or 1949.

Cope: Yes, yes, that's right.

Q: And there's no particular reason for this other than that the Bank was feeling its way in organizational procedures to see where it's best to have particular things being done.

Cope: I think that you ought to talk to the people more directly concerned than I was at that time. I was very much in a junior position then and I didn't know the situation as it was.

Q: Could you mention some of the people that I should perhaps talk to about this?

Cope: Well, I think Sir William Iliff is obviously a person you want to talk to. Mr. Rist. It's a pity you can't talk to Mr. Hoar, who was assistant director of the Loan Department throughout this period.

Q: Do you know where Mr. Hoar is now?

Cope: He's in London with the Commonwealth Development Finance Company. You might talk to Mr. Howell, director of administration. Perhaps Mr. Rosen might throw some light on it. He was in the Economics Department at that time. Those are the only suggestions that I have.

Q: Well, one last question. I wonder if you would care to, in a very summery way, contrast or draw similarities that are appropriate between Mr. Black's regime as president and Mr. McCloy's regime. Has it all been one continuous line of administration?

Cope: No, it hasn't, but there, again, I was in such a junior position under the McCloy regime that I don't think I could give a fair appreciation of the two.

Q: Well, I think we should perhaps call a halt then. Thank you very much.