

Oral History Interview

with

Davidson Sommers

Air Corps officer assigned to office of Assistant Secretary for Air, 1942-44, and to Assistant Secretary of War, 1944-46; Special Assistant to Secretary of War, 1946; Attorney in legal department, International Bank for Reconstruction and Development (World Bank), of the World Bank, 1949-59.

Washington, DC

June 22, 1989

Niel M. Johnson

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JOHNSON: I'm going to begin, Mr. Sommers, by asking you where you were born, when you were born, and what your parents' names were.

SOMMERS: I was born in St. Paul, Minnesota on February 15, 1905. My parents were Charles L. Sommers, a merchant in St. Paul, and my mother's name was Rosa Davidson Sommers. She was from New York.

JOHNSON: Did you have brothers and sisters?

SOMMERS: I had four brothers and sisters, but unfortunately, three of them died in their early twenties. I have only one sister left, who is living in St. Paul. Her name is Mrs. Herman Otto.

JOHNSON: Do you happen to be the youngest?

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SOMMERS: No, I happen to be the oldest.

JOHNSON: The oldest. Finally I'm talking to the oldest. I've been talking to the youngest until now. Your education was in St. Paul?

SOMMERS: In St. Paul at a private school called the St. Paul Academy, and then Harvard College, class of 1926. I took a year off, which I spent in Europe, and then I went to Harvard Law School and graduated in 1930. I went out to St. Paul to explore the possibility of jobs, but that was in the depression, and I got no encouragement. So I went to New York, which I was inclined to do anyway because it seemed more adventurous.

JOHNSON: Did you know anyone in New York City?

SOMMERS: I had some relatives there. More importantly, I had one cousin who was a brilliant lawyer. After considering some possibilities at other firms, I wound up in his firm.

JOHNSON: Was he influential in your going to law school, this cousin?

SOMMERS: No.

JOHNSON: What was his name?

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SOMMERS: His name was Robert Benjamin, and he was an expert on administrative law.

JOHNSON: In your pre-Government career, then, you started as a lawyer in a . . .

SOMMERS: I started as a private lawyer in New York, and frankly I didn't like private practice of the law. In 1937 I joined the LaGuardia administration as an Assistant Corporation Counsel.

JOHNSON: By the way, could I ask you, what was your undergraduate major?

SOMMERS: English.

JOHNSON: Now, you're with the LaGuardia administration in New York City as a General Counsel.

SOMMERS: Assistant Corporation Counsel they called it, and working mostly on acquisition of the subways, the elevateds, and the bus lines.

JOHNSON: Acquisition, you mean city ownership?

SOMMERS: The city bought them out.

JOHNSON: I see. Was Robert Moses in the city government at that time?

SOMMERS: He was in the Government during part of that time,

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yes, but he wasn't connected with that. He had no interest in public transportation. He liked parkways.

JOHNSON: So how long were you with the LaGuardia people?

SOMMERS: I was only there for a year and a half, and then was made a partner in my law firm, which was by this time called Parker & Duryee. I stayed there until the spring of '42, and then I enlisted in the Air Corps, and was commissioned. I thought I was going to be in the intelligence field and would be sent to the South Pacific; I was shot full of anti-yellow fever serum and sent to Dayton, Ohio.

Robert Lovett, Assistant Secretary for Air, was very worried about the procurement of aircraft and had brought in a superb lawyer from New York, Donald Swatland, from the Cravath firm. Mr. Lovett had given orders to his executives that if any good lawyer was commissioned in the Air Corps, instead of being sent somewhere else, he should be sent to Wright Field. Since his executive's concept of a good lawyer was somebody who graduated from the Harvard Law School, and perhaps from Yale or Columbia, I was sent there to work on purchases of aircraft.

JOHNSON: So, you became somewhat of a legal expert on procurement, military procurement?

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SOMMERS: Yes. Then John J. McCloy, Assistant Secretary of War, who was particularly close to Mr. Henry Stimson, the Secretary of War, and was a former partner of Swatland's, telephoned Swatland and said, "I need somebody to help me on reviewing Joint Chiefs of Staff documents. Have you got anybody to send?" Swatland sent me.

It may be interesting to know the reason McCloy needed somebody. I understand that General Marshall, who was one of my heroes, went to Mr. Stimson and said, "When I vote in the Joint Chiefs of Staff and the Combined Chiefs of Staff, with the British, I find I'm dealing with

questions that are not purely military but have politico-military and foreign policy implications, and I need the advice of the civilians before I vote." Mr. Stimson said he agreed and delegated this to McCloy. McCloy wanted somebody to review the papers and tell him what the issues were. That's what I went to McCloy's office to do.

JOHNSON: That was what year?

SOMMERS: That was December '44. When McCloy left, I became a civilian as Special Assistant to the Secretary of War. I thought I could have more influence in the War Department as a civilian.

JOHNSON: When was it that you became civilian?

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SOMMERS: I became civilian about the first of '46, after McCloy left. I retired, I think, in June of '46.

JOHNSON: I see.

SOMMERS: A few months later, I was offered a job in the World Bank by another former Cravath partner. I welcomed the job in an international institution because we were all rather idealistic in those days and wanted to prevent future conflicts. In the War Department I hadn't had a big role in international matters but I was involved in some of the drafting of directions to MacArthur, which emphasized the international aspect of the U.S. role in Japan.

JOHNSON: That's when you were special assistant to the Secretary of War? You drafted . . .

SOMMERS: No, it was when I was an Air Force officer in McCloy's office. A lot of time had been spent by the services on drafting the original postwar instructions to General MacArthur. McCloy didn't like the text. He thought it needed some re-drafting. He instructed me and Harvard Law Professor Mark Howe to try to improve it. We asked him when he wanted it, and he said, "Tomorrow morning." We didn't try to work together. We told him we'd give him two separate drafts, and we did. He accepted my draft which emphasized the

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international character of MacArthur's role.

JOHNSON: But this was a War Department order?

SOMMERS: This was a Joint Chiefs of Staff directive.

JOHNSON: A directive to MacArthur. It must not have been a lengthy one.

SOMMERS: It was lengthy and contained many important provisions, including a statement that U.S. policy opposed demands for reparations. It was later criticized as being too leftist, because one of the changes that I made emphasized that we were accepting the continuation of the Emperor's rule, but we weren't supporting it, and that if there were signs of unrest the military shouldn't intervene to suppress movements for freedom and democracy unless they endangered the safety of the military occupation forces.

JOHNSON: In other words, if the Japanese had demonstrated and protested enough about the Emperor, and had decided that he ought to be abolished, that position . . .

SOMMERS: That was the terms of the draft that was sent to MacArthur for review. Some people thought he was going to be very skeptical about it. On the contrary, he replied in effect, "I don't want to change a word."

JOHNSON: That would have allowed the Japanese, on their

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own, to get rid of the Emperor if they had felt that way?

SOMMERS: That's what the policy implied. It didn't say so. I don't have the exact words, but it said we accepted the Emperor's continuation in office, but we didn't support it, and that we didn't want to discourage movements toward more liberalization and freedom.

JOHNSON: I suppose at this point we saw the Emperor as a stabilizing factor.

SOMMERS: This is second or third hand--there was considerable opinion in the Government that we couldn't get peace unless we accepted the Emperor, because he was such an important symbol. In that connection, I remember being in McCloy's office when the Japanese surrender message was first received. It was typical that State and Navy and Army representatives met in McCloy's office. He was a person that brought those parts of the Government together. Important decisions began there. For example, some colonels estimated how far our troops could get in Korea and in Indochina by the surrender date so that the Japanese could surrender to us south of those lines, but to the Russians beyond those lines. Those lines have become permanent international boundaries.

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JOHNSON: The 38th parallel, in Korea, was established in McCloy's office?

SOMMERS: Well, it was first proposed in McCloy's office. It was established, as I remember it, by directives to the Japanese, that on this side of that line they should surrender to our troops, and the other side of it, both in Korea and in Indochina, they should surrender to the Russians.

JOHNSON: In Indochina, I think it was probably surrendering to the Chinese.

SOMMERS: Yes.

JOHNSON: So you're in the office when this note is received. Yes, would you describe that? I don't think we have it on the record anywhere.

SOMMERS: Well, it was a pretty hectic moment for McCloy and the others who were assigning people to do all these various jobs. After all other tasks were assigned, McCloy said, "I'm not satisfied with this. The Emperor is so important that I doubt whether the Japanese troops scattered all over Asia and the islands will surrender unless they get a direct order from him to do so." He turned to me and said, "Draft an order from the Emperor to his troops." So I went out and drafted a one-line order saying something like, "I, Hirohito,

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Emperor of Japan, hereby order all of my loyal troops not to continue their resistance, but to lay down their arms and surrender."

JOHNSON: A one-liner.

SOMMERS: A one-liner. This was sent to the Japanese for comment, and they accepted it as such, except they asked whether they could change "I" to "We." I thought that change might be for Western benefit. With that change the Emperor signed it. That was about the extent of my participation in the surrender arrangements.

JOHNSON: You mentioned a note.

SOMMERS: I've heard that before the surrender note there had been a good deal of argument as to whether the bomb should be dropped on Japan. Much later, McCloy told me--in fact only a couple of years ago--that he had been at a meeting in President Truman's office in which the final decision to drop the bomb had been taken by the President. McCloy had been there at Mr. Stimson's request, and therefore hadn't said anything when Mr. Stimson recommended dropping the bomb, although he [McCloy] had advised Stimson against doing so at that stage. President Truman asked, "What do you think, Mr. McCloy?" McCloy said, "I don't think anything we do

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will work unless we first state that we will allow the Emperor to remain in place." So, he was in favor of postponing use of the bomb until that decision was made and communicated to the Japanese.

I think I should add that when he told me that, McCloy was in his 80s and his memory, I know, in some other respects was not perfect. So his account may not be accurate, but I heard it when in preparing for planned memoirs, he interviewed me and my World Bank colleague Richard Demuth about his days in the World Bank. I am mentioning this to you as something that might be worth exploring, but I don't know whether it's true or not.

In any event I'm sure that there was a good deal of argument as to whether we should insist on the Emperor's retiring or should allow him to stay on. I'm sure that Mr. Stimson was an important factor in the decision made after the bomb had been dropped that he should be allowed to stay on.

JOHNSON: Yes. I think our reply to the surrender note did not focus on the Emperor's position. In other words, we did not tell them that they had to get rid of the Emperor, and it was accepted that perhaps he should stay on as Emperor; and that was an exception to the unconditional surrender principle that we had adopted.

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SOMMERS: That's right. And also there was a good deal of talk about reparations.

JOHNSON: Did we get reparations out of Japan?

SOMMERS: No, the original deal we made on an international basis was that there would not be reparations in the sense that there were from the Germans after World War I. Everybody had been worried about their effect in promoting Hitler.

JOHNSON: There was some provision for certain kinds of reparations from Germany, but . . .

SOMMERS: And I think the Japanese had to pay some reparations to the Philippines.

JOHNSON: Well, they were supposed to, and I think that became an issue. I don't think they really carried through on that, at least like the Philippines wanted.

Did you know Edwin Pauley? You know he was the head of the Reparations Commission.

SOMMERS: I didn't know him personally.

JOHNSON: You didn't deal with Japanese occupation policy, apparently.

SOMMERS: No.

JOHNSON: So this directive now comes.

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SOMMERS: There were two aspects of the directive, as I remember. It was a directive to MacArthur, a purely U.S. military directive, but it recognized that he was the commander of the international forces in Japan. Of course, the international aspect wore off pretty soon. I think that there was, later, some official directive for occupation policy.

JOHNSON: I have just interviewed Joseph Rauh, who was with the Civil Affairs section under MacArthur, and I think they're the ones who were writing up the regulations for civil government

in areas taken over by the Army. Perhaps they had already done this for Japan, some kind of a plan for civil government in Japan. Did you have anything to do with that?

SOMMERS: No, I was out by June of '46, and MacArthur was hardly installed then.

JOHNSON: Well, you know, the statement sometimes is made that the American Government did want to export the New Deal, so to speak, to Japan, or get them organized pretty much in the way we had organized our economy in the New Deal, with Government involvement but still largely private enterprise. But you didn't get into that economic policy-making?

SOMMERS: I didn't have anything to do with that.

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JOHNSON: Were you involved at all with the meeting at Bretton Woods?

SOMMERS: No. That was before my time. That was in '44.

JOHNSON: That was in '44, in July.

SOMMERS: In '44, yes. I'm getting mixed up between Bretton Woods and Dumbarton Oaks. Bretton Woods was in '44, but I wasn't involved in either of them.

JOHNSON: And not in Dumbarton Oaks.

SOMMERS: Not in Dumbarton Oaks either.

JOHNSON: Well, what experience did you have with international finance prior to becoming General Counsel to the Bank in 1949?

SOMMERS: Well, except for three years in the legal department of the World Bank, I had absolutely no such experience.

JOHNSON: Okay, let's back up. When were you in the legal department?

SOMMERS: From '46 to '49. First, just as a lawyer, then as Assistant General Counsel, then as General Counsel. I got to be General Counsel because McCloy took the previous General Counsel, Chester McLain, with him when he was appointed by President Truman as High

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Commissioner to Germany. He had been a former partner of McLain. McCloy told Gene Black, who was his successor, that McLain would return after a year, but Black said, "No, you don't need to return him; Dave Sommers is going to be the General Counsel." That's the first I'd heard of it.

JOHNSON: How did you get into the legal department in '46? What got you into that?

SOMMERS: I got an offer from Chester McLain, the General Counsel. I don't know how he'd heard of me, but since I had worked with Swatland and McCloy, who had both been his partners, and since Richard Demuth, a World Bank official, had worked with me at Wright Field, I imagine he heard about me from them. I'd never heard about the World Bank.

JOHNSON: So you had to get some pretty rapid briefings to start in '46.

SOMMERS: There wasn't much to be briefed about, because nobody knew how this organization was to be run. There were some tremendous gaps that had to be filled. Let me preface that by saying that the focus of the Bretton Woods Conference was on the International Monetary Fund. The Bank was somewhat of a side issue. There was agreement that some sort of long-term financing

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agency was needed in order to provide reconstruction and development funds and so prevent the International Monetary Fund from being drawn, as the German banks were in the '20s and '30s, into long-term financing. The Europeans, of course, were specially interested in the Fund as a potential asset. They could borrow from it promptly after the war.

JOHNSON: But the IMF, wasn't its basic purpose to stabilize exchange rates?

SOMMERS: Well, its basic purpose was to act as a sort of an international central bank and to regulate exchange rates, but also to provide financing for short-term financial needs in order, among other things, to stabilize exchange rates.

JOHNSON: Which involved also trade imbalances, trying to stabilize . . .

SOMMERS: No, although exchange imbalance would, of course, affect trade, it was hoped at that time that there would be an international trade organization to regulate trade. The main argument about the IMF was the Keynesian idea of automaticity--that there should be automatic drawing rights by the members. Drawing rights is a politer way of saying "borrowings." The U.S., which was not going to be a borrower, wanted

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control over the borrowings, and on this there was big disagreement. There was also an organizational dispute. In the Bank and the Fund the British, led by Keynes, wanted the Executive Directors, the Board, to consist of high-level government officials who would meet only four or six times a year. The Americans wanted full-time Boards of Executive Directors who would oversee everything. The American view prevailed.

It was one thing to have the British view prevail in the Fund, whose Board was like an international conference of governments dealing with each other, not with the private sector. But to have it prevail in the Bank was quite different because the Bank was not dealing only with its

member governments; it had to borrow money in the private markets. Unlike the Fund, it didn't have a large supply of gold and reserves. It had \$168,000,000, I think, in readily usable assets when I joined.

One of the original problems in the World Bank was that the Board was trying to run everything. That was basically the reason for the retirement of its first president, Eugene Meyer, publisher of the Washington Post, after something like four months in office.

JOHNSON: This was a multinational board?

SOMMERS: A multinational board, in which the United States

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director, Pete [Emilio] Collado was a leader.

JOHNSON: Yes, we have an interview with him.

SOMMERS: He was later vice-chairman of Exxon, but formerly had been an Assistant Secretary of State for Economic Affairs. You will see in that publication I gave you, about the Bretton Woods 40th Anniversary, a tactful reference to this dispute. It got quite bitter. There was a feeling by Meyer that Collado wanted to be president.

Another problem with the Bank was that the people who drew the charter, the Articles of Agreement, either didn't know, or ignored, the fact that as a result of the defaults in the '30s, many states in the U.S., then the only country with significant available resources, had passed laws forbidding banks and insurance companies from investing in foreign obligations, and that World Bank bonds would be considered foreign obligations. And in those days, of course, almost nobody bought high-grade bonds yielding about 3 percent except banks and insurance companies. This made it necessary to approach state after state to get the laws changed. The U.S. Government was either not willing or not able to do that. The Bank staff, including most of us, had to do a lot of lobbying, state by state.

JOHNSON: That's a lot of travel.

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SOMMERS: Yes. I can expand on all of that endlessly, but I won't.

JOHNSON: So you were out there visiting state governments yourself, and advising them that they should change this.

SOMMERS: Not only me--the senior officers.

JOHNSON: How successful were you on this lobbying?

SOMMERS: Oh, we were successful in most places. The most important were New York and Massachusetts. But I remember going to Minnesota, whose Insurance Commission told me our bonds were not legal because they were foreign bonds. I argued, "You allow investment in Canadian bonds." And he answered, "Oh, Canada isn't really foreign; it's just across the border." And when I went to Kansas and appeared before a legislative committee, the Insurance Commissioner said to me, "That was a good argument but as a result of my experience in two World Wars, I don't trust foreigners." Eventually, Bank bonds became legal investments for banks and insurance companies generally.

There was a third major problem for the World Bank when it got started, the issue of postwar European reconstruction. The World Bank's official name was the International Bank for Reconstruction and Development.

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At Bretton Woods it was thought that the Bank could play the role that was later played by the Marshall Plan. The first Bank loans were to France, Belgium, and to the Netherlands. They were made after McCloy took office.

JOHNSON: Now, he succeeded Meyer, is that right, McCloy?

SOMMERS: Yes, I'm going to come to that later. That's important. But in any event, it was soon realized that the Bank did not have the assets to deal with what was later accomplished by the Marshall Plan. After a few early loans, reconstruction disappeared from the Bank's agenda.

Now, you have mentioned the succession from Meyer to McCloy. There is a lot of unknown material here. As I mentioned earlier, McCloy, interviewed me in preparation for memoirs he was going to write but did not finish.

JOHNSON: Oh, and you have these right here?

SOMMERS: I'm not free to release the interview. You see, "Please do not make a copy of it, or distribute it as yet." Then he died.

JOHNSON: Will his heir, his widow, be able to release this?

SOMMERS: I don't know. I don't know anything about it. In

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any event, I don't think it would be very valuable to you because this was limited to the question of his succession at the World Bank.

I've heard several versions of that. I wasn't directly involved in it, but I knew people who were. I've just been interviewed by Katherine Graham of the Post about the Meyers for a book she may be writing, and so this is fresh in my memory.

The story, as I always heard it, was that Mr. Meyer quit because he couldn't get along with the Board. There were some very difficult members. Collado was difficult for him as was Sir James Grigg, a former War Minister of England. Some distinguished members thought that the Board should have a much more detailed role than Meyer was used to in an American corporation. Moreover, the U.S. was so important in those days that borrowers would come to the United States before they came to the Bank and ask U.S. officials how they would vote on proposed loans and how much borrowing they would support. It was a frustrating time for Meyer. No loans were made, and no borrowings were made, during his regime.

He resigned in December 1946. Shortly after that came the death of the vice president, the number two man in the Bank. This left a vacuum at the top. It was suggested that Mr. Collado should become acting

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president. My boss, the then General Counsel, Chester McLain, said that would be a violation of the essential nature of the Bank, that its charter did not permit a person to be both a representative of a member government, and an international civil servant, so to speak. He threatened to resign. The suggestion was withdrawn. Collado became the acting chairman of the Board, but there was no chief executive. The situation became hectic. The presidency was then offered to several people, all of whom turned it down because, as I understand it, word had gotten out that this was going to be a politically-run organization, dominated by the United States Government.

As I, Dick Demuth and Kay Graham remember, the job had been offered to McCloy, but he had said he wasn't interested. Then Eugene Black, who knew McCloy because McCloy was in the law firm that represented the Chase Bank, of which Gene Black was a vice president, said to McCloy, "I think you ought to take that job, but you ought to make some conditions." McCloy, perhaps with the advice of his former partner, the General Counsel of the World Bank, and perhaps with the advice of Mr. Meyer or Philip Graham, is said to have formulated some conditions on which he would accept the job and presented them to President Truman.

The conditions, as I have heard, were as follows:

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first, the United States would recognize the role of the President as the chief operating officer, in the sense that the day-to-day administration of the Bank-- personnel and so forth--would be under his direction, which is what's contemplated by the charter and bylaws; second, and more

important, the United States would support the idea that the Executive Directors would not act on lending or borrowing operations or policies except after the proposed actions had been reviewed and appraised by the staff and recommended by the President of the Bank.

JOHNSON: Loan applications would not be made until they had gone through all that review, right?

SOMMERS: Yes. Then, of course, it would be up to Executive Directors to vote yes or no as they saw fit. The third, and if this is true, the most drastic condition, was that in order to assure the carrying out of these conditions, the U.S. would appoint as its Executive Director somebody Mr. McCloy nominated. This set of conditions, according to what I heard, was first rejected by Mr. Truman. Then Phil Graham and perhaps several other people (I don't know who they were) intervened and told Mr. Truman that this international organization would go down the drain unless he agreed to McCloy's conditions. Mr. Truman did agree. Then

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McCloy told Gene Black, "You got me into this; you're going to be the first Executive Director of the Bank."

JOHNSON: So that's the way that worked.

SOMMERS: That's the way that worked according to my understanding. Immediately afterwards the Bank came to life, borrowed some money and made three reconstruction loans.

JOHNSON: In the meantime though, the Export-Import Bank in the latter part of 1945 extended credit to France, Belgium and the Netherlands as a stop-gap to compensate for the termination of lend-lease. But the Export-Import Bank had originally been established in the early '30s just to deal with Latin America, hadn't it?

SOMMERS: Well, I don't know about Latin America, but it was designed to promote U.S. exports, by making "tied" loans (financing U.S. exports). I do know that during the first years, relationships between the World Bank and the Export-Import Bank were difficult because the Export-Import Bank had gone into the business of development financing. Finally, after a good deal of argumentation, the U.S. Government--probably through the Secretary of the Treasury, whom I believe was John W. Snyder--brought about an accord between the Ex-Im Bank and the World Bank. It was that the U.S. Treasury

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would not permit borrowing countries to shop between the two. They would have to come to the World Bank first and apply to the World Bank in regard to genuine development projects, as opposed to export credits. This would not preclude them from going to the Ex-Im Bank if the World Bank turned them down. Actually the second option didn't happen very often. The

strongest advocates for going to the Ex-Im Bank were the Australians who found the Ex-Im Bank a lot easier to deal with than the World Bank.

JOHNSON: I've got documentation from the Foreign Relations series in 1946 that by September of 1946, McChesney Martin of the Ex-Im Bank was informally referring prospective borrowers to the World Bank.

SOMMERS: That's it; Bill Martin.

JOHNSON: But the first loan by the World Bank was not made until May 1947; I believe that was that \$250,000,000 credit to the Credit National of France. I guess you more or less explained here why there was this delay until May of '47.

SOMMERS: Because of the impasse between the Board and the President, and then the interregnum. Also, I would like to add one thing: the Bank charter, the Articles of Agreement so-called, provide that, except in special

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circumstances, the Bank's loans must be for specific projects. There was an argument as to whether balance of payments loans of the kind needed for reconstruction were permissible. The Articles of Agreement give the Executive Directors the power to interpret the Articles. At the suggestion of the United States this matter was brought up for interpretation and it was interpreted that the Bank could make reconstruction loans on a balance-of-payments basis, rather than for specific projects.

And this is important nowadays because the Bank is making structural adjustment loans at the urging of all the developed countries--instead of making specific project loans.

JOHNSON: In order to be a member of the Bank you had to be a member of the IMF. Wasn't that the prerequisite?

SOMMERS: In order to be a member of the Bank, you had to be a member of the IMF. The voting power, of course, of the Bank members and of the Executive Directors, is not like voting down in the United Nations. It's based on a rough approximation of the member country's importance in the international economic world.

JOHNSON: It sounds to me that the World Bank is sort of like a United Nations of world bankers. It's a place for world bankers to get together and operate on a

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world, or an international, basis, to work out differences, and negotiate.

SOMMERS: No, I think that's . . .

JOHNSON: Were you not part of the U.N.? You were chartered as a . . .

SOMMERS: No, we were not part of the U.N. We had a separate charter by treaty. One of the early problems in the World Bank was its relationship with the United Nations. We didn't want to become an ordinary specialized agency, nor did the Fund, where the United Nations could give directions as to loans, or as to borrowings, or as to policies, or as to administrative procedures. So, after considerable efforts, agreements were made with the United Nations defining its limited role vis-a-vis the World Bank and the Monetary Fund. In fact, there have been very few cases where there have been even any attempts by the United Nations to interfere. Nothing can prevent people making speeches at the United Nations, or, I think, the General Assembly from making general statements of policy, or the Economic and Social Council from adopting its own policies. But they're not binding on the Bank or the Monetary Fund--which is important, because from a political science point of view, you could say that the Bank and the Fund roughly reflect the economic and

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political power realities, since they don't have equal voting. In the United Nations the power realities are under-reflected in the General Assembly, where some tiny little island has the same vote as the United States, but power realities are over-reflected over in the Security Council where five countries have veto power.

JOHNSON: Well, how was that weighted in the World Bank? Was it relative to GNP, or per capita GNP, or some other measure?

SOMMERS: It was done with a certain amount of compromise. No, it wasn't a formula. The five countries that started out being the biggest members were the United States, Britain, France, China and India. [Edward S. Mason and Robert E. Asher, *The World Bank Since Bretton-Woods* (Washington, DC: The Brookings Institution, 1973), notes that India was selected as the fifth member since the Soviet Union failed to ratify the Articles of Agreement.]

JOHNSON: Yes, they almost correspond with the permanent members of the Security Council, except the Soviet Union . . .

SOMMERS: The Soviet Union of course, dropped out. It attended Bretton Woods but dropped out, presumably because it wouldn't have a veto in the Bank and the Fund. In those days, the Soviet Union wasn't joining

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any organizations in which it wouldn't have veto power.

JOHNSON: There was a National Advisory Council on International Monetary and Financial Problems established by the U.S. Congress in 1945, made up of officials in the Treasury, State and Defense Departments as well as the Federal Reserve Board, and the Export-Import Bank. Did that come to include World Bank officials?

SOMMERS: No, that was a purely U.S. organization. World Bank officials couldn't join it. But the United States Executive Director in the World Bank could be included. He was appointed and removable by the U.S. First there was Collado, and after Collado, Eugene Black.

JOHNSON: This agreement with the U.N. that you had, which gave you autonomy, apparently . . .

SOMMERS: Well, yes, pretty much so.

JOHNSON: But not 100 percent independent. There had to be some agreement, I guess; otherwise why even bother with any connection at all.

SOMMERS: Because we didn't want the U.N. to be recommending loans and suggesting that the interest rates were too high, or things like that.

JOHNSON: Well, they can still lecture, or preach, but you

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don't have to follow their advice?

SOMMERS: They don't take formal actions, specifically directed toward the World Bank or Monetary Fund.

JOHNSON: Were you supposed to, in this period, align yourself as much as possible with U.N. policies? Were you supposed to parallel their policies?

SOMMERS: I can't remember that. There may have been something in the agreement. You would probably find that in Asher and Mason's book.

JOHNSON: That did take some legal work.

SOMMERS: I think the idea was that if there were formal U.S. actions, the Bank would take those into account and so forth, but don't take my word for that. My memory is very vague on that kind of thing after all these years.

There are some people around who were engaged in those negotiations. I was not.

JOHNSON: Did you attend any of the meetings of the U.N.'s General Assembly or the Economic and Social Council?

SOMMERS: Yes. I attended the U.N. organizational conference in San Francisco in '45.

JOHNSON: What was your role there?

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SOMMERS: I was the lowest-ranking member of the U.S. military delegation. My Army orders said I was there as a technical military expert, which meant I carried McCloy's briefcase. The U.S. military delegation had the form of an inverse pyramid, with lieutenant generals and major generals at the top and one major, me, at the bottom.

So when they came to divide up the assignments, as to who would attend which committee that was organizing the U.N., I as the lowest ranking member was assigned to the one U.N. committee dealing with the U.N. organ that was thought to have no possible military significance, the General Assembly, which was the organ that took enforcement action later in Korea.

JOHNSON: They didn't necessarily prepare you for World Bank responsibilities, did they?

SOMMERS: No, I was completely unprepared and so was almost everybody else. For example, for lawyers, the first question asked was, "What law governs?" And there were no answers to that. There were no preconceived policies; everything had to be worked out.

JOHNSON: Apparently very early in the postwar period, \$1,000,000,000 had been earmarked by the Ex-Im Bank for a loan to the Soviet Union.

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SOMMERS: That I don't know about.

JOHNSON: To help with reconstruction. Did you expect the Soviets to ask for a loan from the World Bank?

SOMMERS: They couldn't unless they were members. Every loan has to be guaranteed by a member government or a central bank. In practice, central bank guarantees were never used.

JOHNSON: Guaranteed; now does that mean it's similar to insurance, Federal Deposit insurance where it's . . .

SOMMERS: No, it's like a bond issue on the U.S. market in which payment of principal and interest is absolutely guaranteed by the guarantor, but . . .

JOHNSON: If the borrower defaults, then his government has to make it up?

SOMMERS: Has to pay. Most of the World Bank borrowers have in practice been Government organizations. There have been some private ones.

Let me give you a little background on that point. At the time of Bretton Woods, it was thought that the Bank would not raise funds primarily by floating bonds itself, but by guaranteeing borrowings in the market by member countries. But it was soon discovered that lenders in the American market, which was the only

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major market that was effective in those postwar days, were suspicious of guarantees. There were legal technicalities that might let guarantors off the hook. And also, as was demonstrated by some of the U.S. housing guarantees, the interest rates would vary because of the credit-worthiness of the borrowers. That was tolerable in the case of the U.S., but the Bank, which had no established credit, didn't want some of its obligations carrying higher interest rates than others at the same time because, for example, one was an obligation of Peru and the other was an obligation of Australia. That would reflect badly on the Bank's credit standing.

For all these reasons, plus the fact that the guarantee process wouldn't have given the World Bank the major role in appraising projects and proposing conditions, the guarantee became a relatively minor part of World Bank operations.

JOHNSON: Apparently that had nothing to do with the loan to Great Britain either.

SOMMERS: No, the Bank could never have made a \$3,000,000,000 loan.

JOHNSON: Did you know Roman Horne? He was deputy secretary of the IMF.

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SOMMERS: Yes, I probably knew him, but he wasn't one of the IMF people I knew best.

JOHNSON: Apparently he wrote speeches in 1945 for Congressmen favorable to the World Bank, and he helped arrange the organizing conference. He had been an economist in the Department of the Treasury. We have an interview with him.

SOMMERS: Many of the Fund people came from the Treasury, of course, the U.S. Treasury.

JOHNSON: He describes the IMF as more "nebulous" than the Bank which had tangible projects and dealt with individuals more directly.

SOMMERS: Well, the significance of the Bank's role, and the Fund's role, has changed from time to time. Public perception has changed, from decade to decade. First, as I described it, when the Europeans were looking to the Fund as a place to help them with their exchange balances, and the Bank was in trouble, the Fund was, I think, in better repute. Then the Bank started up under McCloy, and got quite active, and there were disputes in the Fund. Harry White, the U.S. Executive Director in the Fund, lost support in the U.S. Government. The Secretary of the Fund left. All that was during the McCarthy era and the Secretary was

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attacked, rightly or wrongly--I don't know which. So the Fund went down in public esteem. Then later on, I think, the Fund came back. Under the last Fund manager prior to the present one, it became very important. And as the debt crisis became more and more of a factor in world affairs, the Fund, which most people thought of as in the first line on dealing with that problem, came more into the public view. Now it's recognized that both the Fund and the Bank together have to get into the act, and even that's probably not enough.

JOHNSON: Ivan B. White, a financial officer in the U.S. Embassy in Paris from 1944 to '48 and a participant in the Bretton Woods Conference, says the Bank in its first year or so was "so timid and ultra-conservative that it really didn't serve as the type of instrument envisioned at Bretton Woods."

SOMMERS: Well, that is true, but you see the Bank's capital resources were small. Funds had to be raised in the private market. The people who conceived the Bank were familiar with government credit, but the Bank had no established market and no credit rating. So it's true that the Bank started very conservatively, but that it was necessary to establish a market and a rating for the Bank bonds. It was very hard to get the Bank bonds sold. One of my Wall Street friends said to me in the

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early days, "I hope some day to participate in a World Bank bond issue in which I do not learn a valuable lesson."

The Bank started very slowly and very conservatively. This was done deliberately in order to achieve a status which would enable it to borrow. But in any event the Bank would have been incapable of providing the immediate postwar reconstruction finance that had been envisioned at Bretton Woods. Nobody at Bretton Woods envisioned the size of the need that would exist.

JOHNSON: Well, UNRRA, the United National Relief and Rehabilitation Agency, was then sort of followed up by the Marshall Plan and aid to Greece and Turkey, and of course, these were all public, tax supported funds that went way beyond the ability of the Bank to meet.

SOMMERS: The Bank is organized like a private corporation. The members are stockholders. Each member pays in only a small percent of its capital subscription and almost all of that cannot be used unless it's released by the member. At first only the United States, and maybe Canada, released their paid-in capital for use in lending. So, the Bank had very small resources. Also, doing project lending, which was what the Bank was originally intended to do, is not something which you

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can do over night. You have to have careful economic, engineering and financial analysis. This took a long time to organize.

JOHNSON: This guarantee that you refer to, a guarantee of payment of principal and interest, how could that be enforced? Would they lose membership; is that the penalty? What would be the penalty if the Government didn't make up for a default?

SOMMERS: Well, on guarantees by member governments of World Bank loans there is no prescribed penalty. How do you enforce the debt against the Latin-American companies that exists now? You can sue a foreign country if you can get a hold of its assets somewhere else. If your question referred to guarantees of World Bank liability on its bonds there is a different answer. The Articles of Agreement make it clear that the unpaid liability on capital subscriptions is subject to call for the purpose of meeting obligations of the Bank on its borrowings and guarantees. And the obligation of Bank members on capital subscriptions is not joint; it's what lawyers call "joint and several." So if every member except Japan went broke, the Bank could try to collect it all from Japan. Or if everybody else went broke except the United States, the Bank could try to collect it all from the United States.

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JOHNSON: That would be a kind of a cushion.

SOMMERS: Yes, the Bank's bonds are in effect guaranteed by its members.

JOHNSON: I suppose you can cheapen the money by inflation, or printing press.

SOMMERS: Well, the obligations of member governments to the Bank, on loans, are in foreign exchange, so the borrower can't pay off by cheapening its currency. The United States can do that on its foreign debt, and has in fact done it.

But there's one other point I wanted to add about this. Yes, the Bank started slowly and conservatively, but look what happened. After several years it got a AA rating on its bonds. That meant a lot to the developing world. The Bank couldn't solve the problem of reconstruction; it was too small. But for the developing world, the Bank's being able to take advantage of AA ratings reduced their interest rates from the Bank enormously from what they would have had to pay on their own, and significantly on what the Bank would have had to pay if it had a single A rating or, as when it started, no rating at all. That was important.

JOHNSON: The Soviet Union and the satellite countries of

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eastern Europe never did join the Bank, is that true?

SOMMERS: I think two of them joined. The Soviet Union didn't join, but Poland and Czechoslovakia joined, and then later withdrew in the 1950s.

JOHNSON: Yes, Poland asked for a loan in '46 before you were able to make a decision about it I guess. Well, they didn't get the loan and they dropped out probably because the Soviet Union told them to.

SOMMERS: Well Yugoslavia, if you call that an Eastern bloc country, was a member.

JOHNSON: Yes, and they broke away, of course, from the Cominform and from Stalin about 1949-50.

SOMMERS: There are a couple of things I ought to mention. I can't remember whether they took place during the Truman administration. In the '50s it became apparent to the Bank, as all the former colonies achieved independence, that the Bank was not capable of dealing with some of the poorest countries like India, Pakistan, and sub-Saharan Africa. They weren't credit-worthy enough to warrant Bank loans. So the Bank supported two additional initiatives, one being the establishment of the International Development Association (IDA), which is what Gene Black used to call a "soft lending institution." It offers long

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maturity times and very low interest rates. It is an affiliate of the Bank that gets its funds from government appropriations, and from the Bank's turning over some of its profits. IDA has been a very important actor in World Bank operations. The other affiliate organized by the Bank was the International Finance Corporation (IFC) which was created to lend to and invest in private organizations in the developing countries. Government guarantees are not required. IFC's role is to encourage private foreign investment and to promote the private sector in ways which the World Bank can't.

JOHNSON: Now, Point IV program, the Point IV aid . . .

SOMMERS: I'm coming back to that. These newer Bank affiliates in many ways resulted from the discussions that led to the Point IV program. There was, I think, a commission, or committee, chaired by Nelson Rockefeller, the Assistant Secretary of State, that came up with some ideas. The first idea was technical assistance; that later became Point IV. The second idea was an international grant agency, as I remember it. That developed into IDA. IDA was originally conceived as a grant agency, but some countries like the Indians thought grants were undignified and preferred long-term, low-interest loans.

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JOHNSON: Did the IDA work closely with Point IV programs at all?

SOMMERS: No. Perhaps case by case sometimes. I don't know how successfully.

JOHNSON: Point IV presumably would make some of these countries more credit-worthy by helping them with some development.

SOMMERS: Some of the Point IV people, no doubt, helped developing countries plan projects that could then be presented to the World Bank. Of course, the World Bank had its own technical assistance people for this purpose.

JOHNSON: I get the impression that you had some very competent technical people working for the Bank.

SOMMERS: Oh, very, yes. I think the Bank staff has been, by and large, exceptionally intelligent.

JOHNSON: Perhaps I could ask you about Garner, Mr. [Robert] Garner.

SOMMERS: Bob Garner. I knew him very well.

JOHNSON: There's an implication in Mason and Asher's history that he was sort of anti-U.N.

SOMMERS: Bob Garner was one of those people who talk pretty

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tough. He was a conservative in many ways. But what he really wanted to do was to keep the Bank apolitical. He didn't want the Bank to get involved in U.N. hassles, such as the Group of 77 versus the developed countries. I remember some good things about Garner. Once, a Senator called up and recommended somebody for employment by the Bank. I was in Garner's room and heard him say, "Senator, that sounds like an excellent recommendation. Unfortunately, we have a firm policy that we don't accept anybody recommended by a Senator."

JOHNSON: That squelched that.

SOMMERS: I think that was when the policy was formed. A lot of people didn't take to Garner because he had this hard manner.

JOHNSON: Kind of authoritarian?

SOMMERS: But he was absolutely necessary to get things started. I remember one story about Garner. The World Bank's senior economist in its early days was Paul Rosenstein-Rodan. He was one of the real pioneers of development economics, and later became one of John Kennedy's "wise men" framing the Alliance for Progress. He attended a meeting of the Bank's Staff Loan Committee chaired by Garner. After the meeting Paul was fuming at the way Garner ran it. When I asked whether he agreed with the decision, he answered, "I

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agreed with the decision, but nobody has the right to reach the correct result by such outrageous reasoning."

JOHNSON: It wasn't his kind of logic, but it was his kind of conclusions.

Well, you know, we were talking about the U.N. agreement. Apparently there was one that was finally approved in November of '47. I notice that you successfully argued your case for independence and the secrecy of your sensitive information. It seems that about the only connection here is that U.N. representatives may attend meetings of the Board of Governors. I mean, their attendance at Board of Governors meetings was the only real overlap that you had between the Bank and the U.N.

SOMMERS: Except that the Bank used to attend a lot of U.N. meetings by mutual agreement. As a matter of fact, everybody could attend Board of Governors meetings. Private investment bankers attended. It didn't mean anything.

JOHNSON: Could you have had an executive session?

SOMMERS: I suppose you could have had.

JOHNSON: And they would have been excluded.

SOMMERS: I don't know.

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JOHNSON: You don't remember any?

SOMMERS: The issue of access has never been of much importance in regard to the World Bank. I think it was of more concern to the Fund, because in those days the primary requirement of Fund membership was giving the Fund access to confidential information about reserves, balance of payments, and similar economic and financial data. I think it was the Fund that was particularly sensitive. I don't know that the Bank had any secrets, except perhaps about discussions of a pending loan or something like that.

JOHNSON: Did you attend any meetings of the ITO [International Trade Organization] which apparently was merged in the . . .

SOMMERS: Economic and Social Council.

JOHNSON: You didn't get involved in any of these International Trade Conferences?

SOMMERS: No, the Bank, I'm sure, had somebody attending, but I wasn't involved.

JOHNSON: But did the Bank, if it had a position, favor liberalizing of trade, the elimination of tariffs?

SOMMERS: I'm sure the Bank might have done so, if asked, but I don't remember. The Fund was more active in

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these areas.

JOHNSON: Did you get any feedback on President Truman's attitude about the Bank and the course it was taking?

SOMMERS: I always felt that President Truman and the United States Government under Truman and Eisenhower was supportive, in spite of my having reserves about small items. One must consider that the U.S. was then overwhelmingly powerful in the economic and financial world; it was not only that the U.S. was the only country with financial resources available for export; it was the only place in the developed world where capital goods and equipment were available for export. The Europeans all needed whatever they produced in order to restore their own economies. So, the United States was overwhelmingly powerful, and yet, after the initial struggle with Mr. Meyer, it was very supportive of the Bank in general and very non-interfering, both under Truman and under Eisenhower.

JOHNSON: In fact, virtually all members of the Bank except the United States were crippled. They were crippled by the war.

SOMMERS: For the first ten years, they certainly were. We couldn't borrow significant amounts anywhere else. One of the things that the Bank insisted on, which is

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perhaps more important than general pronunciamientos about free trade, was that the Bank required--I can't remember whether it's in the Articles of Agreement or not--first, that there should be competitive bidding on all items procured for the Bank-financed projects; and second, this should be international competition. Whereas the Export-Import Bank and all similar export credit institutions can and usually do, and in some cases must, restrict the use of their loaned funds to expenditure in their own countries, the Bank allowed the proceeds to be spent in any member country, plus Switzerland. Switzerland, although not a member, allowed the Bank to borrow money there, so we allowed expenditure in Switzerland.

JOHNSON: Was Switzerland by this time a major depository for these funds?

SOMMERS: No. Switzerland was not a major depository of Bank funds. It came out of World War II with some reserves, and we borrowed small amounts of money there because we wanted to demonstrate our international character. We didn't want to borrow exclusively in the United States.

JOHNSON: You didn't have secret accounts like the Swiss banks?

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SOMMERS: No, the Bank didn't have secret accounts. In fact, it didn't take deposits.

JOHNSON: McCloy resigned in May 1949 to become U.S. High Commissioner in Germany, and then Eugene Black took his place. How would you rate McCloy's relations with the Bank's directors during his term?

SOMMERS: Well, McCloy and Garner came in against a background of attempts by some of the Executive Directors to dominate every detail of Bank operations. For example, they adopted a procedural directive that when a loan application was received, before it had been even examined by anybody, it had to be submitted to the Executive Directors who would either direct the staff to reject it or give the staff detailed instructions on how to deal with it.

The Executive Directors had concerned themselves with every detail of administration, including how much maternity leave there should be and so forth. There were meetings of the Board or committees almost every day. So, the first thing McCloy had to do, under the conditions that he'd laid down for accepting the Presidency, was to establish a new relationship with the Board. He started by submitting to the Board a new outline of procedure. He proposed that he would be in charge of the day-to-day administration, under the

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control and subject to policies laid down by the Board, and that the Board would have the right to accept or reject, or qualify, any recommendations of his, but only after they had been studied and appraised by the staff. Instead of having two or three meetings a week, meetings would be called by the President.

I would say that Garner was regarded as pretty tough in these respects. I would also say that some Board members resented this. But McCloy's personality was congenial, and in addition most Directors were grateful to him for taking over and getting things started, after almost a year of inaction. Soon after he took office one bond issue was completed and two or three loans were made. So the Board didn't raise any major objections to McCloy's proposals.

McCloy did have some trouble in one respect. Some time after he had been in office for about a year, perhaps with U.S. support or at U.S. suggestion, I don't know which, he came to the conclusion that, although fulltime Executive Directors might be appropriate for the Fund, the Keynes idea of having high level government officers as Executive Directors who would meet four or six times a year made sense in the case of the Bank. When he proposed that change it raised the roof at a Board of Governors meeting, and was opposed by many Governors, especially those

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representing developing countries. The issue was dealt with in the usual statesmanlike manner by postponing it for a year. That was the first problem that Gene Black had to face when he took over as President. He quickly made a compromise and disposed of it.

JOHNSON: Made a compromise.

SOMMERS: He compromised the issue of the composition of the Board, confirmed monthly Board meetings as the norm and modified some of the procedural formalities laid down by McCloy. More importantly, the Bank began to be active, and the roles of the Executive Directors became more important because they had to deal with more loans and borrowings and policymaking. So he became well-favored by the Board and by the staff, and I think the whole atmosphere improved year by year as the Bank became more important.

JOHNSON: He was a good diplomat. Is that how you would describe him?

SOMMERS: Well, he was a wonderful negotiator. He used to say, "I'm not a policy man, I'm a deal man." He loved negotiating. He got the Board involved in international mediation. For example, he mediated between Egypt and the U.K. on the financial aftermath of the attack by Israel and the French and the British

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on Suez. And Bank staff, under his guidance, spent ten years in mediating between India and Pakistan on the division of the waters of the Indus River. The U.S. strongly supported those mediation efforts.

JOHNSON: Well, he was helping the State Department then.

SOMMERS: The State Department was not involved. Black was brilliant in mediation, and he was very good in negotiation. Some representative of a developing country once said, "I'd rather be said 'no' to by Gene Black than 'yes' to by Bob Garner."

JOHNSON: Was he ever asked to serve in the State Department, as Secretary or Under Secretary?

SOMMERS: Oh, no. No, he wouldn't have wanted that kind of role. He stayed in the Bank until he was 65, and then he retired.

JOHNSON: Then, Japan and Germany eventually became members.

SOMMERS: Yes, and when I was in the Bank, Japan was considered a developing country, and we loaned Japan money.

JOHNSON: Well, we got it back, with interest.

SOMMERS: Oh, yes.

JOHNSON: I think this will be our last topic, the

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reorganization of 1952, a major reorganization of the Bank. This involved realignment of the loan department and the economic department. Those two departments were dissolved and recreated as three geographical area departments. There also was a technical operations department, and an economic staff. A footnote in Mason and Asher's history notes that you succeeded Chester McLain in 1949, and, of course, you stayed until '59. They say you "were equally capable of producing concepts, ideas, and suggestions," and that your "advice, too, on almost every aspect of the Bank's work, was sought and valued." Did you have input into that reorganization?

SOMMERS: I probably did. I don't have any record.

JOHNSON: But you're not the one that initiated the idea?

SOMMERS: You see, what happened to me was that I succeeded Chester McLain, who had then become the most influential officer of the Bank outside of the President and the Vice President under McCloy. Even though I was General Counsel, I was called in by Black to do many jobs that weren't legal in character. For that reason I later gave up being General Counsel and became one of the three Vice Presidents. I don't remember what my role was in the reorganization you mention. I'm sure I was consulted, and I'm sure I was

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in favor of some kind of organization on geographical lines, because as the Bank grew more active it had to take that approach.

JOHNSON: You had to think of the political dimension too, I suppose, didn't you, the political ramifications or consequences possibly of some of these financial decisions? In other words, did you expand beyond just the technicalities or the techniques of loan operations? You did have to make these legal covenants, didn't you, with each country that you were making loans with, these contracts for loans?

SOMMERS: We made loan contracts, and sometimes we had understandings and sometimes we had letters exchanged about their policies, but we didn't go nearly as far in my day as the Bank, and particularly the Fund, have gone with what is now called "conditionality."

JOHNSON: When you think of the political reasons, it seems there had to be some politics behind this, because the U.S. Government was behind it, and there was a very slight connection at least with the United Nations. It was intended that the Bank and the IMF and, of course, all these grants and loans through the Marshall Plan and so on, would ultimately promote free

enterprise round the world and protect against the Marxist or Communist encroachments. There was a lot of propaganda

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by the Marxists about capitalism and capitalists.

SOMMERS: No, I would say that the objective of the Bank was to promote development. After all, the Bank's Articles said that only economic considerations are relevant to its decisions. Now that was not something that in practice could be carried out. It wasn't so much the affirmative of promoting political objectives as it was the negative, the fact that the Bank didn't have much to do with Communist countries in those days because there weren't any Communist country members, except Yugoslavia. The Bank thought that development would bring with it, in due course, more loosening up. The Bank did, in India, go quite far in refusing to finance some projects that it thought should be privately-owned rather than publicly-owned. So, in that case it tried to encourage private ownership. That was opposed to Jawaharlal Nehru's concept, but the Bank never considered Nehru a communist. He was sort of a social democrat, like the British, and the Bank never turned down India as a whole because of this predilection. It just didn't want to fund projects which it thought would be more effective if privately owned and managed, even if the borrowing government said they had to be public.

JOHNSON: That was kind of an unwritten rule, I suppose,

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that if you had a choice between a government-owned project or a privately-owned or capitalized project, that the assumption was that the privately owned project would be run more efficiently and therefore was a better candidate for loans?

SOMMERS: Well, I think that was Black's viewpoint. I don't think that the Bank's Board of Directors would have agreed on that proposition, and I'm not sure that the U.S. Government was in favor of making those distinctions. I think the Bank was somewhat more conservative in that respect than the Ex-Im Bank was.

JOHNSON: But you did make loans to socialized, or let's say Government-owned, businesses.

SOMMERS: Oh, sure.

JOHNSON: Quite a few, I suppose.

SOMMERS: Well, for example, I think the first development loan we made was to Mexico. We loaned part of it to a private company, Mexlite, and part of it to the Mexican Power Authority. The Bank made loans to government-owned public utilities, railroads and the like. It did not insist that those should be private. But in the area of projects where more managerial and

entrepreneurial talents were required, as in manufacturing and merchandising projects, I think Black

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and Garner, at least on two or three occasions, said the Bank would not lend to government organizations for those purposes.

JOHNSON: Did you draw a line as to the level of business? In other words, you couldn't get into all of these little, small business loans, in foreign countries, I suppose.

SOMMERS: Well, what the Bank did in that respect was to finance development banks, most of which were government-owned. They would re-lend to small private borrowers. In some cases the Bank helped to organize such institutions.

JOHNSON: Were you making loans to Iran in the Truman period?

SOMMERS: I think the Bank made one or two loans to Iran, but I don't know; if so, I believe it was after I left.

JOHNSON: There were those British-owned oil fields at that time, and some American.

SOMMERS: Well, we didn't finance the oil companies. The Bank got involved in the oil problem when the Iranians under Mossadegh expropriated the Anglo-Iranian Oil Company. That was just at the end of the Truman regime, wasn't it.

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JOHNSON: Toward the end; it was in '52.

SOMMERS: The Bank, I think at the U.S. suggestion in the first place, offered to be a sort of a temporary guardian. The Bank would, by agreement of the Iranian Government and the British, organize an international board of directors of the oil company, and using mostly the same personnel, would keep it going on an interim basis until there could be a settlement. The British accepted that proposal and the Iranians seemed interested. I think Mossadegh was favorably inclined, but he didn't dare politically to make a concession that would allow the British to continue in the management. I remember asking a leading Iranian officer in the Anglo-Iranian Oil Company in those days, "How is it that there's so much hostility against your company, when you are out in the desert, and you pay better wages than anybody else in Iran, and you've established schools and hospitals?" He answered, "Mr. Sommers, maybe I can explain it to you. I'm the highest-ranking Iranian official of the Anglo-Iranian Oil Company. I've been in their employ for 25 years, and I've never been asked to sit down in the office of the general manager."

JOHNSON: That's interesting. I think we probably have used up your time, and I sure appreciate all of this

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information that you've given us.

SOMMERS: I hope it will be of some use. I hope I'll get out some day and visit the Truman Library.

JOHNSON: I hope you do, too

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