Oral History Interview

With

FRANK W. FETTER

Worked with Office of the Lend-Lease Administration, 1943-44; Department of State, 1944-46.

Hanover, New Hampshire
July 22, 1974

by Richard D. McKinzie, Harry S. Truman Library

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RESTRICTIONS

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[1]
MCKINZIE: Professor Fetter, perhaps to begin I could ask you how an established academician happened to go into Government service in 1942?

FETTER: I had had some experience both with the U.S. Government and foreign governments before. When I'd just finished my graduate work at Princeton and Harvard, I went with Professor Kemmerer's financial commission to Chile in 1925, and then was with him on other commissions in Poland, in Ecuador, and in Bolivia in the

[2]
late 1920's. I then spent a year with his mission in China in 1929, when the Chiang Kai-shek government had just come to power.

I have one impression about that that might be worth mentioning. We were employees of the Chiang Government. How much of this we -- because I think I didn't differ much in my opinion with the others -- sensed at the time and how much was good second-guessing, I don't know, but certainly, as I look back on it, Chiang missed a great opportunity. Nominally, he had a unified China, probably on paper a China more unified than it had been for centuries. Although we didn't have proof at the time, I think we rather sensed the way in which his wife's relatives were simply looting the country. In retrospect, if there's any causality in historical development, the Chinese Communists deserved

[3]
to win, not in the sense that we'd like them to win; but that in view of the way in which the Chiang government behaved; it would have been very surprising if the Communists or somebody like the Communists hadn't taken over. The opinion I got -- and this was all secondhand -- of the crowd that was around Madame Chiang Kai-shek was an extremely unfavorable one.

Then I went back to teaching at Princeton. In 1934, the summer that I moved to Haverford College, I had an experience that I smile about when I reflect on it. The Foreign Policy Association, with the friendly cooperation of the Cuban Government of the day, sent a mission to Cuba which presented an extended report called, *Problems of the New Cuba*. It was published both in English and in a Spanish translation. The head of

[4]
that mission was Raymond Buell, an extremely able person who died some 25 years ago. One of the other members of the mission, whose name came to mind only a few weeks ago when I read of his death, was Ernest Gruening, later Governor of Alaska and United States Senator, who handled one of the sections of our work. I handled the work on the public debt and on public finance.

As I recall it, and I can't be sure on this, this was when [Fulgencio] Batista was just coming to power, and he was looked upon as the hope of liberation and freedom, a better day for Cuba.

In 1939, I went to Ecuador for the Export-Import Bank and spent about two months there, making a recommendation as to which of the proposals that the Ecuadorians had made for Export-Import Bank funds were worthwhile, and I made my report to the Export-Import Bank.

[5]
That's when I first met Warren Lee Pearson, who at that time was the head of the Bank. As I'll mention later, I met him again some 12 years later when he was the head of the German debt settlement commission in London.

The following year, I went back to Ecuador with the title of Advisor to the Central Bank of Ecuador. And this was to me, a very fruitful experience, and also it showed me the intricacies of Government.

There was, at that time, a piece of legislation (I think it was called, "Public 63"), which authorized the American Government to lend officials to South American governments to help them in various measures of administrative reform and economic policy. And as I got the story from my friends in Washington, the Ecuadorian Government had asked for two men, one in the field of public finance and one in

[6]
the field of monetary and banking policy. The Government said they would be quite prepared to send a man in public finance. Harold Glasser was his name; he was the assistant director of the Division of Monetary Affairs in the Treasury Department under Harry White. .And Glasser went down there for a year. The Government -- and again this is what I was told, and I think circumstantial evidence indicates it's correct -- said they were not in a position to send down anyone on monetary matters. I suspect it was that the Government did not want at that time to take a position on monetary policy for Ecuador. But they suggested to the Ecuadorian authorities that they get in touch with the Federal Reserve Bank of New York to see whether the Federal Reserve could recommend anyone. And, at the same time, the State Department called the Federal Reserve

[7]
and said in effect, "Fetter would be quite an acceptable person for us." So, I was sent down there and spent the better part of two and a half months with an office in the Central Bank.

One of the men I came in touch with there is a person who has since figured quite prominently in Ecuadorian history, Galo Plaza, whose father had been President of Ecuador at an earlier date and, like more than one South American President, had spent some of his time in exile. His son, Galo Plaza, who at that time was a man of probably not more than 35, was prominent in the government; later he became the President.

I remember Galo Plaza telling me of his experience in this country. I met his father at one time, and his father was an imperious type. You could well believe the story, as

[8]
his son told it to me, that he went to the University of California and played football, and at the end of the year he had pretty good grades. His father asked him how a boy like him could have gotten such good grades.

And the son said, "Well, they're pretty easy on football players here," whereupon the father exploded and said that if this was it, he wouldn't spend his money sending his son to the University of California.

The son also told me -- and again this is something I was not able to document -- that not only did he play football at the University of California, but he played either with or against Red

Grange on Red Grange's first barnstorming tour in '25 or '26; and I could well believe it. Galo Plaza was a tremendous fellow, physically. Either he or one of his friends told me he had broken both of his arms, as a boy, bullfighting.

[9]
MCKINZIE: When you met him there and you were in this position as advisor to the Bank, was there any feeling at that time that somehow the world situation was going to require some kind of massive American assistance to get things on an even keel or was that not?

FETTER: I wasn't conscious of it. We were very conscious, certainly, of the German penetration there, and again, although I didn't have firsthand information, I could sense the split between the three German communities, the old German community, the refugees, and what you might call the Nazi representatives there. There were many stories that were told about that.

I remember one. There was a very offensive young secretary of the Hitler type in the German legation. There was a very fine restaurant run by a German refugee. (A number of small businesses in Ecuador were run by Italian

[10]
and German refugees) It was generally believed that the man who was running this restaurant had been hit by the German ethnic laws. In the lobby to his restaurant was a picture of a beautiful blonde woman, and the story was that one day this arrogant young Nazi attaché was coming to dine and he said to the proprietor, "May I ask, who is this lovely blonde lady?"

The reply was, "Why, Mr. Minister, that is our Aryan grandmother."

One had the feeling that the new groups -- there were some Italians there; too -- were making a real contribution to the economic life of Ecuador. You asked the question as to whether there was a sensing of the American struggle; I would say only in a most general way. But there is one thing that I remember very clearly, and the fact that almost no one knows anything about this today shows how much

[11]
strategic concepts have changed.

One of the great problems then, diplomatically, with Ecuador was the possibility of buying or at least getting bases in the Galapagos Islands; that's all water over the dam.

I also remember the tremendous shock in Ecuador -- this was on my second trip there, 1940 -- when Paris fell, because Ecuador had been culturally tied with France in a way that it had not been with any other country. The wealthy cocoa planters had sent their wives and their children to Paris to live and to be educated. It was a statement which I heard many times, and I think it was substantially correct, that you could recognize if an Ecuadorian woman or young man belonged to the real aristocracy because he or she spoke Spanish with a notable French accent.

[12]

This reminds me of one other thing about the old general, the father of Galo Plaza. Years earlier I happened to have crossed on the same boat on which he was going to Europe, and I had just come back from spending three or four months with the Kemmerer commission in Ecuador, so I introduced myself to the general. And we had interesting conversations and he said to me (this conversation was in Spanish, as I recall it), "America is a very fine place to educate boys, but not girls." He added, "Non es buena per las ninas porque devoelven demasiado independientes."

MCKINZIE: He preferred Paris.

FETTER: He sent his daughters to Paris, but he sent his sons to the United States.

There is one other little thing that might be of interest in connection with my second visit to Ecuador, when I was advisor of the

[13]
Central Bank. The man who was with me was Harold Glasser. Glasser later came into some unfavorable publicity, because he was charged with having some Communist connections, and also he took the 5th Amendment one time. I was very much interested in this when I read about it, because, as far as my contacts with Glasser were concerned, he was an extremely conscientious, almost meticulous public servant. One of the great problems that I discussed with him (great from his point of view) before we went down was where could he get a portable pasteurizer to prepare the milk for his children. Our contacts down there were probably a couple times a week; we'd get together and generally the theme of it was, how can we help these Ecuadorians when the government is so corrupt? And so, several years later I was quite amazed when I read that he had been asked by one of the

[14]
committees if he had engaged in espionage for a foreign power while he was in Ecuador, and he took the 5th Amendment. I suspect that this was done, not to the fact that he had been engaged in such espionage, but that he was a pretty stiff-necked fellow and had a very strong feeling on some things. But certainly in my connections with him, I never got the slightest indication that this is what he may have been doing when we weren't together.

MCKINZIE: What you've indicated so far is that you had built up quite a few contacts in the State Department by the time the U.S. entered the war in 1941. It was not then a bolt out of the blue when this business of the lend-lease came up.

FETTER: No. Sometime in the fall of '42 I got a call from someone in Washington, asking me

[15]
whether I might be free to go on leave from Haverford and do some work with lend-lease. I went down, and details are a little blurred after more than 30 years, but we had a discussion and it ended up that I was to go to India as a member of the lend-lease mission which was headed by Fred Ecker. He was then vice-president of the Metropolitan Life Insurance Company. And for approximately six weeks to two months, I went down two or three days a week getting my preliminary training and briefing, and doing odd jobs around the lend-lease. Then from the end

of January on, I was waiting to leave when the first plane could take us. And it was nearly eight weeks after we were cleared and ready to go before we could get transportation to India.

One thing I remember in that period was how little information there was in Washington about the problems of India and the Near East.

[16]
It apparently had been the assumption, as I get it, that anything connected with India (probably the same went for Burma) was handled through London.

As I say, I had a number of weeks there when I was, in effect, on my own. My instructions were, "Do what you can to be useful." I helped on a few things on lend-lease, but I was free to go to other agencies and see what I could find out that would be useful for the work in India. I went to the Fed, I went to the State Department, I went to the Bureau of Foreign and Domestic Commerce, and literally what I could learn about India from them was no more than anyone could have gotten from clipping the New York *Times* for the previous year. The only place that did have any background was in the Office of Strategic Services. And curiously enough, this was not the dirty

[17]
tricks end of it; this was the research end. I found a most penetrating, comprehensive study of the political and the economic problems of India in a study that was done, as I recall it, by Professor Brown of the University of Pennsylvania, who was a Sanskrit scholar and who had spent some years in India. And I can say, literally, that he knew more about India than all the other offices of the Government put together, as far as I could find out.

MCKINZIE: When you were doing this casting about for information and familiarizing yourself with lend-lease, was there much talk about what long-range effect lend-lease was going to have on the recipients? There were clauses in the lend-lease agreement which required postwar cooperation, particularly in matters of trade, and presumably Cordell Hull had something to

[18]
do with that. I was wondering if there was any thought about how this might effect a place like India?

FETTER: There may have been, but it doesn't stand out in my mind. At least at the level in which I was operating, the question was, "Is this something that is appropriate to send to India to further their activities in the war?" If this steel was wanted for a military purpose, that decision was made largely by the military officers; we were working with civilian lend-lease, and the question would be, "If this is going for equipment for housing, is it housing essential for maintaining a working population?" (I use that as an illustration; it may not have been the exact thing.)

So, a constant term was "lend-leaseability," and I'm afraid we had very little to do with the big issues of what is going to happen after the

[19]
war. It was, is this something which is essential for carrying on the war? We had a larger thing, which I suppose in modern economic terminology might be called a "cost benefit analysis." Is putting resources into sending this shipment into India a greater contribution toward winning the war than putting the resources into something else? So, we had literally nothing to do, except as we wanted to talk in our spare moments, with the question of postwar policy.

MCKINZIE: When you finally did get this flight to India, what circumstances greeted you?

FETTER: We had a mission there of about six or eight people. We had, for a few days or perhaps a few weeks, headquarters in what was the office of the American representative there, Mr. Phillips (he didn't have the rank

[20]
of Ambassador, but he was Special Representative). And then we moved into an office of our own and our job was essentially this: the Indians want so many nails, they want so many dynamos, they want possibly so many undershirts, so many pairs of shoes. We had to go and ask just what the purpose was for this. We had to ask whether it was possible to satisfy that from a domestic source. And we also asked the question which is a question which the Indians sometimes didn't like us to ask; we'd say, "Yes, we know that the metal is necessary to build a house, but are you using any metal for non-essential purposes which could be diverted to that?" And I think that, as I look back on some of our toughest questions and perhaps some of the questions we asked which made us least popular with the Indians, one was when we said, "Yes, we know the steel <u>we're</u> sending

[21]
you is going to be used, but how about the steel that you already have here?"

MCKINZIE: Well, now were those questions that you had to ask, in your view, appropriate questions? The Soviet Union took the position that it was none of the U.S.'s business when those questions were asked, and quite often they wouldn't supply the information.

FETTER: Yes, I know it. Now, by and large we got the information, I think. Of course, in the case of the Soviet Union, I believe the questions were more in connection with military.

MCKINZIE: You then perceived that in an aid effort of that sort it was proper to know what production capacities of the recipient was and enough about the whole economy of that country in order to be able to best use that which the U.S. had to give?

[22]
FETTER: Yes. Without doing it in the formal way, we had to have a picture of the whole Indian economy. As I suggested before, the mere fact that these nails or that this machinery was going to be used for something that was clearly related to the war was not, from the point of view of our instructions, a necessary reason for granting it. So, we became, without perhaps formally defining ourselves in that role, people judging the Indian economy, how its resources could be best allocated. We thought of our job in connection with the whole Indian economy and not the

specific. Now that you've prompted my memory on this, as I recall it, both the discussions that I had, and -- even more -- the discussions that the chief of our mission, Fred Ecker, had, often hinged on this. There was a constant pressure on the Indians, to tell them that it is not enough to show

[23]
that this particular thing that we're sending is important. What we want to know is, "Is this something that should be diverted from American use to your use, rather than having you divert something from some alternative Indian use?" And that was a constant subject, I wouldn't say of friction, but at least of insistence on our part for clarification.

MCKINZIE: With what officials in the Indian Government did you have to deal?

FETTER: The official I dealt with most in the Indian Government was Yeates, an Englishman who had been, I think, assistant director of the Indian Census and had been converted into a lend-lease specialist. The head of our mission, Ecker, dealt higher up, and occasionally we would consult with the military people there. I remember that I had discussions with Colonel

[24]
Keating, who later became Senator Keating from New York. I don't recall the details, but here would be something that would be coming in that wasn't a military request but had something to do with the production of military products. We'd stop in and see the military officers and say, "What's your judgment on this?"

MCKINZIE: Franklin Roosevelt's dislike of British colonialism is well-known and Secretary Hull's dislike of the British sterling bloc is well-known. Were those ever factors in your dealings with people in India?

FETTER: Not directly, and we never had what you'd call arguments with the Indian officials on this. And I might add one comment here.

We on our commission were aware of it, but we found that a number of people back in the States were not aware of the distinction

[25]
between what was known as "HMG," or "His Majesty's Government," and the Government of India. There were some problems about this that arose after the war, when it developed that certain things had been requested by a white man, and, hence, someone in Washington thought they must have gone to the British Government. But a high proportion of the officials we dealt with of the Indian Government, were British and not Indians. I remember the surprise of some official in Washington when he learned that when things had been requested by a white man, they may have gone to the Government of India.

This may have been personal more than anything affecting our group, but I sensed at the time a feeling on the part of the British officials, "the British Empire will always be here." And I think all of us a little bit

[26]
reacted against the notion that the British were just going to continue to control India from there on out. I'm a little hard put in my own mind to say how much of this is my own thought and how much the thought of others, but I think there was a pretty general agreement in our informal discussions that British rule in India was over, whether it would be over in two years, five years, or twenty years. The spirit of nationalism was a pretty vigorous force then. The fact that many of the Indians were cooperating outwardly and, perhaps, sincerely with the British due to the feeling that, at the moment it was much better to have the British here than to have the Germans here. We had enough contact with Indians to get off-the-record denunciations of the British from people with whom we were working and who were as far as we could see, loyal servants at the

[27]
moment. It left a number of us I'm sure -- certainly me and a number of others -- with a feeling of, "Well, time is running out. We don't know when it's going to run out." (It ran out faster than we figured.)

MCKINZIE: You didn't hear them talk much about what was going to happen as a result of the huge sterling balances they were going to have at the end of the war?

FETTER: There was a good deal of discussion of that, but we weren't involved in it. It was something that didn't affect our particular job; there's only so much you could do.

I can remember a story which I'd heard many years before and I'm sure it was told a couple of times in our group. An American visited India in 1913 and met a prominent Indian who denounced the British in every way, shape, and form. When he finished, the American said,

[28]
"What you say may be true, but have you ever thought what the situation of your country would be if it were ruled by Germany or Russia?"

The Indian replied, "Yes, and that's why I'm such a loyal subject of the British crown."

And we had a feeling that there were a good many thousands of Indians who had much that feeling. They may not have expressed it, but as long as Germany was a threat they were for the British. When Germany was no longer a threat, the British were to get out in a hurry.

MCKINZIE: What brought you back from India?

FETTER: I was there for a total of nine months and there was some rotation of people. I think that most of the original Ecker people had gone home; Ecker had returned; one of the other men had returned; and I don't know whether I

[29]
specifically requested it or not, but there was an informal understanding (if not an understanding, a practice) that a year out there and you came back. Most people wanted to come back.

When I came back, I transferred to the State Department and at first was in the position with a title something like Advisor on British Commonwealth Affairs, which involved doing a miscellany of jobs. Then I became head of the Division of Lend-Lease and subsequently the head of the Division of Economic Development -- I say "head" of it; these were relatively small organizations. I was never in on what you would call "top level" things, but there are a few very definite recollections I have, and impressions. First, I had the greatest admiration for Will Clayton. I was tremendously impressed, not only by how well he did each

[30]
job, but by the stature of the man. He was a person who, if he had chosen to go into law, would have been a great jurist; if he'd gone into the teaching of classics, he would have been a leader in the classics profession; he could have been a fine college president. He was a man with relatively limited formal education but was a most successful businessman; and I have the greatest respect and regard for Will Clayton.

MCKINZIE: What do you think of his economics?

FETTER: It was a bit on the conservative side, but still, if you had to choose, I usually would go along with him. Incidentally, he was one of the few people there, I think, other than Harry White, who could stand up to [John Maynard] Keynes. Keynes was not a person who suffered fools gladly, and not only

[31]
didn't he suffer fools gladly, but he didn't suffer gladly people whom he thought were below him intellectually. And my impression was that he did not make himself too popular with the Americans, particularly toward the later days of his stay over here. He was tired and he was getting impatient, and what he thought were lesser minds annoyed him no end. Only once was I ever in a meeting with Keynes; I don't say that I met him, but I was in a gathering where he was. And I more than once I have thought back both on the strange things that happened in Government and also on the fact that Keynes probably was past his prime. Here was a man who supposed to have had a more revolutionary effect on economic thinking than anyone since Adam Smith, and he was a bit frustrated by the opposition, some of which he felt petty, to his ideas.

[32]
The particular conference in which we were involved the discussion of whether certain particular products would go under lend-lease, and the Americans had ruled out ping pong balls to be used for recreation places behind the lines. This was a lack of political savvy on Keynes part, but he made his great plea on behalf of ping pong balls, pointing out with considerable logic that for the boys who had been under fire for a week or ten days, ping pong balls may be as essential as anything else. But it really didn't go over very well, and it seemed to the Americans that ping pong balls were not something which should come under lend-lease. This was my one and only meeting with Lord Keynes.

There was one other meeting that left an impression on me. There was to be a big meeting in Secretary [Henry J.] Morgenthau's office,

[33]
at which the various people who were in charge of the lend-lease in the Army, the Navy, and probably civilian agencies were to report to Morgenthau on how they were to carry out a directive that President Roosevelt had given them. I had not been in on higher policy, but I'd done something of the low level work, and I went along there carrying a brief case. I remember I sat next to James Waterhouse Angell, then the Professor of Economics at Columbia and now retired and living in Massachusetts. And there was an imposing array of military and naval brass there. The Army representative made a report which, in effect was, "We have the President's instructions as to how we're to allocate lend-lease, and we will carry them out." The instructions were that a certain amount of material was to go to British, looking on the war as a joint enterprise, and that we

[34]
would look at American resources, not in the relation to what the American Army said, "We would like," but what the top command said was best suited to carry on the war. And as far as I could see, the Army carried out instructions. The Navy representatives then gave a report which, in effect, said, "We will carry out the President's instructions insofar as the Navy thinks it's advisable to carry out the President's instructions." I wasn't aware really of what the background of this was, but when this particular official made it, you could just feel a hush go over the group.

Angell turned to me and said, "This is scandalous!"

Morgenthau (this being my first and only time I'd seen him in a meeting, and about whom I'd sometimes heard critical comments) I thought

[35]
as magnificent. He had a big bowl of apples up on the table, and more than once he referred to himself as a Duchess County apple farmer. Now, whether he was actually chewing an apple while he made these comments, I don't know, but at least figuratively he was a Duchess County apple farmer. After the Navy had, in effect, issued a mutinous statement that they and not the President of the United States were running the Navy, Morgenthau said, in effect, "I don't think that what you have reported here is in accord with the President's instructions." There was sort of a hush, and the Admiral sat there with pursed lips. Morgenthau said, "I think that you'd better call back to the Secretary's office and clarify this."

And the spokesman of the Navy said, in effect, "Well, I think it'd be very difficult to get in touch with the Secretary now."

[36]
Morgenthau sat just as calm as if he were chewing a Duchess County apple, and said, "There's a phone in there; we can wait."

And so he went in and the audience sat there like kids in school; how does the teacher handle a sassy boy? And Morgenthau literally took those admirals, took their pants down, and spanked them in front of the audience. After about five minutes the Navy man returned and in effect said, "The Secretary says that it's appropriate to carry things out the way in which you have suggested we should." The Admirals sat there with pursed lips, and the business continued.

Now, undoubtedly, this could be checked against Morgenthau's diary, but that is my recollection of it, and it gave me a picture of the mutinous attitude of the Navy and of the way in which, at least in that situation,

[37]
Morgenthau handled it beautifully. Of course, he knew he had the power of the President in back of him.

MCKINZIE: Professor Fetter, did it seem, to you, a hindrance to the operation of lend-lease to have so many chiefs involved? That is to say, to have the State Department handling, in a sense, policy but at the same time sharing policy responsibility with the Treasury Department and with the military people? Was there a clear idea of what was happening and unanimity?

FETTER: Well, again, I wasn't high enough in the policy making organization to be really conscious of the details on that. There was certainly a very strong feeling that the Treasury under Harry White was running its own foreign policy, that Harry White did pretty much as he pleased. There used to be a statement, which

[38]
probably wasn't literally true, that Harry White thought it was more important to pass on information to the Russians than to pass it on to the State Department. There may have been a bit of venom in that, but even taking away all of the innuendos and all of the unfairness of that statement, the Treasury Department made available mighty little information that it didn't have to. And I think that you'd have to get the real story on the frustrations on this from people higher up, because we just got, at our level, what drifted down.

MCKINZIE: With what major issues did you cope when you came back and were assigned to this office of lend-lease?

FETTER: One of the big issues was the question of lend-lease settlements and how much we were to get from the various countries. It was

[39]
particularly acute (and I wasn't involved deeply in it) with the South Africans, because they had a large gold reserve.

I remember one of the issues that came up repeatedly was the question of making payments in credits which could be used within the paying country. As regards the British, almost from the beginning, the comments used to come up, usually through congressional circles, substantially to this effect; "We realize the British don't have dollars; we're not going to be hardhearted. But they've got a lot of pounds; just pay us in pounds and that's all we want." And the British consistently said, "From our point of view, a payment in pounds is the same as a payment in dollars, because if we give you pounds which you're free to use, it simply means that our source of dollars dries up." And in manifold forms this thing would come up. I don't know whether I ever

[40]
drafted any letters, but I was certainly aware of the questions which were coming into Will Clayton and others. And the economists there in the State Department almost completely agreed with the British. We might disagree on how much they could pay, but we agreed on a point that <u>if</u> the British say, "Here are ten million pounds, you can use them," this was, in effect, the same as turning over in the equivalent in dollars New York. So, the British were constantly saying, "We won't pay anything in pounds that we're not prepared to pay in dollars." Congress was saying, "We're bighearted; we don't want dollars. Just give us pounds." And one of the most interesting aspects of this, as I recall it -- and my recollection is so different from what I think is the view that has gone down in history that it ought to be checked -- was that if not originating this idea

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at least actively promoting this idea was Senator [James William] Fulbright, who came up with the proposal: "Let us have so much of the proceeds from lend-lease or surplus property in pounds to be used for the education of Americans abroad," a fine idea.

I was not in on the face-to-face discussions with the British, but either indirectly or possibly occasionally in reports from Will Clayton, we got the picture of the British reaction, which was, "We won't give you anything in pounds that we're not prepared to give you in dollars." And finally a sum was agreed upon. As I remember it -- and again I'm not clear whether I actually heard Clayton say this or whether someone who talked with Clayton said it -- the British said, "We will pay you so many hundreds of millions of dollars, period."

And when Fulbright heard of this he said,

[42]
"Well, how about these pounds that I want for setting up the Fulbright scholarships?"

So, as I got the story, Clayton either said in my presence or the presence of others, "Well, if this is what Senator Fulbright wants, I guess we'll go back."

So they went to the British and said, in substance: "Would you be willing to make part of this not in dollars payments but in pound payments?"

And the story we got was that the British were simply flabbergasted. They couldn't understand it, but they said, "If this is what you want, why sure, we'll have it this way." So, really, contrary to what has been said hundreds if not thousands of times, the Fulbright payments were not an extra payment. They weren't something that we got that we otherwise wouldn't have gotten. They were simply a

[43]

payments which the British had agreed to give. Now, I suspect that if this were told to Senator Fulbright, he would indignantly deny it, but this is the picture which I got at the time.

MCKINZIE: When you were dealing with the whole problem of the lend-lease settlement, it had to be within the context of what that settlement was supposed to produce. As I understand Will Clayton's kind of vision of the world after the war, the lend-lease settlement was supposed to be satisfactory to the Congress and to the American people, but on the other hand be of such nature as to create reconstruction of Great Britain and the other Europeans as quickly as possible after the war. If there were reduction trade barriers and appropriate settlement of lend-lease, reconstruction could occur in a couple of years. Does that ring true with you?

[44]
FETTER: Yes, that rings true. I mean, I don't think it was ever stated so specifically, but I would say that the people I was associated with (and I would say this is true of myself), had no anticipation, no full realization of how serious the economic breakdown was in Europe. We thought two, three, five years would restore it, although I never heard the figure two years. But it seemed to me that Clayton, if he misjudged the time (I suspect he did, as practically everybody did), had a vision that you had to restore Europe. Although I was not involved in any head-on clash on this with the Treasury, I had the impression that the State Department was in complete disagreement with the Treasury, and I guess [Henry L.] Stimson in the War Department was, too. But the question of how many years, I don't think that it was discussed.

[45]
MCKINZIE: But you didn't think that the lend-lease settlement was going to be inhibiting to the process of reconstruction?

FETTER: This is very hard to say, because even in the State Department, we were operating within a given economic, political, and domestic political situation. When anyone would say, "This is the best policy," I don't think, except in some scholarly memorandum that somebody had drafted, that we really distinguished in "best" between what is economically best, what will get by Congress, and what we can put through with the minimum of disturbance in Europe. I don't believe those were too sharply distinguished.

MCKINZIE: To what extent did the political people talk to the economic people in those last months of the war, 1944-1945? I have the impression

[46]
that when they had a political section and an economic section and there were economists and then there were political people...

FETTER: I really can't say on that. That is, we on the economic end, at the level I was at, had comparatively few, if any, policy discussions with the high ups in the political sections. We might check on information with them, but this question you asked really involves what went on at a higher level, that is, what Clayton may have discussed with others. .And I have no hard basis for this but I always had the feeling that the economic people were a lot smarter than the political people, but that may have represented just the class prejudices of the economist.

MCKINZIE: When you took on this work as chief of the Division of Investment and Economic

[47]
Development in 1946, it must have been a fairly exciting prospect. Was it?

FETTER: It was -- which reminds me of one thing that you might be interested in. A lot of the things we did there I've forgotten, but a commission came over from Greece to get a credit of some sorts; I don't know whether it was under a special act or whether it was under the Export-Import Bank. Apparently, missions from all over the world were coming into Washington. And I don't want to be unduly cynical, but the Greek mission, it seems to me, had gotten the message, "There's money in Washington," and their instructions had been, "go and get it." Technically, they were very badly prepared. They just didn't have much to say except, "We understand you have money; we want some." Our job was really to let them down easily, and it happened that one of the three members of this mission was Venazelas; he was the son

[48]
of the Venazelas of World War I fame. And Venazelas and I established a very pleasant personal rapport, because a near neighbor of mine, going back to the days when I was twelve years old, had been Edward Capps, who was a minister to Greece in the last days of the Wilson administration, who had many contacts in Greece, and who was a friend of Venazelas. So, this put us in a very pleasant position. I shared an apartment there with a fellow and both of our families were away during the summer. It was clear that the Greeks weren't going to get their aid on the basis of the case they presented. They might if they come back, so I asked Venazelas to come up and have dinner with me. And we sat around the apartment and chatted, and in as kindly a way as I could I think I got the message over to him, "Why, certainly, the State Department would be glad to give careful consideration to this.

[49]
But we can't without things being spelled out more in detail." And then we got into a general discussion about the Grecian economy, and I asked him how much their exports of Metaxa were. He said, "Do you like Metaxa?"

And I said, "Well, I've tasted it occasionally," and passed on to something else.

The next morning a Western Union messenger delivered six bottles of Metaxa and a bottle of this Greek pine wine, Retsina. This bothered me. So, the next morning I stopped and checked at the liquor store on my way down to the office and I got a figure of around $40 to $50, and this bothered me even more. Then someone said, "Well look, this is Embassy liquor; it cost him about $1.25 a bottle. Don't feel too badly."

But I still felt I had to do something, so I got a copy of the best American edition

[50]
of [Alexis] de Tocqueville's Democracy in America and gave it to Venazelas. When he thanked me he told me that he'd never read it before, but he had just read my gift with the greatest

interest. And I have wondered since then what influence that gift may have had on subsequent Greek history.

My experience with Mr. Venazelas is the one thing that's clear in my mind of dealing with a particular request and how we handled it, which was to let them down easily and say, "Come back again; this simply cannot be approved in this present form."

MCKINZIE: One thing that I take it that you and other economists who were in the State Department all agreed on was the desirability of U.S. capital being invested in the countries which were reasonably liberated and in the process of reconstruction. Wasn't that a

[51]
difficult job to move American capital, because there were investment opportunities here and the returns were fairly high and they were sure? They were much less certain anyplace else in the world, and what more could you really do to try to bring about investments?

FETTER: I don't have any clear memory on that. I'm afraid that perhaps the title of our division, Economic Development, was a bit premature. About the only economic development that could be brought about was from Government aid in one form or another; but there wasn't much private capital that was prepared to move in then.

MCKINZIE: Well, about this time there was a kind of an interdepartmental thing called the "Advisory Committee on International Monetary and Fiscal Problems." As I recall, the State Department,

[52]
Treasury, Commerce, and maybe the Ex-Im Bank (I don't know whether the Fed did) seat a representative on that to advise the President on U.S. unilateral aid, on loans.

FETTER: Whether this was functioning while I was there, I don't know. I know I was in a number of meetings over in the Treasury Department. But my impression was that very little of that dealt with -- or if it did deal with it, it didn't accomplish anything -- getting American capital to go into Europe.

MCKINZIE: How did you view the role of the U.S. Government on the one hand and the International Bank for Reconstruction and Development on the other? Evidently, Lord Keynes thought that, if he had his way, the Bank would have been huge and would have operated immediately for reconstruction purposes as well as others.

[53]
FETTER: As I recall it, the Bank did not start to function until I had left the State Department. I left in August of '46.

MCKINZIE: It made its first loan in March of '47. But did you see the Bank as kind of an alternative to the U.S. having to provide direct loans?

FETTER: The answer is yes, but it wasn't a clearly thought out thing. Putting it in a fairly narrow concept, we had day-to-day jobs, such as "How do we deal with the Greeks?" And it was, at least at our level, a bit of a luxury to formulate overall plans to reconstruct Europe, a luxury in the sense of the use of our time. But I do think that among most of the economists there was a sensing that you had to build up Europe, including Germany, economically if you were going to (I don't think we used the term, but the idea was this) have a non-Communist

[54]
Western Europe. Barring American assistance, things were just going to go to pieces. Where we misjudged it was how much would be required to keep it from going to pieces. I'm sure I was wrong in my own judgments and I think that almost everybody was. It's one of these cases like prophesying the stock market in '29; only people who were crazy were right -- people who were crazy in the sense that you were so completely out of line with conventional thinking.

MCKINZIE: When you dealt with these day-to-day problems did you ever give any thought, or was there ever an occasion to have to give thought, to the problems of the recently defeated enemy, Japan and Germany, particularly rebuilding Germany for the purpose of stabilizing the economies of the rest of Western Europe?

FETTER: I don't recall that as a thing which came

[55]
up specifically in my own work. It's very difficult, at the present time, to say whether the ideas that I think I had were my ideas, were other people's ideas, or wisdom which I acquired in the last few years. But I think it was in accord with the general approach of economists to feel you had to have a viable European economy if you're going to have peace. Certainly, there was an idea which more than once was passed around in a flippant way that we'd better learn from the British.

The British idea was, you beat up presumptuous rivals, but once you put them in their place then you trade with them. Whether that was actually said in our discussions, but that idea certainly ran through my mind. I had read enough of British history; you think your defeated enemy will buy the undershirts when he comes back, and, therefore, don't ruin him.

[56]
MCKINZIE: What awareness do you think that Secretary [Edward] Stettinius and, before you left, Secretary [James] Byrnes had of the kind of work you were doing, any at all? Were those kinds of problems high on the lists of the things that they would be aware of?

FETTER: I had no firsthand contact with Stettinius. The picture which I got from my associates (I'm not speaking of Will Clayton, because he wouldn't speak in a derogatory way, but from others) was that Stettinius wasn't very keen as to what the problems were. As someone said in effect: "As a Secretary of State, he's done a fine job of getting the tables painted in the cafeteria, but as regards to the great problems of foreign policy, he doesn't know what it's all about."

Of Byrnes, I don't know at all. Byrnes was in such a short time, and somehow or other

[57]
he left very little impact one way or the other on me. As regards Stettinius, I got the impression that he ran a good shop as regards to having things painted and things in order, but that he didn't have a very broad concept of the great issues.

MCKINZIE: Well, is it then too strong to say that in that period, say, from late 1944 when President Roosevelt was President and Stettinius was Secretary and through sometime 1946 when Mr. Truman had not yet, perhaps, grabbed hold of the reigns and Mr. Byrnes was pretty much operating, that things were, in a sense, adrift?

FETTER: I would say that I have no strong impression if that was the case, but I'm not in the position to disagree with anybody who said that it was the case. And I suspect that that was so, but I have nothing positive to contribute except

[58]
the picture I got of Stettinius, as not being very alert to the big issues.

MCKINZIE: Surplus property could be very effective in economic development for, especially, countries like Britain, where the U.S. had so much. Do you recall any of the discussions or memoranda that might have passed across your desk about the appropriate use of surplus property? Of course, there were other offices dealing with this same problem.

FETTER: Yes. Curiously, the only very clear memory I have on the surplus property relates not to its use by our Allies, but as to whether it would adversely affect the American economy if surplus property were brought back here. Again, all I could see is what would come through from Congressmen or newspaper clippings, and at the time there was a great fear in this country of a big postwar depression. As has been

[59]
said more than once, the depression in 1946 was the best advertised depression that never occurred. And the pitch, for a good many months after the war, from the outside was, "Don't let surplus property come back to this country and spoil the American market." I get the impression that labor unions were taking that view, and it was reflected in comments that came from Congress. As I recollect it, when the depression didn't develop and the surplus property would have come in handily here to meet shortages, the public reaction was, that the vested interests had kept the property abroad so that it wouldn't spoil their market here. I saw that shifting almost in the time I was in the Department, from "Don't let the surplus property come back" to "Why didn't the surplus property come back to relieve domestic shortages?" And the answer is that the labor unions, the newspapers, and the Congressmen didn't want

[60]
it to come back.

MCKINZIE: And these kinds of queries and these kinds of fears were the things that you had to deal with.

FETTER: Yes, that's one of the things. What are we going to do about so many, let's say, generators left in England. If there is so much left in India, should we bring it back, particularly if it is something the Indians don't use? These may not be the products, but this was the idea. I have an impression of the way in which these problems were presented to us, but what a particular proposition was specifically, I don't remember.

MCKINZIE: Professor Fetter, you had special knowledge about British Commonwealth affairs, and that surely gave you particular interest in the British loan negotiations in 1946.

[61]
FETTER: I had something to do with the British loan negotiations, not in dealing with the British but in working with papers and perhaps preparing memoranda. It's curious that I have no very clear and vivid impression of just what I did. I know we were working to build up the case that the British needed a substantial sum to carry through their postwar reconstruction, and a good deal hinged on how much this deficit would be. As it turned out, even the most extreme figures on the deficit were under what it turned out to be later.

MCKINZIE: I was going to ask you if you've had any insight as to why the U.S. finally arrived at the figure that it did? The British kept saying that they were going to have to have six billion dollars to reconstruct their country and to return to a level of production and of life that was equivalent to the prewar period,

[62]
and many U.S. economists said the same thing. Yet, it's like saying you can't have all of that; you can have a little over half, and I think it was 3.75 that finally emerged. Now, in a matter of these things is it such a simple matter of saying, well, it either costs six billion to reconstruct or it doesn't, and if it's going to take that much, then you need it all or nothing?

FETTER: It seems to me that any sort of estimate of that kind has a large element of crystal gazing in it. All I know is that most of the estimates were well under what was needed as of two or three years later. I haven't followed the British economy closely enough for those years to know whether, if the British had handled things differently, they might have gotten away with a smaller sum.

[63]
But I can remember some comments made, probably just after I left the Department, that very few people realized how seriously the economies of Western Europe had been smashed. The idea I remember once in some conversations was that we could see what was smashed physically, but what we didn't realize was that in a modern economy, distinguished from an agricultural economy, the smashing isn't so much the bricks or the machinery, but the whole organization -- the skilled workers, the marketing organization, the contacts abroad. I suspect that that is where people went astray. We could estimate that these factories are smashed; we could estimate it costs this much to reconstruct the factory. But reconstruction of the factory wasn't getting back to the productive organization that existed in 1939.

[64]
MCKINZIE: Very good. Did you have the feeling, when you were working with this lend-lease settlement, investment, particularly, and economic development, that the statements that the United States was pursuing a "Europe first" foreign policy were true? Were most of your problems European?

FETTER: Yes. The problems I dealt with were almost exclusively European. Of course, most of the South American countries had done pretty well in the war.

MCKINZIE: They had credits all over the place.

FETTER: Yes. I have almost no recollection of any discussion of the problems of Latin America.

MCKINZIE: You've already mentioned the point about no dealings on the subject of occupied areas like Japan or Germany. The reason I ask about

[65]
it is there could have been a potential use of surplus property in the occupation there, and I just wondered if that had been dealt with.

FETTER: It probably was considered, but it just wasn't a thing that I passed over my desk.

MCKINZIE: Why did you leave Government in 1946?

FETTER: I had been teaching at Haverford College since 1934. It was nine years later that I went to Washington, and I had wanted to go back to teaching. I'd enjoyed it, I liked Haverford College, and I had gone into Government with the expectation that when the war was over I'd come back. I'd stayed down there for nearly a year after the war, that is, until August '46.

MCKINZIE: But you went back to doing that which you liked best.

[66]
FETTER: That which I'd been doing before, yes.

MCKINZIE: But this didn't really end all of your Government affiliation though, not even during the Truman years.

FETTER: No. In 1950 I had a request from the International Bank to go down and head up a very small group to study the economic development organizations in different parts of the world. There worked with me a young Icelander, who I believe since then has gone pretty high in the government of Iceland (I frankly have forgotten his name), and a Belgian. And what the three of us did was to summarize all the material we could find on development corporations in different countries of the world and try to produce some general philosophy on it. I wrote a large part of the general philosophy part; the other two did a large part of the work on the individual corporations. The philosophy

[67]
part was a little too -- perhaps the exact word was too argumentative. The Bank never published it, but they published the latter part, and this was circulated in the Bank for several years, because it was the source of information on what organization is there in Guatemala, what is there in South Africa. As I recall it, we concentrated on Latin America, but we had something on European countries. And now that you've mentioned it, it comes back to me as to what the background of this was.

One or more of the higher officials in the International Bank, possibly reflecting suggestions from Congress or the State Department, had had the feeling that the International Bank was making almost all its loans to Government, and wouldn't it be better if more could be made to private enterprise? So, the question was, what organizations that are not pure government are

[68]
carrying on developmental activities in the different countries? That, as I was told (you might say this comment was made when I was hired) was one of the reasons why they wanted to have this information. So, if a request came from Colombia, they could say, "Well, all right, there are these organizations in Colombia which are charged with economic development."

MCKINZIE: So, the Bank wouldn't be in a position then of dealing always with the government of Colombia?

FETTER: That is the picture which I got. Whether that's in any official records, I don't know; I was never told that in my letter of appointment. But certainly the people I was working with and my immediate superior gave some indication to me that that was one of the reasons they wanted this done.

[69]
MCKINZIE: You say that the philosophy parts was perhaps a little argumentative. It was at a difficult time, because you're talking about a period when Point IV was being developed. I know there was a raging argument there over whether you built infrastructures through Government assistance or whether you did it through private investment, and I don't think they ever resolved that even within the State Department.

FETTER: I have not looked at that report for over 20 years. I have it somewhere in the attic, given an hour or so I could probably turn it up, but it comes back to me that the part that may have been argumentative was this: I talked with all of the representatives I could of foreign agencies in Washington. I went up to talk with the United Nations people who were then out on Long Island. And out of that I got

[70]
the impression that there was an overstatement of the needs of a number of countries. It was a little like the Greeks who come over here in '45; "We hear there's money, set the limit, think up something to justify it." And I particularly got this idea from some talking off the record some of the United Nations economic development people, where they in effect said, "We get these

statements from South American countries on how much they need for development, and when we ask for a breakdown, they haven't any idea of what it is except that they want it." And I think that in my report, I may have made a little of that point. It wasn't made in an extreme way, but I think I raised some question as to whether all the funds that had been granted were needed or whether, perhaps, in the specific development situation, their real problem had not been lack of funds; it

[71]
had been the lack of adequate planning or proper engineering studies.

MCKINZIE: Then you also had a special mission dealing with the German debt settlement.

FETTER: Yes, in the summer of 1951, the whole question of settling the German debts, with the return to German prosperity and the build-up of the German economy, came up. I was asked to be a part of the group that was working on it. As I recall it, I was offered an opportunity to work for an entire year on it.

MCKINZIE: Do you recall who brought you in on that?

FETTER: I am really not certain on that. It was someone in the State Department; I was a State Department official. I worked for about three months, of which about a month was spent in England with the delegation there. And this was

[72]
headed up by Warren Lee Pearson. We did our preliminary work; there were representatives there of the, I'd say, four directly interested parties, which were Germany, France, the United States, and Great Britain. And then there were observers from maybe eight or ten other countries. (I remember the Swedes were there; I made a friendship with which I've kept ever since with a young Swedish banker. He's not now as young as he was 23 years ago.)

What we did was sort of work out the preliminary concepts as to how the debt settlement would be arrived at. In the meantime, the German economy was improving, and I think the final settlement was made, oh, six or eight months later.

I was very much impressed by the quality of the German negotiators who came to the meeting. Whether it was because they were what they appeared to be or whether this was a clever

[73]
act, the picture you got was <u>hard</u> working, <u>honest</u> Germans who were doing their very best, who really hadn't had any use for Hitler. They made a very good impression on the Americans there, I think.

MCKINZIE: Was there any talk about this whole idea of the debt settlement being inappropriate because, by so doing, it was simply usurping one more issue which could and perhaps should have been covered at a general peace conference?

FETTER: I don't recall any discussion in that. Again, our terms of reference were not on that high a level. The Germans owed a lot of debts. We were going to go out and see what kind of settlement could be worked out. And as it turned out the settlement was much more generous to the creditors than, I think, anybody believed could have been possible.

[74]
MCKINZIE: Did you have specifics when you were working this out in the preliminary conference, the total figures and that sort of thing?

FETTER: Whether we got on the specifics or whether we discussed general principles which then went into specifics, I can't say. I know I was with the Department for at least five weeks after I came back to Washington, and then I remember writing a number of memorandums on what Germany's capacity was, and there may have been a little historical material; I don't know on that.

MCKINZIE: I take it you were rather impressed by the ways that Germany had recovered as a result of the Marshall plan?

FETTER: Oh, yes. Not only that they recovered physically, but also the quality of these people. If you asked a Hollywood casting

[75]
director to get a bunch of good, honest Germans, you couldn't have beaten this crowd. I became very friendly with them. We had a lot of social contacts. Every morning we'd stop about 10:30 and have coffee, and all of the representatives there sat around; then we had tea in the afternoon. So, I got to know the Germans socially; I speak some German and we got along very nicely.

I had the feeling that they had done their homework, but the French had not done their homework. You got the feeling that the French went home for the weekend and then when they came back on the plane, they'd say, "Well, now, what sort of bright ideas can we bring into the meetings?" You had the feeling the Germans had sweated over the weekend drawing up their stuff.

But I remember one thing that amused me very much and I think perhaps has a certain

[76]
lesson for diplomacy. We staged one big party, a social party (perhaps more than one), and the only liquor we had was cocktails. The Germans hated this stuff, so they and I would go off and drink orange juice. What the Germans wanted was some beer; they didn't want cocktails.

MCKINZIE: American diplomacy hadn't advanced.

FETTER: No, it hadn't advanced. They would have been much smarter if they'd had a good keg of beer over there along with their cocktails.

MCKINZIE: Was there any particular reason why you didn't stay through this whole settlement?

FETTER: Well, the reason was simply that at that time we had three children, the youngest one was twelve, and the idea of being gone for nearly a year just involved too much. I'd

[77]
only been at Northwestern two and a half years, and this just didn't seem suitable.

MCKINZIE: I guess a last question that I'd like to ask you, Professor Fetter, is whether you think that it is a good principle for people such as yourself, a professional economist, an academic economist, to be brought in for these kinds of special purposes? Does that work as well as, in your opinion, or better than, assigning those responsibilities to professional Foreign Service officers?

FETTER: I would say that as regards the negotiations end of it, that probably can be handled better by a professional Foreign Service officer. I think, as regards the economic policy aspects of it, the person from an academic life has something to contribute that a very large number of the Foreign Service officers don't have. That doesn't mean that there are not able

[78]
economists in the Foreign Service. But I like to think that, in the jobs I was with, I and the other people from the outside had something to contribute. Of course, to some degree there wasn't a choice on this; it was a case simply of limited manpower. Here on the German debt settlement they had a commission of some six people. The man who acted as minister was John Gunter, who had been a teacher of economics and more recently an economist with the Treasury Department. I came in from the academic world, and there may have been one other from the outside. As far as I could see it, the situation was simply that here we need six bodies with certain qualifications to do a job. We can get three out of the State Department; let's see where others are available. I wasn't aware that there was a conscious policy of saying, "Let's get academic people because they have something to offer that we can't

[79]
offer."

MCKINZIE: But you do approve, in principle, the policy?

FETTER: Yes, yes, I do.

MCKINZIE: Well, thank you very much sir.

[80]
INDEX