

Oral History Interview
with
HUBERT F. HAVLIK

War Production Board (Office of Civilian Supply, Program Review), 1942-44; Adviser on Lend-Lease, Foreign Economic Administration, 1944-45; Chief, Division of Lend-Lease and Surplus War Property Affairs, U.S. Department of State, 1945-46; Chief, Division of Investment and Economic Development, Department of State, 1946-48; Chief, Payments Section and Trade and Payments Division, Office of Special Representative, Economic Cooperation Administration (later Mutual Security Administration and Foreign Operations Administration), Paris, 1948-54; and U.S. Representative on Managing Board of European Payments Union, Paris, 1950-54. Then served on the staff of the International Bank for Reconstruction and Development, 1954-69.

Arlington, Virginia
June 20, 1973
by Richard D. McKinzie, Harry S. Truman Library

The Harry S. Truman Library
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MCKINZIE: Mr. Havlik, we might begin, if you could tell me something about your background and how you happened to come into Government service, what motivated you to take a career with Uncle Sam?

HAVLIK: Well, I had been at Columbia University throughout the thirties, teaching economics and government, contemporary economic problems. My main field of special interest was government regulation of industry, particularly the public utilities, and I had taken my doctorate

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under James C. Bonbright in the field of electric utilities, writing a book on electric power rates. That was my chosen field.

MCKINZIE: You were a colleague of Rexford Tugwell?

HAVLIK: Yes. At Columbia College we had a very exciting program of courses in Contemporary Civilization. We had Rex Tugwell, Joe McGoldrick, Harry Carman, John Coss, Horace Taylor, Jacques Barzun, Dwight Miner, Walter Langsam, the brilliant Charles W. Cole and others. Many of them became university presidents and Government servants. I also did some extra work outside in the late thirties. I worked with Arthur R. Burns on the 20th Century Fund's survey of electric power and its regulation by Government.

But toward the end of that period (the 1930's) there was a certain degree of built-in frustration. The depression was on and there was little opportunity to move. I stayed

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at Columbia University for ten years, practically without any change in salary; my top salary was \$3,000 a year. The university faculty didn't move. Only when some professor died or retired was there a promotion, and consequently we were forced to do consulting work or work extra hours (teaching at the American Institute of Banking, etc.). But worst of all was the fact that we were not getting anywhere. I was writing articles and participating in writing the textbook that we prepared on contemporary economic problems. I wrote the parts on the State as Economic Regulator. But all that was getting to be frustrating. Opportunities simply for interviews concerning jobs elsewhere were extremely rare. Once in a while someone would come, say, from Carleton College in Minnesota. They'd want some instructor to come and teach about twice the load I was doing at Columbia, coach the golf team, carry the collection tray at church, etc.

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So, when the preparations for the war came along in the latter part of 1941, I began thinking that I might participate in Washington. I hadn't gone into the New Deal, partly because I didn't want to move my family from the suburbs of New York, where we were comfortable, to what I considered to be a temporary and highly confused situation.

MCKINZIE: Were you sympathetic to Roosevelt's view?

HAVLIK: Yes, I was sympathetic. I had several friends working in the administration. But even there the opportunities for people of my kind were not all that many. But late in 1941, Leon Henderson had been authorized to start organizing work on civilian supplies, requirements and price controls. He set up an office on civilian supplies and price controls and invited my colleague Arthur Robert Burns, who had done the book *The Decline of Competition* in

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industries -- not connected with the present Arthur Burns of the Federal Reserve Board -- to help.

Then he asked James W. Angell, another colleague of mine at Columbia University. So, after Pearl Harbor things began to break very quickly. I was invited early in '42 to come and work in what was called the Office of Civilian Supply in the War Production Board, which was headed by Leon Henderson. His deputy was Joseph L. Weiner. Arthur Robert Burns was in charge of one principal branch and Angell another.

So, I went down in February of 1942 for what I considered to be a temporary assignment during the war. I took leave of absence from Columbia College and immediately plunged into an assignment to consider problems of electric utilities and fuel supply. Now, the electric utilities capacity and requirements, etc., were

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being dealt with capably by Julius Krug and his people in another part of the War Production Board, but what concerned us most at that time was energy, particularly gasoline and fuels. Almost immediately we were thrown into the issues of whether to build the Big Inch pipeline, so as to get some protection against the loss of fuel and gasoline which was occurring off the Atlantic coast with the heavy torpedoing of tankers by the German submarines. It was an issue as to whether we should devote scarce steel to that project or if not, how to allocate supplies of petroleum. It was soon decided to build the pipeline.

And then we were plunged into the question of gasoline rationing. The President was reluctant to do it; he didn't want it. But eventually the supply situation -- heavy military demands and the shortages of internal supply -- forced the decision, and we made recommendations

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as to how this might be done, what the volume should be, etc. Those were highly controversial things which were fought back and forth a great deal within the War Production Board, with the Department of Interior, which had in it an Office of Petroleum Supply, and with the Price Administration which was the rationing agency. There were a number of different agencies involved in this kind of thing, but eventually -- about June 1942 -- the decision to ration gasoline was made.

Then my chief, Mr. Weiner, asked me to help organize a study of energy supplies and requirements during the war period; the National Resources Planning Board carried out the work. I was the liaison.

When the study was made, it was not too definitive; it couldn't be. But it did focus upon a few questions of the adequacy of supplies of coal, petroleum, energy, etc. No fundamental

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decisions were taken, but it was an added input in the consideration of future energy development problems.

MCKINZIE: There was some discussion, was there not, of development of synthetic fuels at that point?

HAVLIK: There was not very much that I knew of. We were under heavy time pressures', and people would have to look at synthetics from the longer point of view. There may have been some thought of synthetic fuels, but I wasn't involved in that.

When I got through with that, I turned to helping Arthur Robert Burns review the civilian supply programs as they were formulated. The issue was, what amounts should consumers be getting of various commodities and products. Well, the military was claiming so much steel and other metals, so much paper, so much textiles, and so much glass for war

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production. How do you deal with the ensuing shortages? Should you cut out certain uses? Should you allocate, as the War Production Board could, supplies to various users, give them various kinds of priorities? The Office of Civilian Supply had the task of looking at the civilian situation and trying to protect the civilian economy and keep it functioning. The various branches of Office of Civilian Supply developed such programs in cooperation with the other part of the War Production Board. These were presented them for approval as a basis for either rationing, price controls, awards of priorities, or specific controls over allocations of materials. One of my jobs with the aid of a small staff was to review the programs and to make recommendation as to whether they should be approved, changed, or restructured.

Now, in the end, that work, which lasted from the summer or late fall of '42 through '43,

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was increasingly disappointing. We were proving to have adequate supplies to carry on the war. Moreover, the armed services had the major say in what they wanted and pretty much got what they wanted, and the issue of civilian supplies proved to be relatively unimportant. It was really a question of price controls, which was not within our purview. The job in civilian supply became less challenging as time went on.

There had been going on during those years a struggle in the foreign economic field. A lend-lease program had been set up, under the Lend-Lease Act, headed by Edward Stettinius; he had an Office of Lend-Lease Supplies. There was a Board of Economic Warfare headed by Henry Wallace, whose job was pre-emptive purchases and all kinds of things in economic warfare. And there was the Reconstruction Finance Corporation, headed by Jesse Jones, with various responsibilities in the purchase

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and financing of foreign supplies and materials. Eventually there was a great deal of shoving and pushing between these agencies, principally between Wallace and Jones. After some consideration, President Roosevelt moved in his characteristic fashion by melting the two things together, at least the Board of Economic Warfare Office and the Lend-Lease Office. He took some procurement activities away from the Reconstruction Finance Corporation, which still existed. He put all these under the direction of a completely new person (not new to the

Government, but new to the field), Leo Crowley, who had done a good job in organizing and running the Federal Deposit Insurance Corporation, which was one of the landmarks of the New Deal.

Oscar Cox, a prime author of the Lend-Lease Act, was the general counsel of the new Foreign Economic Administration. Lauchlin Currie, intimate adviser to the President on

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economic questions and formerly of the Federal Reserve Board staff, was the deputy administrator, deputy to Crowley. It was a curious triad. Crowley was conservative, Cox was an imaginative liberal lawyer, and Lauchlin Currie was a shrewd liberal economist. There was a kind of a power balance between them.

Well, Lauchlin Currie had as one of his principal assistants V. Frank Coe, later on Secretary of the International Monetary Fund (who ran into security troubles). Currie also invited his old friends Arthur Robert Burns and James Angell to come and join his staff. Burns came in to work on trade problems and Angell came in to work on foreign finance and lend-lease policy problems. So, at lunch one day in February 1944, Jim invited me to join him in FEA.

I said, "What do you want me to work on?"

He said, "Well, I want you to work on lend-

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lease policies. There are all kinds of questions coming up on lend-lease. Some have been dealt with on a ad hoc basis; others not yet fully faced. Nobody has stood back to look at them; you can do a great deal of good here."

I said, "Jim, I don't know anything about lend-lease. I have never been involved in foreign finance. I don't know an exchange rate from a bill of goods, and I'm completely without special qualifications for it."

He said, "Well, you would be starting on a par with everyone else. None of us know about lend-lease. I know that you've got imagination and a good head on you, and I think you will find it interesting."

So, I said, "I'm bored at Civilian Supply; I'll come and join you." And I did, and that was my introduction to foreign finance. It constituted the rest of my working life, until about two years ago.

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It was a tremendously exciting period. The organization was new, it was uncoordinated, and people were trying to deal with problems against the heavy pressure of time and events. I must say that there followed a period from that time on till I left the Federal Government in '54 that was just one series of highly interesting issues, sets of problems, and personal contacts, all of which were just absolutely fascinating.

MCKINZIE: Can you describe some of your work when you first went to the Lend-Lease Administration?

HAVLIK: Well, looking back it's not altogether easy; however, I have tried to make some notes.

What I discovered first was that lend-lease was not simply giving the foreign countries whatever they wanted. A set of procedures had been developed to get from them a list of requirements. The Russian lend-lease was dealt with separately. They had an absolutely binding

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annual agreement -- a protocol -- on what kinds of supplies they would get, specific amounts, etc. That was handled by Major General Wesson and John Hazard, completely apart from policy issues relating to other countries. We followed that activity to some extent, but nevertheless it was largely self-contained.

The rest of it was adjustments of the volume and kind of lend-lease supplies and services to various countries, depending upon the wartime situation, upon their own capacity, and to some extent upon political considerations.

My first assignment was to draft a memorandum or letter from the President to Winston Churchill, in effect proposing certain reductions in lend-lease to the U. K. on specific items to bring the total down to a more modest figure. For one thing, partly, we felt the British were then mobilizing monetary resources more effectively, and American forces were getting into the war

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(this was in 1944). And partly, too, I think Mr. Roosevelt wanted some pressure upon Churchill for various policy reasons. There were debates going on in the background as to whether the attack should be upon the "soft underbelly" of Europe or from the north, whether there should be two fronts or one front. Mr. Roosevelt would use as counters in these debates anything he had, including the threats of reduction of lend-lease.

So, some of these memoranda and drafts were given to the President; I do not know whether he showed them to Mr. Churchill at the various conferences which they held from time to time. But I do know that some of the recommendations weren't carried out -- to reduce certain items, to eliminate some and so on.

Then I became involved in a myriad of problems concerning the eligibility of various items for lend-lease. Should our allies get whatever they wanted? What we could send them had to be related to our own availability of

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supplies and our own needs and needs of others. Lend-lease supplies also had to be related to whether they were bought in this country or overseas; if they were bought outside this country, there had to be a highly special situation. Also, if our ally received lend-lease supplies and commodities and wanted to use these in part to manufacture commodities which they exported

commercially, what should the rules be? If they received military or other supplies and then these turned out to be surplus to actual needs, could they retransfer these supplies to any of their dependencies or other friendly countries, and, if so, on what terms and what would we get out of it? These were complicated problems.

MCKINZIE: Did you feel that those were legitimate concerns of the U.S. Government in the time of war?

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HAVLIK: They were. They were concerns about the adequate utilization of resources, the deployment of resources, and they were legitimate in terms of the effective use of the money which was entrusted to us. The Lend-Lease Administration had to go each year to the Congress and ask for something like five billion dollars. To show that this was necessary to carry on the war, we had to give some idea of how and where it would be applied. We had to convince the Congress that this was a legitimate demand upon the resources of the country, and we, therefore, had responsibility in protecting the national interest.

Behind this there lay the shadow of the forthcoming question of how these enormous transfers would be settled financially at the end of the war. And they were enormous. The amount of lend-lease supplies and services provided to Britain -- military and civilian --

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began to run in the neighborhood, towards the end of the war, of something like 26 billion dollars. (They also provided us with important commodities and services on what we called reverse lend-lease, about 4.5 billion dollars.)

Thus the issue began to arise in various quarters on the U.S. side as to how all this should be settled. Some of us were fairly well convinced -- many in the Foreign Economic Administration - - that all of these materials, or the bulk of these charges, should be treated as a cost of war and not allowed to develop into an economic millstone in postwar international recovery, similar to what occurred in the case of the war debts after the First World War. Some of us were convinced that the settlement of the war debts had plagued the course of international economic cooperation and had been a factor contributing to the recession, etc. We felt that this issue should be managed in a

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way so that after the war we would not have on our hands what we thought would be an unnecessary, unjust and artificial issue.

MCKINZIE: Leo Crowley, I assume, was not very sympathetic to that position that you took?

HAVLIK: His main concern, I think, was that he promised the Congress that lend-lease would be cut off as soon as the war was over. As far as I know he didn't express himself personally as to the terms of settlement. But each quarter the Lend-Lease Administration had to submit a report to the Congress on the progress of lend-lease; I was among those who had to do with the

drafting of that report, or parts of it, in cooperation with the General Counsel's office, usually with John B. Howard.

I remember at least one report, shortly before V-J Day, [Twentieth Report to Congress on Lend-Lease operations, submitted August 30, 1945,

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chapter 7 "Lend-Lease and the Peace"] which we drafted, which practically wrote off lend-lease transfers as simply a cost of war, without giving rise to any financial obligations. The report considered that the victories which had been financed by lend-lease and the sacrifices in lives and materials by our Allies should offset any financial obligation. It considered that the victories which had been financed by lend-lease were just and adequate compensation.

MCKINZIE: Can you talk to that point a little bit? Was this generally accepted among the economists?

HAVLIK: I think so. There was some disagreement but not terribly much. I would discuss this with Angell and to some extent with Currie. What we really did was to say, "Well, here's what we think of it," and we would draft the report. Then we would pass the draft around. If you

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agreed with the draft, you agreed with the position. If you didn't agree with the draft, we'd say, "Okay, x, y, z -- name what's wrong with it."

We got the clearance on this particular draft, Oscar Cox cleared it. When it hit the Congress there was a flare up. Then we were really questioned and said, "Well, we wrote this, but you people corrected and cleared it." As I say, there was a little bit of reaction. I think Mr. Roosevelt in effect said, "I agree with the statement, but it's going to be very carefully considered. We're not going to be soft-headed about this," or something like that.

At any rate, in terms of the organs of opinion like the *New York Times*, the *Washington Post*, and others, we were trying to set the stage for what we knew would follow. It was clear that the war in Europe was drawing to an end, and we were faced with the question of

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agreements with Belgium and the Netherlands for supplies in the latter days of the war. Their representative came to Washington, and then we worked on the agreements with them as to supplies they would receive and the terms on which they would pay. With the French, too, there were agreements. So, that occupied a considerable amount of attention by the Lend-Lease Administration and by Treasury and the State Department.

Then, also, there was the question of what would happen to the surplus properties, not of lend-lease, but of the U.S. Army and Navy forces and civilian agencies abroad. There were immense supplies of tanks, airplanes, petroleum, installations, and all kinds of things scattered all over the world in various dominions. The question was, what should we do with this stuff? Do we bring it back, do we destroy it, do we sell it to anyone at commercial prices --

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what do we do with it? How much of it is there? We didn't know. We knew that the military found it very difficult to give us an accounting of what they had in place. This became a major task. We had a task, too, of determining how much of the lend-lease commodities were left. We knew what had been supplied, but how much had been used up and how much was left?

Then another problem was, how much was still on order at the end of hostilities and still being processed to be shipped? It takes months and months for some items to come out of the pipelines, so to speak.

Well, these issues began to come up. They came to a head in the autumn of '45, when the British came to Washington to negotiate a loan for postwar reconstruction. There had been also going on (and this I did not participate in) long discussions about the setting up of a new postwar

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international monetary system, and, late in the game, there came the realization that some sort of agency to finance postwar reconstruction and economic development would be essential. These turned out to be the International Monetary Fund and the International Bank for Reconstruction and Development, which the Bretton Woods Conference worked out. Jim Angell participated in that work in great measure; I carried on his work in FEA while he was away.

Against that background Keynes and his people came for the British loans. This was just an absolutely fascinating negotiation. There were two major aspects. One was a negotiation of a loan to help the British postwar recovery. (I'm quoting now from memory what Keynes' masterly memorandum said, "We want to get back our place in the sun.") They asked for about five billion dollars or something of the sort, and I think the final figure was in the neighborhood of three and a quarter.

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MCKINZIE: I think 3 ¾.

HAVLIK: Something of that sort. The issues there were not simply how much, but the terms. This I also did not participate in. I knew from Angell and then later [Emilio G.] Collado in the State Department, who was prime adviser to Will Clayton, that the issue most bitterly fought was the question of convertibility of sterling.

The loan agreement required convertibility of sterling after a specified period, I believe it was a year after the loan was actually available, which turned out to be a disaster.

MCKINZIE: At the time did you have any thoughts about that?

HAVLIK: I wasn't involved in that, but I know that Collado was concerned. The British were being pushed hard. Actually, as I remember the talk at that time, some on the U.S. side earlier

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argued for immediate convertibility and immediate elimination of exchange controls. But I was not directly involved in that. My part had to do with the lend-lease settlements.

MCKINZIE: Which are an important part of the settlement.

HAVLIK: Yes, oh yes. Those I participated in. This was in the fall of '45. After the war in Europe was over, the whole apparatus of FEA in Washington began to fall apart. It began to fall apart by simply the fact that the people who had come to work in it, the business executives and professors, simply said, "Now, the war is over. We've done our task and we're going home." Angell, Burns, Charlie Denby, and so on all left. Suddenly, I found myself sitting there with my phone ringing from morning to night, with people asking questions about what was going to happen and what were we doing and so

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on. By August 1945 I was Deputy Economic Administrator in FEA, and soon I found myself practically responsible for all lend-lease questions; while nothing in FEA was reorganized.

A reorganization did take place in October when the remnants of the FEA were divided into two. One part moved eventually into the Department of Commerce and another part, and I with it -- the lend-lease and surplus property affairs -- was transferred to the State Department under what was supposed to be a temporary Office of Foreign Liquidation. This was headed by Thomas McCabe, who had been head of the Scott Paper Company, and later became chairman of the Federal Reserve Board. McCabe was personable, capable and very knowledgeable -- very well connected and on good terms with all the big shots. He proved to be a very able administrator.

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MCKINZIE: There was over in the State Department at this time a kind of grand hope for the postwar world, if not a grand design. I think Will Clayton might have been the kind of chief architect of this idea that all of these settlements ought to lead to some kind of economically integrated pattern of world trade. How pervasive was that view that there was going to be a kind of economically integrated pattern of world trade? How pervasive was that view that there was going to be a kind of brave new economic world after the war? Did you, as a professional economist, share this uniform reduction of tariffs and the end of the imperial preference system for Great Britain?

HAVLIK: I wasn't much involved with it; but I know that it was in the minds of Americans from the very beginning. The bilateral agreement with the British, for example, the mutual aid agreement under which lend-lease was

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provided, had in it commitments from the British that they would work with us to remove trade barriers, to solve exchange problems, and to create a world of freer trade. I do not recall the exact words, but they are there, and they were regarded by many as a commitment. There were many in the State Department and elsewhere, especially those who had to deal with all the resentment of the American traders arising from the restrictions of the sterling area, who wanted to try to get these restrictions removed as soon as possible.

And there was the old Cordell Hull tradition to push on to eliminate trade barriers as quickly as possible. But against this one had to take the fact that Europe was in a state of disrepair (as we found in the period before the Marshall plan). I think that, frankly speaking, the extent of dislocation in world trade, other than the physical extent of war damage,

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was not fully realized. Trends toward autarchy have been prevalent in the 1930s. Nations were drawing within themselves, probably the Germans most, in self-defense.

On top of that, the war damaged, or destroyed relations among people and institutions as well as between countries and made them suspicious of each other. This dislocation compelled each to try to maneuver as best he could to protect himself. The fact is that connections between people, speaking and trading connections and institutional connections, had been largely destroyed. This damage was much greater and of greater import than a good many of us then realized. When we neared the end of the war people thought, "Well, when the war stops, tomorrow we'll have a brave new world." And we didn't altogether fathom the extent of dislocation which had occurred in economic institutions, economic and financial arrangements,

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and trade arrangements, which even before the war, were defective. These could not be themselves repaired overnight. You could do something, but over a period.

I felt some of that, although in retrospect it's much clearer to me. I felt, for example, that insisting on the removal of quantitative restrictions on imports by the British immediately was simply asking too much. Nobody could tell what that would mean in the way of demands for imports. There was a lot of inflationary pressure built up in these countries which had been contained by price controls, and by severe rationing, by severe controls over capital movements, by severe controls on wages. Once those began to be lifted, even if they were kept for a long time, there was going to be a demand for foreign materials and goods. It would have been explosive, if these controls had been completely lifted at the time and no financing

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had been provided.

MCKINZIE: You have said that the major problem was an unclear perception of the degree of business dislocation. Then you did not feel, when the International Bank was created and the International Monetary Fund established, that the problem was that they simply didn't have enough capital base to bring about the necessary reconstruction?

HAVLIK: That hit me a little bit later when I began in investment and economic development. Just by way of looking ahead a little bit, you must remember that they were completely new institutions. They themselves had to establish a procedure to identify their problems, to develop ways and means of doing things. The International Bank did address itself to reconstruction financing. Just look at the figures on the World Bank's world war reconstruction financing; it's a

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minimal amount. It isn't any more than three or 400 million. And then it took considerable time to establish staff, to establish procedures, and to put themselves into a position where they could get sources of capital other than the immediate 20 percent gold or dollar subscription. Collado, who was the first U.S. Executive Director, spent the first part of his year as Executive Director running around the states getting legislation changed, so that World Bank bonds could be legally accepted in trust accounts, etc. Otherwise, there wouldn't have been a market for them in this country, and the funds of the World Bank depend in large part upon what securities can be sold. At that time it was the U.S. market; there was no foreign issue for many years.

At any rate, to go back to the end of the war, the British loan and lend-lease settlement

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clarified some of these issues. For major needs, the U.S. would make bilateral loans like the British loan. Jean Monnet came and we made a loan to the French. I can't remember how much that was, six or 700 million for postwar reconstruction. We had to act quickly, and the terms and conditions on which this was done were very favorable.

But the lend-lease settlement with the British was a tiresome thing. It went on from September to almost December. We had to feel our way; we had to establish figures, and so on. I was only one of the people who was involved. On the other side there was Sir Frank Lee, who was the chief at technical level. We met in committees. I remember late one day sitting at the British Embassy, I believe it was, and we were just looking at each other, weary. Lord Keynes came along and he said, "What are you people looking so gloomy about?"

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I said in effect, "Well, Lord Keynes, we are just tired. We are just fed up with this whole thing and we are just at loggerheads about many things." And Lee said, "I'm quite disturbed with the fact that we are just in a jam and we can't seem to move."

Keynes smiled and his reply ran, "That's fine. That means that you will shortly come to an agreement." And we did; we soon came to an agreement upon the important things.

MCKINZIE: As a man with that responsibility who had previously believed that lend-lease could have been written off as an expense of the war, were you inclined to be sympathetic to the British attempts to scale down?

HAVLIK: Yes, I was sympathetic, and the whole administration was sympathetic. Dean Acheson was Under Secretary of State. When negotiations lagged, Acheson intervened personally. He sent

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word by Collado to us and in effect he said, "I want this agreement wrapped up. I want it wrapped up now. Now! I want it done with; I don't want anything hanging over the future. I want lend-lease wiped off the boards! I don't want any war debts." This I didn't disagree with.

So, we decided on our side to write a draft of an agreement to show the British. This had to be in broad terms, covering lend-lease obligations and reverse lend-lease, covering the value of what was left on lend-lease, covering the value of the surplus property owned by the Army and the Navy, and so on.

Frank W. Fetter and I sat down to write a first draft one night after dinner. My first sentence said, "All obligations, lend-lease and reverse lend-lease, are hereby cancelled." Frank's hair just stood up (he didn't have

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too much). Of course the language was changed. But in effect that's what we really did. We set off lend-lease against reverse lend-lease and we wiped them out. What we were concerned with was the value of what was left and the value of what was still forthcoming in the pipeline after V-J Day. We showed our draft to the British; they gave us their draft. The two were pretty close in substance; differences were quickly ironed out and the lawyers put the words in proper form. Keynes had been right.

The British lend-lease was important because it was the first one and the biggest one -- the most important one. It set the patterns and principles of many of those to follow. In effect, we sold out surplus property for 20 percent of the original value. We wiped out the civilian lend-lease supplies, except that there were certain restrictions put upon the possibility to retransfer and resell. If they had materials on

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lend-lease left over and sold them, they wouldn't get that money. They would also pay us for what was in the pipeline, and the pipeline was still to run for a certain amount of time.

It is a very short document. It's dated December 6th, 1945; it is a joint statement regarding the settlement of lend-lease, reciprocal aid, surplus war property, and claims. In two and a half printed pages we settled the principles. There were many details to be settled later.

Before that we had run into other questions. After V-J Day Crowley checked with President Truman and advised Truman that the U.S. was obliged to cut off lend-lease shipments as soon as military action stopped. And Truman issued a proclamation to that effect. All hell broke loose, and Mrs. Roosevelt intervened.

MCKINZIE: Do you know the circumstances of that?

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HAVLIK: No, I don't. All I know was that we were all dismayed. There was a general reaction from the State Department, our Allies, etc., and I was told that Mrs. Roosevelt had taken it upon herself to criticize the action and to counsel Truman to countermand it, which he forthwith did, whereupon Crowley departed.

MCKINZIE: Did you have any insight as to why Mr. Crowley gave that advice to Mr. Truman?

HAVLIK: I think it was simply a conviction on his part, from a conservative point of view, that we were obliged to help our allies during the period of military activities. Once the military activities were over, those purposes had been fulfilled and we should stop. As a conservative financial administrator, you didn't give anybody anything that you didn't have to. We had done all we had to and that was it.

He felt that he was fulfilling the intent, as he had expressed it, of lend-lease and what

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he had told various congressional committees.

MCKINZIE: About this same time in FEA and also in WPB, there were some people who believed that those two organizations, had, in a sense, proven their validity and ought to be extended into the postwar period in some form. The idea, in short, of a planned economy had worked rather well during the war, in the way of allocating materials and in the way of establishing production priorities and that kind of thing. Do you recall any of those kinds of discussions?

HAVLIK: There was not too much that I knew of. I did not participate. I knew there was some discussion going on at that stage of the game, and it certainly must have taken place when they were deciding what to do with the Foreign Economic Administration.

MCKINZIE: Would that, in your opinion at that time, have been a good idea?

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HAVLIK: I'm not at all sure that it would have been a good idea from a domestic point of view; perhaps. I find it a little bit difficult to envisage what the War Production Board would have done. It would have required a very substantial change in its activities, obviously. I think that perhaps in terms of changing it to something like a national resources and planning board with a little more administrative and financial muscle, it might have been useful in the postwar transition period. This is arguable. It would have been not a war production board, it would have been a resources and planning allocation board.

On the foreign side, it raised a fundamental issue, because all during lend-lease and all these operations of the Foreign Economic Administration, the State Department had to be consulted and kept up to date and did participate in many of the negotiations and decisions.

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Collado, who was head of the Office of Financial Development Policy, was a powerful person, by reason of his innate capacities, his genius, his force, and his physical endurance. He had the ear of Will Clayton and the confidence of Will Clayton who was a person of great prestige and ability. And there was Acheson. Those people did provide a voice for the State Department in all these financial and economic dealings and the structure of the postwar international financial apparatus.

Even then, many of us felt that aside from them the rest of the State Department was practically out in the cold. Things moved rapidly and many of them hardly knew what was going on, and it was hard to envisage how they could be brought in. This would be the issue for many years afterwards, by the way.

But I don't recall any discussion of the long term. I surmise that the State Department

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was against setting up a foreign economic agency, and I don't believe, under the pressure of the moment, with all these postwar issues coming up, that people on the Presidential level and other levels were looking at this thing. I don't believe that Acheson and others were inclined to give up their power. So, the axe was put to FEA.

In the following year, I was in the Office of the Liquidation Commissioner with McCabe and later as head of State's Lend-Lease Policy Division, replacing Fetter who was taking over the Investment Division. We did a number of lend-lease settlements with McCabe in charge. France, Belgium, the Netherlands, India, New Zealand, and South Africa all had some special aspects. South Africa had a lot of gold, and therefore we felt that they should pay. India was on the verge of dismemberment from the British Empire, and there was a problem of what she could undertake

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and what she could not.

I have one amusing little sidelight on the Indians; the most capable member of the Indian mission was a Moslem by the name of Mohammed Ali. This was before the partition. We worked out an agreement after a long and painstaking, sometimes emotional, discussion with the Indians. But Mohammed Ali was a persistent person. He was especially anxious to acquire all the fixtures on the airfields. We really were writing off the airfields, but we felt that there was some equipment that we might want to take with us when we got out. I thought it was all settled. At the farewell cocktail party where we talked a little bit, my wife and I got ready to leave to go to a dinner engagement, and Mohammed Ali said, "I'd like to have a word with you." He then got back on the subject of the equipment on the airfields.

I went up to his room and said, "Well,

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look, I can't talk about this stuff, it's settled."

He said, "No, we're leaving tomorrow; we have to have it." We argued and then he finally said, "We're not going to sign the agreement until something is changed."

So, we had a very difficult time. It wasn't a major issue; it was something that came in a little bit afterwards. We wanted to have the agreements buttoned-up and signed. Finally I said, "All right, you can have it." Then I said, "Of all of the negotiations I've had, I resent this one. I'll hold this against you."

And little did I know that the next time I would see Mohammed Ali would be in March 1956, some ten years later. At that time he was the Prime Minister of Pakistan, and I was head of a World Bank mission making an economic study of Pakistan. I went to pay my respects to the Prime Minister. As I went in those last words

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of mine rang in my ear and I said to myself, "I wonder if he'll remember." But he was affable and courteous and greeted me as an old friend.

The lend-lease settlement negotiations were tough, well-organized on a whole, well conducted. The Americans had a tremendous prestige. After the war the American prestige was just enormous; we were kings of the universe. People would settle with us because there was more to come -- or possibly more to come. Some of them didn't really understand. One of the Belgians told me later, "We really didn't understand what we were signing. If we had understood the English language, I doubt that we would have signed those agreements." But I think the settlements were fair. The Belgian one was a little bit tough because of a special factor. The presence of the American troops in Belgium resulted in the purchase of tremendous quantities of Belgian francs, so much so that we felt they

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could have paid easily for most of what they got. They felt that since other principles had been applied to other countries, they should be treated equally. The U.S. side just didn't see it that way. Anyway they felt a little bitter that they had to pay for lend-lease equipment, simply because they had the money and despite the fact that they had suffered heavily during the war. The South Africans paid, also.

The main arrangement we had with the Canadians was a kind of offsetting principle. The U.S. purchases in the way of raw materials and strategic commodities there were enough to offset the cost of what they were provided in war supplies. This was a delicate issue, because we couldn't ever admit that we were going to buy things there which we could have bought elsewhere. I remember discussing it with Paul Nitze, who was then in FEA in the

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Critical Materials thing. He resisted any implication that we were buying elsewhere advantageously. He insisted that they were bought on the most competitive conditions. At any rate, the Canadian thing was not a problem with us. It was a standoff.

In August of '46 I met Collado one Saturday morning, walking down Pennsylvania Avenue. Collado was my boss and he said, "Well, Frank Fetter is leaving Investments. The Department wants you to take over the directorship of Investment and Economic Development."

I said, "Pete, I don't know a thing about foreign investment and foreign economic development. You're talking to a man who had been dragged into foreign finance by his ears. Now, this is a completely different kettle of fish, and I can't pretend to have any really basic background of this, any expert knowledge. You

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know what I can do, but I'll just tell you this."

He said, "The Department is not concerned. The Department wishes you to take over this responsibility."

And I said, "It may be fun."

He said, "I think it will be fun."

So, that I did. Thus beginning with Jim Angell's invitation to work on lend-lease, then to lend-lease settlements, I now went to the full scale field of foreign investment and finance and economic development which occupied me for the rest of my professional life.

Well, before that, the question arose of the Russian lend-lease settlement. The supply of equipment had been governed by the annual protocols. John Hazard, who was really the competent and the guiding person on that matter in the State Department, came to me one day and said, "We are about to talk with the Russians."

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What are the principles which have been applied to other countries?"

So, I described them as they were in the British and other major lend-lease settlements. And he took note and said, "We ought to apply the same thing with respect to the Russians."

I said, "Well, that ought to be fair." He said, "It's not going to be terribly much anyhow. You haven't a problem in finding out what it is in the first place and you can give them long term credit." But at the same time there were rumors -- and this appeared in the newspapers -- that the Russians had sent a letter during '45 or '46, to the Secretary asking for a long term reconstruction note of a very substantial amount, about six billion dollars or something of that sort. I do not have any personal knowledge, but I have never heard anyone disclaim this. All that the authorities would say according to the newspapers was that

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the letter had been misfiled. Now, even when all the wartime agencies were in a state of confusion, where it was easy to lose correspondence, this might have happened. But I think it is difficult to conceive that a major communication of that sort, on such an important subject, would simply have been lost in the bottom drawer somewhere and nobody would have remembered it. So I don't know what happened. We must remember that later they turned down the Bretton Woods institutions and the Marshall plan.

There were in the Army and Navy, and in the civilian areas all through the lend-lease period and even after, people who had a profound misgiving about the strength of the Russians and their possible intentions. During some of the committee meetings on Russian lend-lease which I

attended, when we were considering specific requests for so much steel and so on, every now and then someone would say, "I hope

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we don't get this back someday like we got the scrap iron we sent to Japan." There was a considerable amount of reserve in our relations with the Russians, as against our relations, say, with the British.

Hazard proceeded then to work on the lend lease settlement with Russia. I was not involved. All I know about that is what I have read in the papers. It has been a live but minor issue up to now. It is a political issue, not an economic issue, the amounts involved are relatively small.

MCKINZIE: Were you particularly upset that, in late 1945 or early 1946, it appeared that the Soviet Union was not going to become a full participant in postwar trading agreements?

HAVLIK: Well, that didn't emerge fully until a little bit later. It was not quite clear. We were wondering about Yalta, and what began to

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disturb me was really the American rollback, the giving up of Czechoslovakia, and so on. I'm of Czech ancestry and I thought, "Well, maybe the Czechs are making choices. Maybe after Munich they've decided to throw their lot in with the Russians, or they know they have to live with the Russians. They're caught between the East and the West."

But there wasn't too much concern at that moment with the question of trade arrangements. This issue came up more and more clearly later in various contexts.

To come back to the British lend-lease settlement, after the short joint statement was signed in December '45, early the following year Frank Lee and a small group of the British and I with various experts in the State Department and other agencies spent two months of frequent meetings working on the text of a definitive agreement. It runs something like

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50 pages in all kinds of fields and defines in detail the treatment of various items. We finally got it finished and on March 27, 1946 the Mutual Aid Settlement Agreement between the U.S.A. and the U.K. were signed by Lord Halifax and Dean Acheson. It did not change the basic principles, but it specified the accounting and so on. In actual fact, the problem of actual dealings in those items proved to be long and drawn out. Up till even fairly recently, there was an officer in the State Department dealing with settlement of lend-lease, which still had little things hanging over.

Now, I come to the new phase of economic development. I went into this job in September of '46 and held it for two years. The functions of the Division of Investment and Economic Development were really written in terms of the promotion of private and public investment and of economic development abroad, governmental

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assistance, problems of nationalization of property -- a wide range of things. We knew that there would be problems of investment and assistance; we were going to work on -- from the point of view of our foreign policy -- Export-Import Bank loans and we wanted to follow the International Bank for Reconstruction and Development loans and things of that sort.

I recall that one of the first things that happened to me as head of Investment and Economic Development was a visit from a gentleman in the Bureau of the Budget. I had a staff at that time, I think, of something like 12 people, which wasn't very much. There were some very able people, like Harold Van Buren Cleveland, who proved to be a very extremely imaginative, energetic person and contributed greatly to the history of this period. There were other able technicians and then also Victor Longstreet, who became my Associate Director.

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Longstreet was later Assistant Secretary of Navy for Finance; he retired a few years ago.

The Budget Bureau man said, "I see that you have about 12 people here. We in the Budget Bureau don't foresee much activity for your office. We think that we ought to suggest that the Department cut the budget allocation for your office in half."

And I said, "Why?"

"Well," he said, "you know, the World Bank is going to be in operation, and they are going to take care of the reconstruction and development financing. Then there's the Export-Import Bank, and they are going to decide upon the loans which are made for export promotion, etc. For the rest of it, we don't see that you need more than a few people to handle simply clearances of various kinds of things, problems and difficulties which arise abroad with respect to nationalization of property or miscellaneous questions relating

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to development finance." And I demurred. The only comment I will make now was that when I left that office two years later the size of the staff had more than doubled because of the pressure of work, and it was still increasing.

So, the Department did recognize and support our activities. But, I think, even at that time it didn't really dawn on us what the size of the problems were. It is true that during the late war period, even while the International Bank was being formulated, there were some estimates made of how much financing might be needed. But what we really didn't appreciate or realize was what the nature of emergency financing would be. It began to hit us at a little bit later date.

MCKINZIE: One of the first problems you dealt with mainly was Latin America?

HAVLIK: To some extent, yes. The Chileans came and discussed their financing problems. They

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were the most capable. They got Export-Import Bank loans for a steel mill and they got, I think, the first development loan from the World Bank to Latin America in '46. I forget what it was for, but it wasn't a big one. For the rest of Latin America, we knew relatively little about what their needs were and what they wanted. And I couldn't devote a considerable amount of attention to their problems. We had two men working on Latin American problems. But it was a big conglomeration of nations, and at that time many had large accumulations of gold and dollar reserves built up during the war which they were spending rather freely. It was hard to know where we could fit in. They were able to finance a lot by themselves. And some of what they did need they could get from the Export-Import Bank.

MCKINZIE: Was there any kind of feeling that through

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this business of investments American interests could be very substantially influenced in Latin America, in the Middle East, and the Far East? Did you consider it a part of your mission to further American political interests by virtue of either emphasizing or de-emphasizing investments and aiding them in development?

HAVLIK: I don't think so that much. In a positive way, we felt that if we could help American investments abroad, we should do so. But we couldn't always intervene too actively. I remember in one case an American company was bidding upon some installation in Egypt and felt it may have been treated unfairly in being rejected, but it was very difficult for us to challenge. I remember our feeling that perhaps there was ground to challenge the Egyptian award, but since this was their money which they were dealing with and it was not accredited to the Export-Import Bank or the World Bank, it was

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very difficult for us to say that the bid should go to the American company as lowest bidder rather than say a German company. All we could do was to express our hope that the bidding procedures in the future would allow fair competition. That's about what you could do in such cases.

Another issue that arose was compensation to U.S. owners of property nationalized by foreign countries. This arose in the case of Czechoslovakia for example. When the Czechs came and wanted to re-establish financial relationships with the U.S. after the war, they were looking forward to the possibility of credits for development since they were still members of the International Monetary Fund and the World Bank. They were hoping perhaps to get some financing there. But they had nationalized property in which U.S. nationals had interests; Clara Petcsnek especially was vociferous in what they had done to her. And Laurence Steinhardt, the

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American Ambassador in Prague, was also critical. It fell upon me to talk with the Czechs, and this was not easy, because they knew that my father and mother had been born there. We had long discussions about how to deal with the nationalization of properties. It was awkward because the agreement that existed (there was language in some prior commercial agreement years back) was ambiguous and didn't establish clearly as to whether they should compensate,

how they should compensate, and who they should compensate. So, I did work out a sort of tentative language which went to Mr. Clayton for approval, and he rejected it. He felt that we should not make any agreements with them at all under the existing circumstances; let's wait.

But it was shortly after that that Jan Masaryk came. We were on good terms with the Czechs and so I went with my wife (also of Czech

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origin) to the Czech Embassy to a cocktail party. My wife and I were presented to the Prime Minister. He said, "Mr. Havlik, we know who you are. We don't have to be introduced." He went back shortly after that, and he was defenestrated by the Communists when they took over. After that it was quite clear that nothing much was going to happen with respect to Czechoslovakia.

We were still in constant contact, active contact, with the Hungarians. They were working hard to re-establish their credit. They had a very able minister here, Aladar Szegedy-Maszak; his financial adviser was Alexander Szasz. They were very astute and they did very well in terms of establishing themselves until the rug was jerked out from under them by the Communist takeover. It was a pity. The Yugoslavs were not active at the time, nor were the Rumanians. The Czechs were desirous of coming in, and even

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at a later stage, when the Marshall plan was first broached, the Czechs indicated their willingness to participate in the Marshall plan, until they had an ultimatum from the Russians and withdrew.

So, the Eastern European cold war thing began to lay a heavy shadow. It was quite clear that what we were going to be dealing with was Western Europe, very much, and China. Mainland China was still, at that time, a question for us. George C. Marshall was there as Special Ambassador, and I first met him at that time. He had returned on a visit and Collado and I went one Sunday morning to the Pentagon to see him. We discussed how much lend-lease there was in the pipeline for China, what it consisted of, what the possible terms of the surplus property and lend-lease settlement might be. He was especially interested in shipping. He had little patience with the technical details. Once certain

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major things had been decided, he'd begin to bore in upon the importance of providing the materials. He was highly interested in the human equation. He took the time to describe to Collado and myself the plight of the Chinese sailors, the lack of blankets and food. He told us in detail. He described how he'd go into the ships and how these people would be there with frozen feet. So supplies were urgent. It was an amazing thing to me that in my two or three contacts with that great man he demonstrated a tremendous concern with the plight of the common man.

I could add to that by another story. Several years later, not too much later, when he was Secretary of State, he got caught up in a riot in Bogota at the time of a meeting of the American Foreign Ministers. When the riot occurred, he was practically incommunicado for about a day. There was a lot of damage done in

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the city, and even when he was still there he sent word back immediately that he wanted American assistance to help repair the damage.

And so we went to the Export-Import Bank and we got a 10 million dollar credit immediately (before he even came back) for the Colombians to help repair the damage. But a short time later a Colombian delegation came to ask for further financial assistance. Norman Ness, my chief, and I met with Marshall to brief him a little bit, and then the Colombians came and presented their plea. They wanted very substantial amounts of foreign assistance; they wanted an Export-Import Bank loan; they wanted the State Department support for this. Mr. Marshall simply said, "Well, I accept your request for assistance. This is Mr. Ness and Mr. Havlik, who have charge of that in the State Department. They'll take care of it." Then he said, "But I want to talk to you about your problems." And he launched

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into a discussion of the need for increasing and improving popular education, saying that during his own lifetime he had observed how education had improved the lot of the working man in the United States. The education and organization of the working man, his own efforts, had improved his lot. He was quite convinced that one of the solutions in Colombia was for the government to attack the problem of the common man in terms of improving standards of living, education, etc. The Colombians were just taken aback by this lecture, not a long lecture, but very well put, pungently phrased, and very simply stated. He kept them for a few minutes and then he dismissed them.

And I was taken aback. Rarely do you get from a Secretary of State such a perception on the kind of problems which are involved. Aside from military perceptions, he had a perception of organization, economic processes, and human

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processes; he was most extraordinary. He didn't claim to be a financier, but he saw beneath and beyond these things. I didn't have any other dealings with him other than that, although I helped to backstop him when he was in China. He was very efficient when he went to China as Ambassador. He left behind what he called his quartermaster -- his own backstop.

This turned out to be Colonel James Davis, who was responsible for seeing to it that immediate action was taken upon any message or request from General Marshall. A message would come from Marshall, Davis would get ahold of it, and he was supposed to take action on it within 24 hours. He was succeeded after a few months by Colonel Marshall S. Carter, who is now, I think, a general. We had good relations with them on a number of questions. They were effective. The speed with which they moved could be surprising.

Late one afternoon Pat Carter called me and

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he said in effect, "I have a message from Marshall -- you probably have seen it -- saying that the Communists are approaching a certain point. The Chinese Nationalists forces may want to use

various vessels which we have loaned to them and these vessels may be damaged or captured in the fighting. Now, if they are, the question may arise that the Communists are destroying or taking American property. He does not want this to become the kind of an issue which would involve the US Government unnecessarily. How can we get these boats and this equipment legally into the hands of the Chinese Nationalists in their own title? If we can, Marshall wants us to do it right away."

As I recall I said in effect, "Well, Pat, you need a memorandum from Mr. Acheson to Mr. Truman and the memorandum should read something as follows:

General Marshall has cabled the need for urgent action to transfer certain naval

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equipment to the Chinese Nationalist Government to avoid involvement of the U.S. in a Chinese incident.

I concur with his judgment. Under the law such vessels can be transferred only with the direct approval of the President. If you are in agreement with this, please signify at the bottom of this paper and I will wire Marshall to transfer title immediately.

Acheson

I said, "Pat, look, this is a very rough draft. We have to go over this and consult the lawyers. I'm rushing out of the office now to catch my car pool. I'll be in touch with you first thing in the morning."

So, the first thing in the morning I got there, I called up Carter, and I said, "Come on, let's get back at this."

He said, "It's finished."

I said, "What's finished?"

He said, "My secretary took down the memo as you dictated, we changed a few words, Mr. Acheson signed it, and at 7 o'clock that night Mr. Truman approved it."

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I said, "My God in hemlock!" He was efficient. Normally, that would have taken days or weeks of argument, clearances, delay, and so on. It was correct, it was legal, it was right. We accepted Marshall's judgment, and he had it done.

By that time (late 1946) we began to be faced more clearly with the problems of postwar economic assistance. The most direct way this came up was the need for the extension of relief activities of UNRRA. It fell upon my office to provide the justifications for the American contributions to the post-UNRRA program.

In '47 there were -- if I remember correctly -- 350 million dollars in relief contributions to the agency. My division provided general information upon the economic position of the countries. There also began to arise questions about eligibility of various countries for such post-UNRRA assistance -- the Russians, the Polish, etc. I think at that

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time the Polish issue began to rise.

One of our economists who was following it felt that on the basis of the standard which we applied to the Western European countries, the Poles might also be eligible. It was reported that their potato crop had not done well, they had large postwar damage, they had been receiving UNRRA assistance, and looking at the economic evidence, there was some reason that aid should continue.

This was opposed, unwelcome, in the Department and elsewhere, in the political sections, which were concerned by the course of political developments there.

MCKINZIE: How about your own section?

HAVLIK: Our section felt that they should get it. Llewellyn Thompson felt that they shouldn't. He differed with us in taking as his basis the argument that the Polish economic situation had improved

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and they could get along by themselves.

Now, we had a debate, a difference of view, as to the economic facts, which was finally resolved by Tyler Wood, who was the deputy to Clayton. Tyler Wood got some gentleman from outside the State Department to make a special visit to Poland to see for himself and to recommend whether the assistance should be given. And with that we withdrew. We, in effect, felt that, depending upon the perceptions of this person, he could find either way; in the end, the recommendation was not to give it to Poland. It was clearly the general feeling of the political arm that we should not give aid to Poland, if we could avoid it. [See p. 258, Part 2, Eighth Report of the House Special Committee on Postwar Economic Policy and Planning Pursuant to H. Res. 60 (1946).]

MCKINZIE: What was Fiorello LaGuardia doing all of that time?

HAVLIK: Well, I think he was out of UNRRA by that time. And the debate I mentioned above was within

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the U.S. Administration.

Anyway, the Congress had been willing to accept UNRRA assistance and provide for post-UNRRA assistance, but after a while they said, "Well, where do we get off?"

Now, of course, in Germany and Korea and occupied territories, the armed forces were providing the Government Aid and Relief in Occupied Areas, GARIOA.

But as the armed forces began to recede, the issues began to arise in those countries, especially Italy, which wasn't occupied. That was the first country in which the issues of assistance began to arise.

I was occupied, too, with the Philippine rehabilitation program, though not extensively. The Congress had approved a program sometime earlier, and Frank Waring had been sent to the Philippines as administrator. Still, there were some decisions to be taken. There was an

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appropriation of 38 million dollars for supply of equipment and services to be provided by several U.S. agencies, and we had to distribute it amongst these agencies -- Agriculture, Labor, Interior, and so on. Later in fiscal '47 we needed another 55 million or so. We had to provide and defend justification for that to the Congress. That was my first introduction into the congressional hearing rooms, but that went along without too much difficulty. The Philippines were not a major issue. We had always recognized the American responsibility, and the Americans were generous there. The Congress was just simply interested in preventing excessive use of funds, but it was not a major problem.

MCKINZIE: There was no vision for the Philippines to be some major economic component in the Far Eastern trade community?

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HAVLIK: The Far Eastern trade community was not even envisaged then, so far as I know. I believe that we were still getting rid of the Japanese. I don't think that anybody ever envisaged the resurgence that took place or the problems of organization. We were concerned with getting the Dutch out of Indonesia. And for the rest, I think, there was no concept of a greater Asia co-prosperity sphere, at least from my place of view.

As I say, we began to have the shadows of the cold war in the resistance of the Russians to the lend-lease settlements, the problems with the Czechs, the takeover of the Hungarians, and so on. And we knew late in '46 and early '47 that there would be problems in Greece. The British were sending us messages that they, as a part of their general program of retrenchment were withdrawing as much as they could.

They were still hoping to establish themselves

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economically for the convertibility of sterling which they were going to try in '47, so they were really tightening their belts. And one of the things that they wanted to do was to get out of

Greece. Our first reactions in this were mixed. To me, personally, at least at first, it was not welcome, the notion that the Americans should take up the burden in Greece.

MCKINZIE: Was there an alternative?

HAVLIK: Well, first of all, I don't think we appreciated late in '46 how far the Communists from Yugoslavia were infiltrating and taking action in Greece, nor did we quite appreciate what the pressures were on Turkey. We had been debating about Turkey in various economic reports. It seemed to us then on the economic side that Turkey would be in fairly good shape, not requiring a substantial foreign financing, if it were not for the fact that she was carrying on a very

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large military effort. On the economic side, we couldn't judge whether that military effort was necessary for external purposes or whether it was being maintained for internal purposes.

On the Greeks, our reactions were that perhaps if they had a little more economic democracy and less conservatism, they might start to have a little more economic development and so on. But we really began to focus on the Greek situation when we were faced, in effect, with a political and military problem. Early in '47, when the British began to really move out, the State Department sent a mission to Greece headed by Paul A. Porter, a well-known lawyer and one time Price Administrator, I believe. He took a few people -- Dillon Glendinning, Francis Lincoln, and a few others -- and spent a month or so there. The Greek thing really began to come to a head while they were there.

I went with Norman Ness (who had replaced

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Collado) to Acheson's office. He said in effect, "We are inclined to recommend to the President that we go into Greece with an assistance program. We have to put it in terms of the fact that the British are pulling out and that if we don't replace them, the Communists will very likely take over, in military terms. We will have to provide military assistance to Greece, and we will have to provide some economic assistance to keep the economy going. And this is, in effect, a strategic decision. Whether you fellows like it or not, that's what I'm going to recommend. It's a crash landing, and we will have to move on this as fast as we can."

MCKINZIE: Did you have anything to do with determining the amount of money that the Greek economy could absorb?

HAVLIK: Oh, yes, I did. Then later Acheson indicated to us that since the neck of the bottle

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was not only Greece but also Turkey, we would have to do something in Turkey. So, immediate issues arose as to whether the Turkish economic case was comparable with the Greek case or not.

My immediate assignment from Ness and from Acheson was to work up a program of assistance for the Greeks on economic grounds, make various assumptions and so on. We had a considerable amount of information in cables and reports, and we then worked up the best figures that we could. Van Cleveland and his people did the work with my supervision. We called in Ben Moore and other people from the Commercial Policy Department to give us a hand, and within a week we got an estimate together and a breakdown of supporting data. We had sent word to Paul Porter in Greece to give us his best estimates for the various requirements. He replied quickly. I remember going to the old State, War, and Navy Building a Saturday midnight to

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read it. His estimates were very close to ours.

And so the Department was reassured by that. Loy Henderson called me and said, "You ought to get a first prize for forecasting."

At any rate, we put the program together. First we thought about it as a "global package," some 400 million or so for the two countries, including military aid. This was bootled back and forth in the Department. I was in favor of 350 for Greece and 50 for Turkey to help give them some encouragement on the military side. I felt that the most of the money should go, if at all, into the Greek economy to help them re-establish that economy and get moving again.

MCKINZIE: Rather than to use substantial portions of it for Greek military?

HAVLIK: Yes. Well, they would have to have some military aid, but the final decisions were made

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at a rather higher level; that was not my province. So, I turned in the figures plus detailed justifications. We showed balance of payments, production, imports, exports, financial resources and so on. We had to show what we estimated their requirements to be for a coming period, a year, I think. We had to check out whether these materials would be available here in the United States. At that time there were shortages here in some things, like lumber, sheet metal, and things of that sort.

There were a number of other issues involved and the figures turned out to be 300 for Greece, of which 150 were for military and 150 were for civilian. For the Turks, they were a hundred for the military portion. But there were issues in the presentation to the Budget -- the question of whether we were financing foreign exchange costs only. We were not. We took the position that we were going to finance some direct reconstruction and that we had to finance some direct commodity

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imports to keep the economy going. But we provided an additional sum to generate local currency as a counterpart for the reconstruction projects. We clearly took the position that we were financing local currency costs to a certain extent. I forget what the figures were, but there

they were, and we did get this accepted. With the assistance of key people who had sweated out the figures, I made the presentation to the Budget Bureau, and they were very pleased with the manner in which it was presented and justified. I think we were by that time acquiring some expertise in these matters. We concentrated upon the balance of payments position, what they could finance with their own money and what we would provide, the problem of internal finances, and the policy questions on stabilization of currency, etc., all within a very small purview.

We then prepared, between myself and Harold

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Speigel, who was head of the Financial and Monetary Affairs Division in the Department, with the aid of competent staff, the general statement which the Secretary would send to the Congress justifying the request for aid. We prepared also the detailed statements, and these were approved by the President when sent to him. Late in March '47, the hearings before the Senate and House committees, began; Acheson carried the ball, and we staff people sat there on the edges of our chairs for these few days. It was a ticklish situation. The Senators and the Congressmen were concerned about the implications of the Truman Doctrine. Would we do this everywhere? How long would we be there? How far would we go? And Acheson was masterly at defending himself, presenting himself. He was always going up to the Hill, and in the car he was relaxed, amiable, and often would tell a good off-color story. When we got to the Hill

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he rarely lost his cool. Once he did, I remember. James Fulton, on the House Committee, on Foreign Affairs, was tackling him with a hard question. Acheson gave an answer, but the answer was not completely joined. He couldn't know how far we would go in Greece and Turkey; he couldn't know whether we were going to do this in other countries; he couldn't know what the other consequences for intervention would be. But Fulton was pressing very hard on this. Acheson didn't want to say more than necessary, so he gave him a long answer which walked around the problem. Fulton's time was up. And the next time, Fulton came back with the same question. To my amazement, Acheson said, "Well, Mr. Congressman, if repeating an answer two or three times will make things clear, I will do so." And he proceeded this time to do it again.

We staff were all shocked. Some of us

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passed a note to the Secretary saying, "Take it easy." The next time Fulton came back again to the same issue, and this time Acheson just put on a different coat. He said, "Well, Congressman, if I haven't made myself clear by now, it is quite evident that it's just my lack of capacity to express myself clearly and to lay out before you what I consider to be the relevant facts. Now, let me try it again." This time he did a masterly job and Fulton thanked him for it. But it was a very ticklish situation.

We had prepared a briefing book for Acheson, a loose-leaf black book, containing background information on the Greek and Turkish economies, the contents of the program, summaries of the political issues, the parties, and whatever we could think of that might come up during the

questioning. At one point he was looking for some figure and couldn't find it, so I jumped and pointed it out to him. At that moment the photographer took

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a photo, which appeared in the *Star* that evening; this was the only time that I have been in the newspaper that way.

MCKINZIE: This black book, which I take it was the basis for Acheson's argument in Congress and presentation of the program to the President was prepared for your economists and your political people in part or in totality?

HAVLIK: Well, we prepared the economic materials. The political issues were prepared by the political side of the Department, and Acheson, I think, supplied the basic strategic concepts. He didn't need briefing more than that; you didn't have to tell him what to say. He probably talked with the political people at length, but I was not privy to those conversations.

Loy Henderson was a principal adviser on the political side at that time. He was strongly anti-Communist, a cold warrior and

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very persuasive. I was in touch with his man, Jack [John D.] Jernegan, later a high official and ambassador somewhere in the Middle East. We kept in touch about our feelings about the economic situation, etc., so that he could relay them to Henderson with whom I always had excellent relationships; he supported me fully.

But that was the beginning. It was hectic. It was demanding, bruising work, all hours of the day or night, and we were feeling our way on this. Nobody could have told me when I took this job as head of Investment and Economic Development that I would be organizing relief expeditions to extend the dike against communism. We had to invent as we went along as to how to present arguments, how to use the data on financing local currency, for example; the use of local currencies, how to administer this. But Clayton was superb in presenting the economic materials, and he was superb in presenting a lot of the

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general things. If something came up that we hadn't thought of, he would think up some kind of answer. What size of mission? Well, we had never debated the size of mission to have supervising this Greek thing; this was something to come after. But he was asked.

"Well, we'll have a small mission to start with." It eventually moved up to be a mission of a couple hundred people. But at least that was hoped; when you get in there you find something else.

Then the administration of that program was turned over to an inter-departmental committee headed by George C. McGhee. I was on that committee until I left that division and I had the chance, therefore, to make inputs on decisions that were being made as to use of our money –

whether it should be used in one way or the other way, whether we should emphasize this or that. We were able to participate in the administration that

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way. On the Turkish thing we didn't have too much say.

At any rate (this was in '47), now we were approaching the period where we began to see that Europe was in a critical state. The failure of convertibility of sterling was a real shock. It demonstrated that one of the pillars of the prewar world had collapsed. The failure of convertibility had profound implications with respect to trade arrangements, with respect to financial arrangements all around the world. All of the world had been a sterling area except the U.S.; the European countries, other countries, and dominions traded in sterling and looked forward to making settlements in sterling. The hope of easing trade restrictions and payments restrictions, had depended in part upon the restoration of sterling as a prime trading currency. And it also affected, later on the discussions about the European payments arrangements and the British entry into the Common Market, etc. At any rate, that

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failure demonstrated that more had to be done to foster recovery in Europe. Also, we had been getting more and more reports from our European Embassies, from Paul Robert Porter in Geneva, about the destruction of the postwar world and the lack of communications within Europe and with the Russians, etc. The feeling was growing that what we should be doing is more and more trying to not just revive the postwar world as it was before, but trying to stimulate the Europeans to develop new forms of economic cooperation among themselves. Some of us were saying in effect, "If we are in a cold war, the best buffer we can have is a prosperous economic area which will have implications politically and militarily. If we can conceive of Europe as the United States of Europe economically, with a big, open common market, that would be it. But how do we approach that gradually? And so we began to explore immediate

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things. How do you stimulate cooperation? I remember "Van" Cleveland wrote an interesting article for the State Department bulletin upon means of cooperation in Europe -- railways, communications, payments, and things of that sort. And then Joe [Joseph M., Jr.] Jones, who was working for Acheson as a writer, began coming to us and tapping us for ideas about what Acheson should be saying about the postwar European world. We expressed ourselves in impressionistic terms, trying to suggest themes to him, themes of the mutual cooperation in Europe. We began also to be thinking more deeply about assistance to Europe. We began to realize that Italy might not get off the ground and escape the Communist threat without considerable assistance; so we supported loans to Italy from the Export-Import Bank. I remember going with Walter Dowling over there to talk with them about these things and to support that loan. It was a substantial loan, but it was

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not enough.

I don't really know how much Marshall had to do with this. Acheson floated a couple of speeches. I forget where the first one was, but the second one was in Cleveland, Mississippi, I believe early in May 1947. This was the one in which he flew the trial balloon on a European recovery plan, in effect indicating that if there was cooperation and a concerted plan for recovery, it could provide a basis for friendly assistance from the United States, including financial assistance. The reaction to that was pretty good; but these ideas were still being fed in. We had some discussion with George Kennan, and finally Marshall came forth with his short statement at Harvard in June 1947. That was the course of the thing, but I was not privy to all the discussions and I cannot say this, that, who, or the other. There was a climate of discussion, and we were coming to grips with this

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issue.

One of the problems was, of course, that we were dependent upon communications from Europe. We got our own people, economists and financial attaches, into Europe after the war; William Tomlinson and Ivan White in Paris, Porter in Geneva, and others. We always had strong representation in London, but now we began to have others in Italy, etc. We began to have more reporting upon what was going on in economics and politics, and this input made itself felt in our reactions toward the European situation.

MCKINZIE: Did Marshall's speech seem a logical result of the discussions that you had had?

HAVLIK: Yes, but it was unexpected to me. I didn't know the Secretary was going to make a speech at Harvard, and I didn't see the text beforehand. I think it had a very considerable personal input

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by Marshall. It emphasized strongly the question of the knitting of the economic ties within the countries. And this was, to a very substantial extent (I'm quite convinced), his own. He was always concerned about the social-economic fabric. It was not, to him, just putting so much money in banks and having slot machines spit out economic recovery; he knew many things had to happen. And, of course, Clayton had been going about Europe and talking with people at length. Later on he did this to a far greater extent. He was away a great deal of the time, and he was a very keen observer.

I didn't keep a diary. I was conscious that these were important events but they came closely on all the other great events of the preceding six years. So to me, they were something important that we were doing, but I was also anxious to get home at a reasonable hour for dinner. It was very difficult; my home life

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was disrupted because often we were hammering away night and day, weekends, with a little holiday now and then.

At any rate, the speech was the principal thing, and with that, of course, the Department geared itself up in a much larger degree to give assistance. As soon as [Ernest] Bevin called the meeting of the Ministers, things began to happen.

The Europeans organized themselves and we agreed to give them friendly assistance. We sent teams of people -- Ben Moore, Victor Longstreet, Charlie [Charles P.] Kindleberger, Edwin M. Martin and others -- to Paris to give some help and guidance and to find out what was going on. The Europeans themselves assembled, to a large extent with the help of the British and the French, a remarkably capable group of people who produced a basic document on the needs and the problems of European recovery. All of us were in

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agreement that we should plan for a considerable period of time, not simply on a year-to-year basis, we could not get going the kinds of programs that we would want.

I did not play too much of a part in all that. I was busy running my department sometimes substituting for Ness, preparing economic surveys for congressional committees with Export-Import Bank loans, and a number of other questions, including what we began to see was an interim gap in the flow of economic assistance. It became clear that whatever the Europeans could do, this would take a lot of review and study by the U.S.' side and time to prepare legislation, to prepare a program and budgets for presentation to Congress, and for all the behind-the-scenes arguments and persuasion that had to take place. That was very carefully organized by Clayton and others, but it was clear that we couldn't get legislation and appropriations through the

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Congress, even with priorities, until sometime in '48, and we were now in late summer of '47. In the meantime the post-UNRRA monies were running out, but reports we were getting from Italy, France, Austria, and others, indicated that in certain countries there were going to be emergency situations which could cause collapses even before we could get the Marshall plan going. Part of this was a result of bad harvests and untoward events. It was decided that we would simply present a stopgap program called "Interim Aid" for a few months until the Marshall plan could get going in those countries in 1948. We decided to confine the interim aid request to Austria, Italy and France. Greece and Turkey were being taken care of by the Greek-Turkish program. Britain still had leftovers from the big loan to draw on. Belgium and the Netherlands were not major problems. Germany was being taken care of by the programs for Government and Relief in Occupied Areas.

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In that context or another -- probably the post-UNRRA program -- I one time asked Clayton as to whether we should consider the situation of Yugoslavia. "Oh," he said, "I suppose they probably need some help. But you know, they just shot down some of our airplanes the other day. If I went to the Congress, they would throw me down the steps."

So, in the autumn of '47 I was put in charge of the preparation of the estimates and the rationale for Interim Aid.

MCKINZIE: It is possible to argue that the administration ended up saying to the Congress, "The Marshall plan won't work without interim aid," and, after interim aid was passed, saying to Congress, "Unless you want to waste the money you have just appropriated in interim aid, you must now appropriate funds for the Marshall plan."

HAVLIK: Well, I don't think so. We didn't envisage

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it in those terms, nor do I recall that anyone used that argument. Our argument was straightforward. Our basic ace in the hole was the Marshall plan, and if we didn't get the Marshall plan, then the interim aid might be considered by some (not us) to be a waste. But we never argued that for the sake of not losing the effect of the 500 plus million dollars in interim aid Congress should not refrain from embarking upon a program of \$20 billion. This was more or less the sum that was involved, \$5 billion a year. We simply said interim aid was a stopgap relief measure until we got the Marshall plan going and it was needed as a humanitarian thing -- to prevent starvation and social disruption in these key countries. This, in our opinion would have taken place. All faced a difficult winter because of shortages of wheat, foodstuffs, coal. Austria would be very sensitive. Their peace agreement was still being debated, and the Russians were still

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in Vienna. [Palmiro] Togliatti was still a powerful person in Italy, and the French were just still at odds with themselves. The healing of the wounds within France was a long and painful process, and they had a fragile political structure. We argued from the point of view of simply keeping the countries going until we get the Marshall plan going and we argued that there were humanitarian reasons for it in the U.S. interest. So, that was it.

MCKINZIE: This was in a sense an economic solution to a political and, as you pointed out, a humanitarian problem. Later on that same problem seemed to be conceived more in military terms. Was there any discussion, so far as you were concerned, about a military component to the Marshall plan -- along with providing humanitarian aid, providing some kinds of more visible defense against the Communists in Europe?

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HAVLIK: No, that issue was not, for those countries, a live issue. First of all, we still had a very substantial force in Germany which was holding the bastions. The French were there, the English were there, and the Canadians were there to some extent, and we had a force in Austria. We didn't see, at that stage, the necessity for what you would call additional and special military measures. There was still some flow from lend-lease, surplus commodities, pipelines, and so on, which they may have been getting if they needed military commodities. Also, I believe, the American commanders were in a position to transfer commodities to them if they wanted to. So, this was not, in my recollection, an issue which we felt had to be taken care of at that stage as a special financing problem or a special strategic problem. It did come up later. NATO come up later as the cold war began to harden, especially with communist aggression in Korea.

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At any rate, the interim aid program was unexpected. I remember asking the Italians to my office (once we made the decision) because we had to talk to them about information and data we needed. I said that we had decided that we were going to ask the Congress for some interim assistance to tide them over for the winter of '47. Cesar Sacerdote, head of the technical group, came over with [Egidio] Ortona who was then a first secretary, I think, in the Italian Embassy here. (He is now the Ambassador.) Always a very capable person, very understanding. And Sacerdote just about wept. He hadn't expected it. He just had been wondering how they were going to get through the coming winter and what they could do.

And so we went at it, myself with Maurice Hawes, Van Cleveland, Gerti Landauer, George Tesoro and other people in the Department providing data and information on commodities and

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materials. And again, here I felt that we should present the justification on basis of balance of payments considerations. What were the shortages in foreign exchange? In which fields should we fill those shortages and provide certain commodities? I was told that balance of payments financing was not in good odor in the Congress, and we should make some kind of presentation. So I said, "All right, we'll just chop it in two. We will calculate their resources and earmark those for the purchases they will make themselves. Then we will calculate the remaining needs, identifying them as essential foods and supplies from the U.S., which they cannot finance and say these are the things we will pay for." It was the balance of payments, broken up into the things which they could finance themselves and things which we would finance. We had some arguments, such as movie royalties. Were they necessary or

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were they not? We had presentational problems. The movie companies were beating us on the head that the French were not paying the movie royalties in dollars. They had a stack of royalties in francs and what could they do with them? They were trying to get the dollars out of the French, and obviously, if the French had to pay them, they would have to take it out of dollar resources. I said, "Well, this is a legitimate item, 3, 4, or 5 million dollars," or something like that.

And [Robert A.] Lovett said, "No, we can't show that in their expenditures."

I said, "All right. It's a hell of a note."

"I agree, but I would bury it." And we solved it somehow.

But these were minor things. The major problems that we had really came from the short time span that we were covering. It was very difficult to say that here's a flow of materials

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and that we are going to finance exactly the requirements from December 1st to March 31st. You had to have the inflow and the outflow, stockpiles, etc., and they presented a whole variety of difficult technical questions. We were able to solve them somehow. But they were very wearing problems and things had a way of coming loose. On Sunday morning when we had only two

days to go, we discovered that some estimates were wrong because somebody didn't interpret his instructions as the other fellows did, and made them on a different basis.

But we got it done. About the same time, I had prepared a memorandum from the Secretary of the President explaining the program and recommending he send it to Congress. The problem was to get interim aid considered and approved in the fall of '47. Congress was in recess and he would have to call an extraordinary session of Congress. This was the difficulty, so

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the memorandum had to justify and explain urgency in such terms that he would be warranted in calling that session. It was a one-page memorandum, two paragraphs.

Having prepared the memo I said, "Well, that's enough for that day." We agreed in Norman Ness' office on it with Tyler Wood, and it was sent to the Secretary. We, mainly Wood, were in close touch with Charlie Murphy who was Assistant to the President; and so the President was, I suppose, prepared for this. It could not have taken place with his concurrence -- how much he knew I cannot tell. But still, you give him a piece of paper, and then he has to look at it and the figures. And I had put down 597 million dollars exactly, not 600 million dollars. I thought to myself, "Well, when the old boy gets this he's going to fiddle around with it and he may round it off. I wouldn't be surprised if he knocks it down to 500, 550, or so on, so

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I'm going to get my hair cut."

In the barber's chair, I was listening to the radio; then came "President Truman's office has announced that he will reconvene Congress and will send a bill to the Congress very shortly asking for 597 million dollars for interim aid to Austria, Italy, and France." I almost fell out of my chair. [It was also reconvened to consider price controls.]

I thought, "How little can I be? I didn't expect him to take the 597 million. He didn't chisel one bit. That's what we calculated, that was what they were going to need, and that's Harry for you -- right on the nose and no fussing." He didn't wait. I had thought this was going to take about a week of argument and discussion.

MCKINZIE: He did it on the very day that you had turned it in?

HAVLIK: I had prepared the memorandum the day before and I knew it had gone up to the Secretary in the

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afternoon. I thought, "It is still there. I'm going to take advantage of a bit of free time and get myself a haircut before I go and get the reaction." I was expecting a reaction or an argument, "Let's fix this way. Let's re-do it." "Why can't we do it x, y, z?" "Why can't we do it via the Export-Import Bank?" We had answered all those questions. But then he did it.

In the meantime, of course, the preparation of the Marshall plan materials was taking place in the Department, and a great deal of work was being done by the Nourse, Krug, and Harriman committees on several aspects important to the United States. I participated in that to some extent, but not too much of my time was occupied on this. Ed Martin and other people in our area -- Kindleberger, Cleveland, Longstreet -- were working on the presentation and getting it done.

MCKINZIE: Do you recall now your own reasoning for

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not supporting an Export-Import Bank loan to those three countries?

HAVLIK: Well, we had discussed that. In fact, Bob Lovett, who was Under Secretary, didn't accept my arguments that the Export-Import Bank approach wouldn't work. I argued that it was relief -- it should be a grant; if a loan, it would have to be on very long terms and very low interest rates. The credit-worthiness of Austria for this kind of thing was highly doubtful at that time. We would want various policy undertakings which the Export-Import Bank couldn't, as an export finance agency, get into. But then Lovett came back and he said, "But damn it, can't we have an Export-Import Bank loan based upon say, a first mortgage upon the Chemin de Fer du Nord -- the French railways? Why can't we do that?"

I said, "This is just not that kind of a transaction." But he was a banker, you know,

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a New York banker. I said, "Even if we get a mortgage on the French railway, and then they can't repay the loan, what are you going to do with it? As one sovereign country to another, you're not going to move that railway away. Will you go and recapture equipment which can't be used anyplace else and cause great hurt to France?" He was reluctant to drop the idea. He wanted to go to the Export-Import Bank, if necessary, for the mortgage or some other loan. As to the Italians and the Austrians he was not so insistent, but as to the French he thought that we could make it a kind of a banking transaction. He went to the trouble of going personally over to the Export-Import Bank and having a talk with Bill [William McChesney] Martin who was then chairman. And then he came back and he agreed that the idea should be dropped; Martin was not in favor of an Export-Import Bank loan. "This is not an export loan, it is relief."

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So, finally it went up to Congress in the form of an interim aid program at the end of September and committees started work early in November. It was clear to Congress that it was a relief program -- a grant. But it was obviously an inter-governmental operation, not simply an Export-Import Bank operation. And I think it had a big effect, because it demonstrated to the Europeans for the first time in the postwar period that we were really willing to put our money where our mouth was; it was very timely. You could argue that nothing would have happened if they hadn't got the \$600 million. What difference would it make? I still think it made a lot of difference in that critical winter of 1947.

There were odd aspects too, like the question for what commodities we proposed to send them. Somewhere or other the Department of Agriculture had introduced some dried fruit and some dried

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eggs in the list. These were surplus in the States. I showed the list to Ortona, and then he said, "Look, we don't need dried fruit in Italy. And dried eggs. We wouldn't know what to do with them, even if you'd give them to a hospital. Our people eat pasta and we eat spaghetti. We don't eat dried eggs, even scrambled."

I said, "If you want the rest of this, you're going to have to take a bit of dried fruit and eggs; they come with the rest of the commodities you want."

But all that was relatively minor and I am sure all the material was put to good use.

At any rate, the request was reduced by Congress to something like 520 million for various reasons. I don't know exactly why; maybe the time span was a bit different.

MCKINZIE: By this time some people were saying that the United States was, in a sense, fixing a

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system that perhaps should not have developed in the first place. They had conceived the International Bank, and they had made the British loan. All of those plans for reconstruction had not worked, and here now was a remedial action. In a sense, interim aid was just that, was it not, an attempt to fix a system which had been planned and had not worked? Is that oversimplified?

HAVLIK: Well, my reaction to that is simply that the International Bank was a bank for specific reconstruction and development projects. Maybe it could have been on a larger scale, but it was conceived of as financing specific projects. The language of the charter makes that a general rule, and only in exceptional cases has the Bank financed what is called a commodity loan or a balance of payments loan. Thus far the number of balance of payments loans has been small.

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Even today in the World Bank, it takes exceptional circumstances to justify a balance of payments loan for development purposes, such as the one in Colombia recently, or one or two in Italy. In Europe, the World Bank made one or two reconstruction loans in that period, for some planes for the Netherlands, and so on. But in '46 and '47 the World Bank was still just getting underway. It was not moving rapidly. All loans had to pass through required procedures and the Bank just couldn't be expected to fill the gap in those very critical months in Europe.

The Export-Import Bank was designed specifically to finance commercial exports from the states and even then its resources were limited. The Administration had to go to the Congress a year or so after that, and I helped provide the justification for an expansion of 500 million dollars worth of new lending authority. And its Board was charged with the duty of getting their

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money back; they had to insist upon their usual terms. What we were dealing with at that time was a situation in which the terms of financing would have to be long or even largely a gift. We were facing, I think, an unexpected situation. In my view, we had not, in setting up the International Bank and the Fund, adequately anticipated the situation which was developing in Western Europe right after the war, nor had we realized what the dangers were of failing to get reconstruction going rapidly enough. I say, we had not thought that reconstruction would be subject to the possible pressure of a cold war and the possible pressure of Communism; and then we realized that this danger was greater than we had thought. And secondly, we had never realized how great the destruction of the fabric of that Western European society had been during the war.

MCKINZIE: Do you wish to take up China aid now or

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something else?

HAVLIK: Well, I want to intervene with the Havana Conference on trade, just very briefly. Having turned in the Interim Aid Program and helped push it through the Congress, I was then appointed as an adviser to the U.S. delegation to the United Nations Conference on Trade and Development, which was held in Havana, late '47 to '48. The result was the draft of the International Trade Charter. I attended largely because of my responsibility on economic development. There had been a variety of proposals in preliminary meetings concerning the flow and treatment of foreign investment and the treatment of compensation for nationalized property. There were issues of quotas and tariffs and their effect upon a rational pattern of economic development. We were concerned by the possibilities of heavy protection in the form of

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quotas and high tariffs for industrial developments in the less developed countries which might then experience uneconomic and excessively high costs of production, which would burden their development.

MCKINZIE: What was the relationship of your office and your attendance at the conference with the people in the Trade Agreements Division of the State Department?

HAVLIK: They were in charge of it for the U.S. Clair Wilcox, who was in charge of the Office of International Trade Policy, was, in effect, executive director of the U.S. delegation. Will Clayton was the chief U.S. delegate and mainly kept in touch from Washington. Wilcox actually stayed in Havana and shepherded the whole thing through. He was responsible for supervising all of the U.S. delegation. There were lawyers, people on international resources, on communications, on

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tariffs (a representative of the United States Tariff Commission), and so on. It was a substantial delegation, 15 or 20 people perhaps; I stayed only a month. The conference lasted longer than that, but I just couldn't afford the time.

I went down right after Thanksgiving and the conference was well underway. It gave me an open view on some of the issues which were then being debated. Delegations were making all kinds of proposals about protection and special treatment for the less developed countries, powers for the less developed countries to invoke tariff protection and import quotas regardless of reciprocal obligations to other countries, about the treatment of foreign capital, etc.

I was called back at the end of December 1947 to Washington, and my duties were left with Seymour Rubin, who was legal adviser, now a lawyer in town. He played a substantial role in

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many foreign economic activities of the Government and later was at one time, I think, assistant administrator of the AID.

At the conference the U.S. was pushing for a fairly open system of reducing tariffs; a system of eliminating the quotas and restrictions upon the flow of foreign capital, equitable treatment for foreign capital, and upon what might be nationalized; and so on.

The others were pushing very hard for protective devices in the name of development, considerable leeway in nationalizing industries, and in treatment of foreign investment, etc. They wanted commitments from the U.S. and other developed countries to follow a very liberal trade policy, reduce tariffs and accept these as obligations. And in the end, as I understood it from people who came back from the conference, Will Clayton had pushed the best he knew and came out with a document which he personally, I

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believe, would have supported as the basis for an international trade organization. But, as I understood it, the administration after consultation with congressional leaders -- [Thomas] Connally, [Arthur] Vandenberg, etc. -- decided that the proposed organization just couldn't get through the Congress and it was not submitted. Instead, from that grew the rather more restricted operative organization known as GATT, the General Agreement on Tariffs and Trade, in which the U.S. has participated, as far as I know, ever since.

That was the last time I had to deal with that kind of thing, except in tariff liberalization in Europe later on. In '53, I was designated delegate to the GATT Conference at Torquay, England, but I didn't go because I just couldn't get away from the office. There again, the issues for me were of European participation in trade and development.

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The reason I didn't go back to the Havana Conference was that Secretary Marshall had decided that he wanted to provide some special foreign assistance for the Chinese; I was made responsible for drawing up that program. We started work immediately after Christmas with Mel [Melville H.] Walker, who was my China expert, doing the detailed work. He had worked on Chinese trade in the Commerce Department and been stationed in China, and had worked with Marshall when he was Ambassador there. He had first hand knowledge of the Chinese scene.

At the same time the Department had agreed to receive a delegation from the Chiang Kai-shek government to discuss financial and economic problems. The delegation was headed by Tsu Yee Pei, the father of the well-known architect Ieoh Ming Pei. Pei was the leading figure of the National Bank in China, and he was assisted by Kan Lee, and a third man whose name I do not

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recall at the present moment.

I was appointed head of the State Department group to deal with the Chinese who had come earlier than we expected. My instructions were to get necessary information and to talk to them until we had completed work on the aid program. And so, twice a week or so, I would meet with this three-man delegation and two or three of my cohorts, such as Ed [Edward W.] Doherty, on currency problems, and Arthur Ringwalt from the China desk, Mel Walker and Arthur Hersey of the Federal Reserve Board staff. We would talk to Kang Lee and Tsu Yee Pei about the currency situation, import needs and so and so. In the meantime, we were pushing ahead with the preparation of our China program, and in the end we came up with something like \$500 million or so of requirements.

MCKINZIE: Yes. At one point it was \$500 million.

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HAVLIK: Yes, the submission that we made was \$570 million. But in the meantime, in the Department we had had some strong differences of view as to what that program should incorporate. I had been instructed to draw up a purely economic program, so we analyzed the balance of payments, made some judgments upon the needs for imports of food, and essential commodities and upon certain minimum amounts of reconstruction and civil works. We didn't try to set up a stabilization fund for the currency, because we just felt that was beyond reach under existing circumstances. That was a thing which had been urged. Congressman [Walter H.] Judd had proposed, I believe, a big currency stabilization fund, which he thought would restrain inflation. Other people were talking about that, but we ruled that out, for the time being at any rate. But in the Department, as I say, we had differences of view, revolving principally upon whether or not the

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amount of the program should be sufficient to allow the Chinese National government to devote a substantial increase in amount of their own resources used for military expenditures. Some of my colleagues argued that we should put a hump into the program, a little fat into it, so that with the money they got from us they would be able to use more of their resources for military equipment purchases.

Now, we debated this; I pointed out that it was almost impossible to know how much of such hidden military aid would be justifiable and efficient. If we wanted to provide military aid, okay, but identify as such. Finally we put it to Under Secretary Lovett, saying that we had had a confrontation on this issue. Mr. Lovett agreed with my position.

So, it was the position that we took in the presentation to Congress. We also had to face the question of what period we were covering. It was

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for roughly about a year, 12 months or 15 months; I can't quite remember. We debated as to whether we could say that this might be the first of a series of programs for the future or whether it was simply a one-shot program.

The interim aid program had been simply a one-shot program; we called it that. There wouldn't be another because the Marshall plan coming up to Congress and it would decide on the future of European aid. But the China thing we simply put on the basis, "This is a program which stands on its own basis. We cannot tell you whether another program will follow. It may be the first of a series or it may be the last of its kind; we just don't know."

And that was the way we put it. In mid-February just before the President was to send the China aid bill message to Congress, I invited Tsu Yee Pei to come to my office and I gave him the figures; and he was happy as a bug in a rug.

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But the next day he came back to ask, "Are you going to disclose our gold reserves?"

He was just in time; we were going to include them in the supporting data to be sent to Congress.

He said, "We don't like that very much. The President doesn't like other countries to know how much in gold reserves we've got."

I said, "I am sorry, but if you want this aid, we have to publish the figures. We do it in all these aid programs; Congress wants it. If you want to keep your figures secret, then we may not be able to get you the aid."

He said, "All right, that's all I wanted to know." He was charming, a gifted person. His subordinate, Kan Lee, later served in the World Bank as executive director for many years, a distinguished person. They were fine people.

MCKINZIE: Had this delegation suggested to you an amount which might be appropriate for such an

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aid program?

HAVLIK: Not specifically. We had got from them estimates of various kinds, of balance of payments and so on, but I don't think they had focused upon how to define an amount. All the previous figures for aid for that country were determined on a military basis, and even those military figures were partially political (judging from General [Joseph] Stilwell's memoirs, if those are accurate as I think they probably are). The decisions on the military supplies were

simply strategic and political. Even the \$500 million aid program during the war, which was disbursed by the Treasury, was a figure of that kind; it was hard to know what it was based on.

MCKINZIE: Well, when you came up with the idea of an approximately 500 million dollar assistance program to China, was there in your mind at that time the thought of tying some strings to the

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loan, namely strings which would require reforms within the Chinese Government.

HAVLIK: Well, I think we said some words to the effect that the U.S. would expect the Chinese to agree, in a bilateral agreement, to govern the use of this money and to agree to take steps to control the inflation, to balance or restrain the budget deficit, to increase the use of its own resources, and to stabilize its currency. There are a variety of measures which are useful in this kind of thing. But we know that given the circumstances then existing, the drive of the Communists and the chancy state of affairs, we could hardly approach the Nationalist government with the same confidence that you could have in a European situation. It's never easy to tell a foreign government what to do or to compel it to do something basic it has long avoided. We were all the more uneasy about that kind of thing in respect to China.

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Marshall supported the program strongly. Marshall was tackled very strongly by some of the people in Congress, especially by Congressman Judd, on the issue of the U.S. relationship with Nationalist China and with the Communists. At a session of the House Foreign Affairs Committee, the Secretary plainly took the position that he couldn't compel Chiang Kai-shek and the Communists to get together. He could swear that even if the U.S. gave a tremendous amount of aid, economic and military, to Chiang Kai-shek, that he would make effective use of it, or that any amount that was given him would do the job. Only the Chinese themselves could really make these decisions and do these things. That depended upon them; it didn't depend upon us. We could give them help and hope that they could make the best use of it.

Judd was rather more insistent. He was pro-Chiang Kai-shek all the way. He wanted a

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lot of assistance given and he wanted some military assistance given. He was really gung ho over this.

Now, I don't pretend to know all the ins and outs of this. It was highly controversial. John Carter Vincent by that time, was under attack. Walton Butterworth, who was in the seat on China affairs, got along easier with the Congress and everybody.

MCKINZIE: Did Mr. Butterworth supply you with information, then, which was necessary for your determination of this figure, 500 million dollars?

HAVLIK: Well, they gave us whatever information they had. We had all the information that was available in the Department that was coming in, cables and reports. They had them and we

had them. It was Mel Walker who pulled the figures together, who tested them out, who figured out what

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it would cost. Say, for example, that last year they had to import such and such tons of food consisting of so on, so on, and so on. Now, at present prices how much do these cost? What are the stocks available and the prospects for crops? Will they be able to get along with what they had last year or will they have to have more or can they have less? What are improvements in distribution, or what has happened which would mitigate against that? What new programs have they got? You've got information, but you still have to go through the exercise of making judgments upon what they may require, what it would cost, whether it could be distributed, whether and where it's obtainable -- things of that sort.

We got along very well with Butterworth's office, we had a difference of view, which was a policy matter and which was resolved in the Department. In the event, however, I noticed that actually the congressional authorization

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act did provide for about a hundred million dollars of untied, unspecified aid, which could be used by the President as he saw fit to help the Chinese Government including purchases of military equipment. The final appropriation was one-third less, or \$400 million for a period of 12 months (rather than 18). So, the period was shortened, the civilian supplies were cut down to 275, and the Chinese were to have 125 million for unspecified goods. Now, as to what the compelling forces were and the ins and outs of that adjustment, I was not involved. I was devoting my time in other directions.

[James] Harlan Cleveland, who is now president of the University of Hawaii, was relief representative in China. He had gotten on the outs with the Chiang Kai-shek government because there were some decisions that the authorities were making as to the distribution of supplies which Harlan

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was not in agreement with -- where they would go; what they would be priced; who would get them; and, what kind of things. Harlan used his veto power to cancel some of those.

So, there was a big to-do, a big outcry about that.

At any rate, that's pretty much where I left the China program. It had been agreed that the U.S. would have someone in Shanghai, I believe, to help administer the new program in China.

Later on that year, I think it was in August or early September, the Department asked if I would be interested in going to China (Peking, which was still in Chiang Kai-shek's hands), to do that. I remember discussing it with Walker, and I was attracted to some extent by the idea of going to China and living in Peking. But the course of events overtook this. I had an alternative offer about the same time to go to

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Paris. I chose Paris over Peking on the very simple grounds that I preferred that, plus that I was uneasy as to how things would develop in China. Of course, we were uncertain as to how things would develop in Paris but there was basis for confidence. Some persons whom I later invited to go with me to Paris declined to go on the simple ground that they feared that there would be civil disorder and unrest in France.

But at any rate, that's the China thing. It was very substantially of Marshall's making, backed by the Department. He pushed it through and he had to allow some military supplies. Looking at the hearings, there was a lot of lend-lease stuff still available to the Chinese, and Army surplus stuff. This we also had had in mind when we wrote up our China program. There was a very substantial amount of equipment still on the way and still being turned over to the Chinese by the military and given as lend-

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lease, so that they weren't stripped by any means.

MCKINZIE: There's a lot of talk about something called the China lobby, and nobody seems to quite know exactly what that is or precisely who constituted it. Did you personally have any dealing with these people?

HAVLIK: Nobody outside came to me to try to impress upon me the size and dimensions of the programs or anything else about China policy. First of all, it was not known outside the Department who was in charge of this. So far as I know, we were able to maintain these things close to our chest. I never had the unpleasant sensation of suddenly discovering that documents had leaked. And we were not as rigid about security classifications as the Government is now. Security procedures were much more informal.

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The degree of classification anywhere near top secret was used only for practically strategic things. Rarely did I have that kind of thing to deal with. We discussed things all over town, all kinds of issues -- how much we should lend the Mexicans, how much we shouldn't, and so on. None of that appeared in the newspapers. It was just amazing. Now, there were reports appearing in papers about the British loan, about the progress of negotiations. People were following it. But on something like the Chinese program, there may have appeared some report that a Chinese delegation was in town negotiating for some kind of assistance, but the question of how much it might amount to, what the issues were, who was for it, who was not for it, just didn't appear in the newspapers.

That was in the spring of '48. The office of the Director of Financial Development Policy was vacant. Norman Ness resigned, and [J.]

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Burke Knapp was named as his successor. I ran the office until he arrived, a matter of two or three months.

At that time, in that capacity, I was chairman of a joint committee -- the United States, France, Britain -- to negotiate with the Bank for International Settlement of Basle, Switzerland, the disposal of enemy gold which they had in their coffers. The gold had been deposited by the German Government, but it had been stolen, or sequestered, by the Germans by force. Maurice Frere, president of the Bank and governor of the National Bank of Belgium, was the chief delegate. Roger Auboin, manager of the BIS, was his number two man, accompanied by a lawyer. The negotiations were conducted efficiently. I turned them over to Dick [Richard D.] Breithut, of our department, and George [Worthington] Baker. The Treasury also had a group in this matter. It essentially consisted of going through their

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records of the gold that they had, which was easy. Each bar is marked with a certain number, and according to the information we had, we knew that some belonged to so and so. We asked that a certain amount be divested and turned over to the original owners or to -- I forget which -- the International Allied Reparations Commissions or the Gold Commission in Brussels. The rest they could keep, removing the threat which had been hanging over the BIS that we would force its dissolution. This was an issue. It would have been difficult for them to exist if we had taken away all of their gold, so to speak, which might have been a possibility. Or we could have said, "All right, we would like the Europeans to agree to dissolve this agency, since it played a part, presumably, in holding some German assets and since it had been originally set up to act as an agent for reparations payments under the Dawes plan but had become a meeting place of the

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central bankers." During the war its president had been Thomas McKittrick, an American, who was later vice-president of the Chase Manhattan Bank.

So, in the end, the opinion prevailed that the BIS should not be plowed under. The episode gave me a lot of capital in Europe at a later time. I was identified as a person who had to do with the renewal of the lease of life of BIS, and when I came to deal with the BIS later on, I was received on very favorable terms, which was partly accidental.

The final agreement was signed by Willard Thorp as Assistant Secretary of State. I had only two meetings with Maurice Frere, the initial meeting and then one meeting in which he requested that I retract the request of my subordinates that BIS provide detailed information on certain matters. Since the U.S. hadn't required that information in other similar negotiations, I agreed

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that BIS wouldn't have to provide it, for which Frere was grateful.

So, with that over, the Marshall plan was legislated, and the Economic Cooperation Administration was being set up under Paul Hoffman to administer it. We agreed, the State Department, to provide ECA some bodies to get it moving, and so a few of my people were moved over there on temporary detail -- Van Cleveland, Ed Posniak, John Lindeman and a few others. They were being loaned to work in the ECA offices or to be available for advice and counsel; and some of them did move over.

MCKINZIE: Would that be considered by them a promotion, an exciting thing?

HAVLIK: Well, there was a lot of glamour to it. Now, this was '48 and events had moved very quickly. I moved into economic development in September '46, and this was approaching the middle of '48,

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almost two years. I began to feel strongly about being confined to Washington. As a matter of fact, earlier in the year I had been urging that the Office of Financial and Development Policy station its own representatives abroad in the important countries, to report to us upon financial, economic, and development matters. In effect, we should furnish the economic attaches stationed at principal embassies; after serving there for a given period, they then would come back to us, so that in time we would be armed with a group of people who had practical experience abroad. As we stood, few of us, if any, had any practical experience in foreign countries. For example, in all this period of dealing with these problems, I had never been in Europe. I had never been to Latin America except in Panama and Mexico in passing. This was simply because of the same circumstances which had closed so many of us in during the

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depression; we couldn't travel, didn't have the money. And in wartime we couldn't go either except on public business. And here we were in our early maturity and engaged in a field which was to some extent a closed field, academic, rather than having been on the firing line, so to speak (which I thought was essential).

That idea was not too well received. At the same time within the Department, there began a discussion of the possibility of reorganizing the technical divisions -- like the financial, the development, and the trade -- which were powerful bodies and had a lot of influence. As you can simply see by what I'd been doing over the past two-year period, I had a lot of muscle in the Department. I was playing a role which was, in many respects, far more important than some of the top political officers on an equivalent level.

And so the idea was being discussed of

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reorganizing the existing setup, dismembering the specialized economic functional agencies and distributing their bodies amongst the political desks. This came to pass at a later time. While certain specialized officers did remain, they were on a much reduced basis, dealing with a few policy questions. The bulk of the officers were distributed amongst the geographic desks.

MCKINZIE: Did you happen to feel at that time that there was a natural animosity -- or something less than animosity, but nonetheless a natural division, a difference of perspective -- between economic and political people? How well did they communicate?

HAVLIK: I think there was some difference of view. I think that some of the political views were based upon the repercussions of years of claims and counterclaims, some of which we gave short

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shrift to on the economic side. For example, when the British lend-lease negotiations were underway, Ted [Theodore] Achilles (then heading the British Commonwealth Division), came to me with a big thick book of about two or three inches of typed paper, listing all the items which they thought ought to be considered in the lend-lease settlements and which we should require to be settled or dealt with to our satisfaction. They included a whole flea market full of what were some important items and some trivial, such as commercial policy, sterling convertibility; crossing rights in a certain channel; whether an American office in a far-off British dependency should be a consulate; whether the British should give us certain rights, such as landing rights or rights of passage in certain airfields. Just a whole range of things.

I read through this whole book, and I finally took it to Collado and Clayton and I said, "Look,

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if we try to negotiate all these things, a settlement would be impossible. These have nothing to do with the war and lend-lease. Maybe some of these things are in our favor, maybe they aren't. We would have to find out what the value of some of these things are and what the possibilities of a settlement would be, especially on the difficult items. Moreover, if we bring up some of these issues as a part of the lend-lease settlement, God knows what the British are going to bring up on their side." For example, they wanted the British to loosen up on their restrictions as to the number of American movie films which might be imported during that postwar era -- going down to that kind of detail. The political officers long had been under pressure to get those things settled. So we just took the flat view that in the British loan we had taken care of the convertibility and major trade issues. For the rest of it, we were settling the war finances,

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and these kinds of questions should not be allowed to result in a long drawn-out negotiation lasting years and years and which might be impossible to conclude. We just cut right through that one and some of the boys weren't happy about it, maybe rightly or wrongly. But that was the way it came out.

So, eventually there was a certain amount of feeling in the rest of the Department that the economics people were, let us say, beginning to make some judgments of their own, and maybe political judgments. Maybe they felt that way. I don't think we were, but still they may have felt that. There was also another aspect. The regular offices of the Department, the area desks, were staffed by Foreign Service officers, mainly. These were old-line Foreign Service officers who were well-trained, capable officers; there is no question about that. Some of them were extremely gifted.

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On the other hand, the people who came into the Office of Financial Development Policy, the International Trade Office, or the Petroleum office were, let's say, not kosher. Moreover, God knows how long they were going to be there; they came and went. Often they were brash, and sometimes you had to teach them how to write a third person note and so on.

Consequently, there was a certain amount of that kind of resentment, I believe. It wasn't open. We got along quite well with most of the people, like Achilles, Jerneen, and Loy Henderson. But I remember Henderson hitting the roof at a meeting one time. He first learned at a meeting on some matter or other involving the British Empire that the American Government was considering making a large postwar reconstruction loan to the British. He learned from the economic officers. He was not dealing with the British Empire, but he was dealing with its fringes, the Middle

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East and so on. Henderson's view of the British was kind of, "Well, they are Allies, but, you know, we have problems with them. They're the sterling area and they block the sterling, and we can't get paid for this and that. We should be doing away with this, and now we are going to suddenly beef them up!" He almost hit the roof. Nobody had told him. He learned it from Paul McGuire, who was number two or three man in the Division of Financial Affairs, a fine man. At any rate, that was in part a reply to your question. I didn't then stop to ask myself that question too often, but I did notice; it had occurred to me at that time.

We were then, as I say, getting into the beginnings of the Marshall plan administration. We also had to work up a program and legislation for Trieste as part of the foreign aid program. Trieste was occupied by the American on behalf of the French and the British, and didn't fall into any other occupied territory, and so we had

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to provide something there. There was an amount of 20 million dollars or so, and that program was later faded out when the Trieste question was settled.

The issue of technical assistance to underdeveloped countries began to arise at this stage, or a little earlier. People for the United Nations began to come to see me. They were interested in technical assistance to the less developed countries, and Mr. Acheson also had expressed an interest in supplying technical assistance. The way it was usually put -- "How do you transfer know-how?" -- are words I don't value highly. It was just as though you put it in a package and ship it down to them. And amongst all my other pressing duties, I didn't regard this as more urgent, although I gave some thought. It really would have required a lot of attention. It was hard for me to grapple with at that time, in part, because I didn't

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know enough about it. I didn't have people on my staff that could devote the time and attention to it. We were up to our necks in all these other kinds of questions. It was something which people were just beginning to think about, at any rate. The United Nations people were thinking about it, but they didn't quite know what to do about it, either.

And so we talked back and forth, rather inconclusively, for a while. Of course, we were in touch with the office of the Inter-American Coordinator, which had been headed, earlier, by Nelson Rockefeller and then by other people such as Kenneth Iverson. They had been providing a certain amount of technical assistance. They were trail blazers but then the outfit was left in the

lurch. It was just pulling along somewhere in the rear. So, the technical assistance was up in the air, so far as I was concerned at that stage. I mention it because it was a subject

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which then began to receive attention. Later Willard Thorp, who was Assistant Secretary, then began to look more thoroughly into it and was able to come up with a suggestion which resulted in Mr. Truman's Point IV program. But earlier -- in '47 and '48 --it was the subject of lunch talk, "What can we do about this? How can we get into it? How much can we hope to do?" Our consciousness was stirring at that earlier stage.

MCKINZIE: Was it fairly well agreed that the simple provision of capital was not an answer for underdeveloped countries, or was this considered a possibility, if you just put in enough money?

HAVLIK: No, I think we all began to realize that simply providing the money wasn't the only thing. It was going to be helpful, but a tremendous amount of simply training, knowledge, skill in management of resources, of carrying out projects was needed at almost every level. Much

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of this you could do, but the real issue was, how do you do it? Some of the thinking was simply, how do you transfer skills? How do you transfer the know-how of, let's say, of an American business like Scott Paper Company, to a foreign country, so that they could turn out their own paper products?

Well, I think that the notion of transfer of technology and management is an extremely difficult one. It isn't even solved today, by a long shot. And there are other questions in providing technical assistance. Thus you can simply send engineers to help them build roads, organize a road department, and so on. That's a transfer of technology to some extent, it's technical assistance but how much of the technical skill is transferred to take permanent roots? Well, that's a whole subject and I just mentioned it here to say that we were involved in it at that time. And then later in my activities at the

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World Bank we were constantly struggling with the problem of technical assistance in a practical way. I myself was engaged as head of a resident advisory mission for the IBRD in Peru and in Santiago, covering a period of 4 ½ years; and had to do with a very considerable amount of technical assistance -- the formulation of projects, budgets, monetary policies, setting up a planning organization, and God knows what. Some of it took and some didn't, like vaccinations.

MCKINZIE: You mentioned going to Paris.

HAVLIK: Yes, I will come to that. Now I go back to the staffing of the Marshall plan. Together with Harold Spiegel, who headed Monetary Affairs, a coordinate division with mine, and our staffs, we drew up recommendations to ECA for the allocation of Marshall plan aid to the individual European countries for the first two quarters

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of the Marshall plan operation, which was March to June and June to July of '48. ECA's staff was not in a position to do so. We took these recommendations to the National Advisory Council. After some debate they approved them, and we sent them to Mr. [Richard M., Jr.] Bissell who was in charge of that part of the operation at the Economic Cooperation Administration. Largely he followed them; he may have made some changes.

I think that if we had a problem there it may have been in the allotments to Belgium. Belgium was beginning to earn dollars in inter-European trade by running a surplus in trade among the Marshall plan countries in an amount which some people claimed was sufficient to meet her dollar needs.

On the other hand, Belgium always took the view that she, too, had suffered from the war. She had made a strong claim, so she did get an allocation for the first two quarters, I believe.

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It wasn't a substantial amount, somewhere in the order of 40 million dollars, as I recall. Thereafter, she got no further allocations and she earned her dollars mainly in the European Payments Union.

But, as you suggested, the work on the Marshall plan and the possibility of assignments abroad became a tremendously attractive issue. Many of us had been cooped up in Washington day and night with short or no vacations for a period of two years working on all these programs I have mentioned. And now the Marshall plan was really getting moving, establishing missions in all of the Marshall plan countries, the action would be there. This was a chance to go to Denmark, to England, or to Italy, and so on. And what happened? Lo and behold, it was just like opening the door of a chicken coop; suddenly you open the door, and the chickens fly out. Soon Victor Longstreet, my Associate

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Director came to me and said, "I've been asked by Alan Valentine to go to the Netherlands as chief program officer for aid in the Netherlands.

I said, "How do you feel about it?"

He said, "I'm going to go."

And then Richard Breithut left to go as Treasury attaché in Stockholm. John [B.] Lindeman, my chief officer on the United Kingdom, came in and told me he was going to be program officer under Charles Marshall in Copenhagen. Those were my right and left bowers. There were other people who went, and some of the people went to the Economic Cooperation Administration in Washington, permanently or temporarily.

So, there I was in the summer of '48, with this going on. I was thinking, "Well, shall I continue here or shall I not?" We had plenty of work ahead of us. But late in July or early August, Thomas McKittrick walked into

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my office. Within two minutes he asked me to come to Paris to work for him on intra-European payments problems. He had been appointed by Averell Harriman, who headed the regional Office of the Special Representative, to be his principal adviser on payments and trade. McKittrick was on leave from the Chase Manhattan Bank as vice president, and he had been in Paris and then in Basel as president of the BIS. He was well-known in European banking circles and a person of considerable distinction, besides a very attractive person.

I said, "Mr. McKittrick, I don't know a thing about European payments, and I don't know a thing of intra-European finance. Those are central bank matters on which I have no particular expertise."

He said, "I have talked about town, and you are the man I want."

I replied, "Well, I want 24 hours to think

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it over. My wife is in New England, out of reach and I have to consider it carefully."

He said, "I'm in a hurry."

I said, "Who else is in Paris?"

He said, "Well, Arthur Marget is there in charge of financial matters and local internal finance." Marget was formerly financial adviser to the U.S. military mission in Vienna, a distinguished professor at the University of Minnesota, and author of a book on money and prices. There were other distinguished people there -- Milton Katz from Harvard, George Perkins from industry, etc. So, it was a collection of rather distinguished, able people. And the Harriman office was the central office, coordinating all the work of the missions in Europe, plus providing the representation, contact, and liaison with the Organization for European Economic Cooperation, which was the formal organization for the coordination of the Marshall

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plan assistance and cooperation amongst the Europeans.

Next day I went in to Burke Knapp to tell him that I was going to leave and he said, "It is impossible, you can't go."

And I said, "Why?"

He said, "We need you here."

I said, "Well, I've been trying to get to Paris for 25 years, and here I go."

So, we left. By September 25th I was in Paris, and my family was on the way.

MCKINZIE: You had children at that point?

HAVLIK: Yes. Right after that I went on vacation way up in New Hampshire to join my wife and two daughters. They were waiting at midnight at a little train station in rural New Hampshire. As I got off the train I said, "I have bad news for you girls. We're all going to go to Paris."

Well, it was just as though you'd shot off

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firecrackers. Oh, the girls loved it. They did. We were all set. I was 44 years of age; my wife was 37; my daughters were early teenagers, 10 and 12. They grew up in Paris. We spent six years there, six very happy years.

It was, for me, an introduction to a completely new world of great activity, on a high technical plane. The people I was thrown into contact with on the American side were distinguished, capable. We all were finding our way in this new enterprise. It was exciting; you had to feel your way all in new fields.

The Europeans we had to deal with were, generally speaking, I must say, of a very high quality. I was amazed at the expertise the Europeans had. I had become accustomed to simply accepting the fact that the Americans were in some way superior. Now I began to realize that we were superior because we had the economic resources and muscle. We did have, I think, to

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our credit, imagination and initiative, which they recognized, and which they accepted, and they valued. But in terms of technical experience and willingness to work, the Europeans ranked very high. Every now and then, you might get somebody who was not so good, and many of them were, of course, accustomed to dealing from a purely national point of view. This was one of the things which was difficult for them to grasp. We were dealing with a group of people who a short time ago were at swords' points, and even that would creep up in the discussions now and then, you know. When I remonstrated a little bit with one of my British friends about being tough with the Germans on some question, he said, "Well, let them put their feet to the fire. You know, I can't forget easily; I used to sit outside of London behind an anti-aircraft gun wondering when they were going to come over and take us." Every now and

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then that would creep up a little bit. The French, having been occupied, were often touchy.

But of all the countries, I thought the British were the best organized. They provided a great deal of the economic leadership; they were in this at the insistence of Bevin. The pound sterling had collapsed in '47, and they didn't quite see their way to the future. They still had hopes, and continued to have hopes, of reestablishing a dominance of the sterling area as the basis for economic cooperation, that would affect the financial arrangements within Europe. It seemed to me that this figured in a lot of the discussions and difficulties. Still, I would say this, that the economic directors they provided -- such as McDougal, Alec [Sir Alexander] Cairncross, Brian

Reddaway -- were just first rate people. Robert Marjolin, the young Frenchman, as Secretary General, was first rate, imaginative, competent, broad minded, etc.

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And the staff of the OEEC, on a whole was first rate and very hard working. They were really competent.

Some of the national delegations were a little bit loose. The Belgians were always outstanding in their representation. They were young, capable, energetic, intelligent, hard-driving people. Hubert Ansiaux (later governor of the central bank in Belgium and Baron Ansiaux), for example, on the payments committees and boards, was always a key figure, even though he represented a little country. The force and clarity of his views, his persuasiveness and energy, made him a dominant figure. The same thing with Roger Ockrent and Baron Charles Snoy, on the trade and general matters. Those people had an influence far beyond the index of the GNP of Belgium. As compared to other countries like Italy, Greece, Austria, etc. Eventually the Italians came up, but in the first years the

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Italian representation was a bit wobbly. Their government was just pulling itself together. After all, they were trying to develop a new government and administration after the Mussolini regime and they needed new people. They had to find them and develop them. And the same thing with the Austrians; this wasn't so easy. The Belgians had gone underground and came up again. As for the Italians, I would ask one of them, "How do you determine your position on the Payments Committee?"

He said, "I send a cable to Rome. What I get back gives my instructions just as we would send it. I could just as well cable 'viva spaghetti.' Those would be the instructions I would get. I have to think and feel my own way." But they became a strong outfit -- Achille Cattani, Guido Carli for example.

Then going to the Bank for International Settlements, as I did often, these people were

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extremely competent. The managers of the Bank and the technicians were skilled, able and experienced. And I'd have to recognize that on many of those internal banking questions they knew far, far more than I ever could, and they could suggest what would work and what wouldn't. The main thing we could do was to provide some leadership, try to bring about agreement to move towards certain objectives. We could assist them in overcoming some of the obstacles, provide financial grease that was necessary here or there, and by the force of our general position keep them all moving toward the liberalization of payments and trade within the European area -- which was my primary responsibility.

MCKINZIE: In those early weeks in Paris, did you have occasion to talk to Mr. Harriman or anyone on his staff about his concern for the integration of European economies? As you know, one of his strong emphases in the administration of the

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Marshall plan was to bring about as much industrial integration, and also monetary integration, as possible. Is that a fair statement?

HAVLIK: Yes, I think it is. I've not talked with Harriman -- mostly other people. But we took it as a point of departure that that was our objective. The question of how to get there, what steps we should take, and how rapidly could we move, were the principal issues. The first steps were really simply to get the aid flowing and to get the lifeblood flowing in the economies, and between them, to set up organizations which would work out programs for the future. By the time I came there, a considerable amount of work had already been started. Arthur Marget had been there for a while; Martin Rosen had been borrowed by Arthur Marget from the World Bank to work two or three months on the European payments arrangements; and ECA -- Washington had been

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supplying some guidance and information.

So, when I arrived in September, the essential elements for the first European Payments Agreement had been worked out and a draft had been agreed upon. There were some issues upon various clauses and about their interpretation, and the thing had to be tidied up, but the main items had been worked out. Essentially, it provided for compensation of currency balances of Central Banks against each other, and that after that each Central Bank would extend credit, if necessary, on a bilateral basis, to other Central Banks to settle the remaining debt between the two countries. When it did so as a creditor, the United States Government would provide it with an equivalent amount of U.S. aid and the debt between the two countries was wiped out. For example, if Belgium was creditor to the various partners to the equivalent of 30 million dollars in the

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month, the U.S. would therefore allot Belgium 30 million dollars of "conditional" aid in consideration of this, you see, as a counterpart of the settlement. The amount of the payment facility between pairs of countries was limited to an agreed amount, called "drawing rights." In this way, we were able to open up the lines of payment between the European countries. The theory was that if we opened up the lines of payment, it would be easier to eliminate trade restrictions.

It was a valid argument, because the trade restrictions had been imposed before the Marshall plan, in part because the countries didn't have the means of settlement between themselves. If you cannot pay, you should not and cannot buy. Therefore, they had erected bilateral trade agreements restricting the purchases from each other to amounts which would balance; and if there was an imbalance it would have to be

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settled in gold. This was highly restrictive, and we wanted to break this structure.

MCKINZIE: That was a very temporary thing.

HAVLIK: Yes, this was temporary. But it was ingenious in a sense, because what we did was have a monthly settlement, carried out by the BIS as agent for the OEEC countries in the payments agreement. Then the BIS would notify Washington that such and such was due to Belgium, so much to France, and the other creditors. Jim McCullough, or whoever it was in ECA Washington, would wire back to the agent, "We have made firm allotments of conditional aid, so much to this country, so much for that." Now, in some ways the words "firm allotment of conditional aid" were a figment of the imagination. We didn't transfer money; we had made an allotment of aid on our books which they could draw upon in the future. The aid was conditional; it was conditional on their giving the equivalent amount

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of aid to other countries. It wasn't firm, because if they didn't give the aid they wouldn't get it. I was talking with Kingman Brewster the other day, and he said, "You know, I'm still wondering what the words 'firm allotment of conditional aid' meant." But nevertheless, it was a device by which the U.S. channeled assistance to the European countries in consideration of their helping each other in breaking these payments gaps.

It was clumsy. It still rested upon the fundamental presumption of bilateral agreements, and these had certain elements of rigidity and artificiality.

Moreover, it did enable us -- that is the Payments Committee in the OEEC -- to sit around a table once a month and work on these issues. Kingman Brewster was legal counsel to my office at that time, and he was succeeded by a series of distinguished young men, lawyers, who

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were tremendously helpful -- John McNaughton, who was Secretary of Navy-designate when he was killed in the late sixties; Garfield Horn; Arnold Rivkin who later became distinguished as an African specialist in the World Bank. Of course, they worked for Milton Katz, who was a highly imaginative, resourceful, and skillful negotiator and who was very influential with Harriman.

But it was true that in the first two years that payments agreement was quite rigid and, in a sense, artificial. The second year we renegotiated it, and we tried to make it more flexible, so that a certain portion of the drawing rights would be transferable from one country to another. It involved a considerable amount of continuous paperwork. We were not satisfied with it.

MCKINZIE: Were the Europeans dragging their feet in these kinds of things?

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HAVLIK: No, but they weren't quite sure where they were going. We had begun to talk about convertibility, and there were various ideas of establishing full convertibility and easing trade and payments in OEEC. I think the British were unsure of how far they wanted to get into it. The Europeans were a little bit reluctant to disestablish controls on payments, to liberalize payments completely. They were reluctant, especially to liberalize trade by removing import quota restrictions. Tariffs were restrictive, too, but those began to be a problem some years later, after removal of the quotas. And the Europeans weren't quite sure how far their recovery effort was

likely to succeed. Their dollar reserves were still at a fairly low level; these didn't begin to build up until later, something like 1953 or so. They still had been falling, and for some time they had to play their cards very close to the vest. The Germans

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practically didn't have a nickel on them for some time. The reserves of the Bank of France were not in too good shape. The British, of course, were banking for the big sterling area, were not on very solid ground.

If you're in the position of a central banker, you want to cover your obligations and avoid unnecessary or periodic devaluation, etc. You want to protect your exchange rates, too. There was a general feeling there should be stability in exchange rates, because they had been through a prewar period of violent fluctuations of exchange rates and an instability in trade on account of that kind of thing. They had to kind of walk into cold water slowly; they didn't want to jump into it all at once. This takes a little time -- even the notion of dealing with each other, as I saw it, sitting around the table, for example the Austrian talking with the big boys -- the English, Germans, etc.

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At first the Germans were represented by the Americans. A Brooklyn lad by the name of Henry Conrad represented the Military Bizon on the Payments Committee and he was brilliant. But he talked Americanese to the Belgians and others and sometimes we had to translate. The French were always watching very carefully. The Italians weren't quite sure where they were. The British were watchful, pushing here and there. But there would be differences of view, and there were very many arguments about technical issues. Toward the end of the two-year period, it was clear that some broader steps could be taken and should be taken. Steps had already begun in terms of trying to liberalize trade, trying to get the Europeans to remove the quota restrictions, but those were faltering. We felt that in order to accomplish anything in the trade side, we would have to take a rather bold measure on the payments side.

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Consequently, early in '50 discussions began on the U.S. side with the principal European partners -- namely, the British, the Belgians, the French, the Italians -- about the possibility of a much more free, liberal, looser payments arrangement which would facilitate the removal of bilateral trade restrictions. This would multilateralize payments arrangements throughout Western Europe. The notion was that the countries would have a payments union through which all Central Bank balances would be cleared once a month; compensated or offset against each other to the extent possible; to the extent they could not be, then paid off by the union in gold in part, with the creditors giving some credit and the debtors paying part in gold, but also getting some credit. So, it was "harder" system than the previous one. It wasn't a 100 percent gold system, but some of the creditors had to give credit, and some of the debtors got

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credit. There was a series of steps or "trenches" by which the creditors gradually got a larger percentage paid in gold, and the debtors gradually had to pay a higher percentage of their debt in gold up to a certain overall quota. As a result of the difference of in-payments and out-payments,

and with the quotas being based upon a certain percentage of gross imports and exports, there was always a possibility of the inflows of gold being less than the outflows of gold. The creditors would be getting more gold than the debtors were paying in under certain conjunctures. And with that, the U.S. agreed to put up a kind of a working capital fund. I'll come to that later.

But at the moment, while this discussion was going on, I again had to devote my attention to a series of other problems. I was concerned with keeping the existing payments arrangements moving and solving problems in the use of internal currencies, and counterpart funds were

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under my charge at the moment. And there were other questions, plus the fact that I had home leave at the time. I had to go away to the States for a month.

The negotiations on this new arrangement were carried out largely by Henry J. Tasca, then my boss (previously Treasury representative in Rome and Alternate U.S. Director in the International Monetary Fund); by Lincoln Gordon, who was program director in Paris; Joel Bernstein, assistant to Tasca; and by Robert Triffin, formerly with the Monetary Fund, but recently brought into our staff. Triffin was an expert on technical questions; he had always been concerned with payments arrangements, exchange rates, and so on.

Now, there were long and difficult negotiations on this. In part, the British didn't want this kind of arrangement to delay or prevent the establishment, at a later date, of a sterling

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area system. So, the arrangements were difficult. There was a lot of pushing back and forth on negotiations, but the story of that is not mine to tell. Some of it is recounted in an article on the history of European currency convertibility by Randall Hinshaw, now professor at the Claremont Colleges, who was then with us.

By late summer 1950, when I returned from my home leave, the agreement was about wrapped up; there were some loose ends. Tasca had gone on vacation, but some problems arose, partly as a result of what I would call difficulty of communication between Paris and Washington. One was, "How and when will the U.S. contribution to the Payments Union be made?" "Will the U.S. have veto power over it?" "Can it use this contribution to block the dissolution of the Payments Union, if they want to dissolve it?" "What happens if the dissolution takes place? Do we get our money back?"

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From the very beginning, even before the Payments Union Agreements were finally signed in September, I found myself involved along with Bob Triffin in a series of very difficult discussions, the Europeans on one side and Washington on the other. Washington had decided that we would not give the Union a check for the amount of working capital which we had agreed to provide -- 350 million dollars. We would hold it in Washington and make it available as they needed it. We would have leverage in case they would want to dissolve prematurely and in case of unforeseeable kinds of transactions or situations, where they wanted to draw upon the money for something we couldn't agree with. Moreover, some part of it might not be drawn upon

and if they had that deposited say in the BIS with interest we would be subject to criticism at home.

On the other hand, the Europeans believed -- and whether they had cause to believe or whether

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they didn't, I cannot tell -- that we would, on the first day the payments were to be settled, walk down and hand over a check for 350 million dollars, which they would plunk into the treasury of the EPU in Basel, where the accounts would be kept in EP units equivalent to a dollar.

And, so, when we told them that that check would not be forthcoming, there was consternation. We had to explain to them as to how we would do this, and we still had to work out the technique. In the end, the technique worked out proved to be workable. It worked out very well.

In effect, the clearing would take place at the end of each month. The agent, Fred Connally, at the Bank for International Settlement, who carried out the transactions would notify the ECA office in Washington by cable that such and such countries had such and such credits, of which a certain amount was due them in gold or

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dollars. Such and such countries were in debt to the Union by so much and so much, and they had certain gold payments to make to the Union. As a result of this, the Union would receive certain payments from the debtors and would be required to make certain payments to creditors, and it would need, to cover the net out payment, so much and so much in dollars. Whereupon, the ECA immediately cabled a payment order to, I think it was London, to credit the account of the Payments Union by so much in dollars, and they made the payments accordingly.

MCKINZIE: It would reduce the amount of the deficit, then?

HAVLIK: Yes, we covered the net overall gold/dollar EPU deficit if there was one, you see. There were one or two other wrinkles. At least two countries, Greece and Turkey, had special credit positions, which led to gold out payments rather

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heavy on their part, and which we covered explicitly in the Union. So, that 350 was reduced by about 60 million dollars. And then, over the period of the Union, gradually, as a result of various operations, additional amounts were withdrawn from the fund in Washington. But there were still left, in 1954, something like 160 million dollars in Washington EPU funds. And when the Union was terminated and transformed into the European Monetary Union, as a result of negotiations in which the U.S. participated, this remaining amount was placed in a trust fund in the Treasury, this will be used, as I understand it, for certain special purposes in the Monetary Union when and if it dissolves. The purposes would be aid to underdeveloped countries or something of this sort. But my point, mainly, is that the 350 million dollars was a very fruitful investment. It gave us a tremendous leverage in operating the payments arrangement

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over a period of more than four years. The Payments Union lasted four years, and it was succeeded by the Monetary Agreement. It gave the United States a voice on the Managing Board of EPU; it gave it practical veto power over operations that we didn't think ought to be made; it gave it veto power over extending credits by the Union if it wanted to do so for doubtful purposes, etc. And I was the only person on the Board who had the right to discuss and officially record his views. All other members of the Board were there in individual capacities. As a result, I had a fairly powerful position, but it was a power which had to be tempered by the notion that, after all, this was basically their show. They were administering it, and I shouldn't interfere unless there was some very important matter involved.

MCKINZIE: May I ask what kind of instructions you had when you went to sit on the Payments Board?

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HAVLIK: Well, this agreement was negotiated by Tasca, Triffin, et al. It was with considerable surprise that I heard from Tasca and Katz that they wanted me to sit as United States Representative on the Managing Board, as I had not negotiated the agreement. But they explained that I was a person who had demonstrated capacity in the other payments agreements and that what was required was the presence of a person in whom the United States had top administrative confidence -- I was well-known to ECA, Treasury and State -- and who would assure coordination within the U.S. Government. This would mean I would have to forewarn the United States Government, the ECA, Treasury and so on, of issues which were coming up. I would have to make recommendations as to what position we should take, and then when instructions were received I would have to get them accepted and negotiate them, etc. On issues arising

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unexpectedly, if they could not be postponed I would have to stick out my neck and hope it wouldn't be chopped off.

So, Triffin was appointed as my alternate on the Managing Board. He was disappointed, partly because he felt he had negotiated the agreement, was well-known in Europe, etc.; also he did not know me well. But then we worked together for a period of about two years before he resigned to go to Yale University, and we had a relationship of very good mutual cooperation. He was an entirely dedicated person, dedicated to his principles of fostering an establishment of a central monetary system of some sort -- essentially, I think, a kind of international central bank. But we got along. We had some problems; I think sometimes he felt, maybe, that I was not flexible enough, and sometimes I felt that he was too flexible.

EPU had a series of problems which demonstrated

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to me the importance of international cooperation. The first big test came on the very first monthly operation in EPU. You must recall now that this was taking place against the background of the Korean war, which started with the previous fall. This affected the Europeans; prices had risen, people saw shortages. The German economy was receiving the first impulse of

the free market policies of Ludwig Erhard. Also in the devaluation of 1950, the German mark may have been a little over devalued as compared to the English pound, so that its competitive position in Europe was very strong. At the same time, the German monetary authorities had permitted the expansion of internal credit to a very substantial scale, and Germany's imports from all parts of the world in this era boomed; they just shot upwards while exports lagged until production could catch up. So, by the time the first operation was to take place, Germany

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was already in debt in Europe and used up all of its credit in the European Payments Union. The question was, "How do we settle the large unexpected deficit?"

And the plain fact of the matter was that they couldn't pay in dollars because their reserves were still down, I think, at something in the neighborhood of \$200 million or something like that. It was just peanuts. I mean, nowadays they've got 5, 10 billion.

For the U.S. this posed an issue, and here the U.S. Government was somewhat at odds. Milton Katz, then Deputy to Harriman and in effect chief executive officer in Paris, felt very strongly that the crisis had been brought on by willful action of the German authorities. Seeing the Korean crises, it looked as though they decided to take advantage of their position and import as much as possible with which to manufacture and re-export, and they had done so

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by the expansion of internal credit.

Other countries had been much more discreet and moderate, and now they were being asked to extend additional credit in the EPU to Germany, this potentially powerful competitor. And Milton felt that if the Germans were allowed to get away with this, there would be no brooking them. They had to learn how to play ball within the confines of the European community. They had only recently been admitted to the OEEC. So, he was dead set against the U.S. participating in a rescue operation. He felt that if the European Payments Union wanted to extend a credit to the Germans which might have to come out of their own hide, to cover the unfinanced deficit, let them do it. But the U.S. should not put up any more money in the EPU as a part of a loan operation for Germany.

Washington took a rather more lenient view and felt that since we had succeeded only

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recently in obtaining some liberalization of trade among the OEEC countries with the leverage of EPU, unless we helped the Germans they might have to re-establish some import quota restrictions, which would be a backwards step. Since the Europeans are willing to help the Germans, we should evidence our cooperation by also participating.

But Katz put his neck on the line in talking with Bissell. He insisted and he won his point. But that put me and Triffin in a very difficult position, with a crisis which almost cost me my health. The EPU Managing Board was thrown into long discussions, and there was a considerable amount of tension. Triffin was very anxious to provide some additional financial assistance and

probably some of the Europeans pressed him. So, eventually, when I had to say at the Managing Board that the United States would not provide any additional assistance for the European Payments

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Union or to the Germans for settling the German debit balances, that was received like a cold fish. And I explained that the problem was caused by the way the Germans had managed their affairs and that if our position brought pressure upon the Germans to remedy their situation, this would be at least within the purview of our thinking.

Well, Hans von Mangoldt, who was the German member of the Board and a very fine man, was angry with me. But we stuck to our position, and in the end the Europeans worked out a credit of some additional hundred million dollars in the Union to cover the debtor position of Germany for the following three or four months. It was simply credit in the Union and meant that the Germans were excused from paying their share of gold for a while. It created some additional drain for a while upon the EPU working capital fund, because to the extent the Germans didn't

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pay in gold, that gold was not available to offset the out-payments to creditors. If they ran surpluses, these would be offset against the special line of credit, without their receiving gold. Therefore, the working capital fund had to be drawn on now, but we were willing to do that.

MCKINZIE: Were the principles of this evolved out of the discussions, or was there a plan that you recall someone having presented?

HAVLIK: They were evolved out of discussions. What happened, in effect, was that the EPU sent a small mission to Germany to review the situation there. I think it was Frank Figgures (Secretary of the Payments Union), one member of the Union, and Per Jacobsen, who was then chief economist of the Bank for International Settlements. They, in effect, came up with a kind of general suggestion which was then refined.

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That episode was a stern test of the cohesiveness of the Board and the Union. For a time it looked like those things would shatter. And also it put me into a kind of debtor position as far as goodwill was concerned. It created a considerable strain between me and Triffin for a while. Things smoothed over for a while. But in a few months, February or March, the special credit was exhausted and the Germans were still running deficits. The deficits were smaller, to be sure, and our ECA mission in Bonn -- Jean Cattier the head, and Karl Bode, chief economist -- was confident that in the near future the German economy was expanding and that Germany soon would be in a strong export position.

I wasn't quite sure, but anyhow they were better informed than I was. But at that stage, the matter was again dealt with by a small additional credit, I believe, plus the agreement of the Union and the OEEC to permit Germany to

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reintroduce certain import quota restrictions so as to protect its balance of payments temporarily. That worked, and the payments position of Germany began to turn around. The Germans later were able to discontinue those temporary quota restrictions. But we at the time consciously accepted a backward step rather than simply provide additional money for the Germans. Later, the Germans became strong creditors in the EPU.

Apart from the various problems which arose (there are always problems), the Payments Union agreement had to be renewed each year. Questions arose, "Should the quotas be adjusted?" "What do you do with the country debts in EPU that had been accumulated in past operations?" And every now and then, some extraordinary circumstance would come up because of certain operations or economic developments. Thus, at one point, the French suddenly went into deficit

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in the Union to the tune of something like 200 million dollars which they couldn't cover. The Union had to extend a credit to them, and so on. Also, some members doubted that the working capital fund could or should be drawn upon for such purposes. There was a Turkish problem. The Turks were constantly running deficits in EPU. The U.S. covered part of those for her, just as in Greece, by special provisions. But after that, the Turkish authorities felt that the European Payments Union should extend to them special credit facilities. The Union declined on the ground that the deficits which the Turks were asking to be covered were not normal trading deficits on short term, which is what the Union was designed to cover. Rather they were long term deficits which represented the flow of long term capital from Europe to Turkey for development purposes, and that should be financed in some other way. A Turkish delegation

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came to Paris and to Washington, exercised all the arts of persuasion and they were confident that the U.S. Government would support them and insist that the EPU give them a special credit. When I didn't, after consultation with Washington and so on, they were absolutely amazed.

Then there were others. In fact, each month the Board would try to spot forthcoming problems. We could kind of know these in advance to some extent because we were in touch with the principal delegations. We knew what was going to be on the agenda for the monthly meeting of the Managing Board, and we would outline positions which we proposed to take. They were cleared in our office and then cleared in Washington. ECA Washington would clear them with Treasury and other people, and on that basis Triffin and I proceeded. If some questions arose during the meetings, which usually lasted about four or five days each month, we usually had time to telephone Washington or to

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consult by cable to get a clarification. And then after each session was over, we would immediately send a long air gram summarizing issues, the discussions and the position taken, with some observations as to implications for U.S. policy of the issues which were coming up at the next session of the Board, so they could be focused on.

So far as I know, Washington always felt that the reporting had been complete and prompt and that we had consulted with them properly. And we also had to consult with the country missions

of the ECA like London, Rome, or Paris, if their country was involved in some question too. It was complex.

MCKINZIE: How sensitive were you to the charge that this competed with the IMF?

HAVLIK: Well, it didn't bother me. IMF had an observer on the first payments agreement in the

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first two years; he was Robert Triffin. They apparently didn't see much of a role for themselves. They didn't come forward and say, "Well, look, we are willing to x, y, z, which will make it unnecessary to do so and so." Nor did we press the IMF to do something until a bit later. And during the Payments Union itself, at least in the last two years, the IMF had a resident observer on the Managing Board, Jan Mladek. He had been an executive director from Czechoslovakia on the International Monetary Fund. He became a member of the staff of IMF when Czechoslovakia withdrew in 1950, I believe. When Jan Mladek was in Paris, we were in close touch with him. We often discussed how did IMF see these things?

Now, IMF really did come to play a part in this later on, 1952 or so, which helped in the settlement of a problem with Belgium.

Over the years Belgium, as a result of good

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internal organization, less wartime damage, conservative financial policies, and stable labor relations, maintained a substantial credit position vis-a-vis her OEEC partners as a totality. But while Belgium was constantly in a creditor position in the European Payments Union, she was in a debtor position vis-a-vis the rest of the world, including the United States, mainly. Thus, she had a problem financing her dollar purchases overseas. She was not getting Marshall plan aid and had to pay dollars for her overseas purchases. On the other hand, her credits in the European Payments Union were being redeemed to her at about 50 percent in dollars.

Now, even if the two positions were equal in amount, she was short, you see. The two were not necessarily always equal; sometimes one was greater than the other, so that there was another divergence. Moreover, the Central Bank was obliged to provide facilities for payments

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in Belgian francs to all of her exporters in exchange for the EPU currencies they were receiving. And to the extent that she didn't have gold to offset that amount of credit, there might be inflationary tendencies. So, she was constantly concerned with maintaining or improving her reserve position, so as to maintain the value of the Belgian franc and permit her, if necessary, to import goods from overseas which she needed and as an anti-inflation offset to her European creditor position. And I was caught in betwixt and between. The Belgians were important in European recovery but at the same time we could not simply accept that they could earn an easy living out of the European payments arrangements.

This was one of the crucial issues of the Payments Union. The charge could be made that the European Payments Union made it easy for the

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Europeans to trade with each other and created a preferential trade area in which they settled with each other and from which the United States or other suppliers were excluded. This would lead them to favor trade with each other rather than trading with the outside world. They would be kept within a lukewarm bath, protected from the cold waters of outside competition. This charge could be made, and to some extent it was true. I would say we defended our position on the grounds that this was a transition from hot water to lukewarm water and eventually to the cold water of convertibility. But the Belgians were in cold water all the time. Consequently, when the renewal of the Payments Union agreement came up each year, Belgium was asked once more to extend credits for the next year. She already had a lot of them piled up which she hadn't been paid in the past, and she resisted piling up lots more.

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We tried to figure out ways to overcome this resistance. General [William] Draper, then head of our Paris office, agreed at one point to arrange purchases in Belgium of a certain amount of military equipment and supplies, which would give them dollars to buttress their position. But later a breakthrough was made when the Belgians said in effect, "Well, we are reluctant to extend credits; we would have to obtain, somehow or other, reinforcements to our reserve position. We are unwilling to draw upon the Monetary Fund, and in any case cannot draw upon the Monetary Fund because we do not have any immediate payments problems; but we do have a potential payments problem."

With that, General Draper (he succeeded Milton Katz) and I went to Washington in June '52 together with one of the people from OEEC and the Belgians, including Hubert Ansiaux, I believe. We met with the United States representatives

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on the International Monetary Fund.

Frank Southard was, if I remember correctly, still the Managing Director of IMF and was also an adviser to the Secretary of the Treasury. He was a key U.S. figure on international monetary affairs. We also met with, of course, the ECA people, and the Treasury people. I forget who they were; George Willis was one. Finally a scheme was worked out whereby the Fund would set up a standby arrangement. They would agree to extend certain credit to Belgium, and Belgium would obtain a right to draw on the Fund up to a certain amount during the forthcoming year, under certain conditions. She would have to establish that she was in difficulty, dollar payments wise. But this was an agreement which didn't say, "You get the money now." It was saying, "We're giving you a drawing account, a standby credit, if you actually borrow, you pay a certain percentage interest, and if you don't borrow, it doesn't cost

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you anything."

Now, that was developed to meet the Belgian situation, and the Belgians were satisfied with it. It was the first of the Fund's standby arrangements, which later came to be a frequent and very useful operation throughout the world. It was the first time the Fund had intervened in a payments situation related to the European Payments Union; it was very helpful, because the Europeans had the sense that the Fund was now coming to their assistance. It persuaded the Belgians to continue in the EPU. General Draper was very pleased, because we all felt that at that time there was a very serious danger that the EPU would break up. This was in June 1953, I guess. It was a situation marked with tension, and we felt that with the problems in NATO and other things, it would have been disastrous for the EPU to break up.

For a while in Paris, I had had the responsibility

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for trade matters, but later this was passed on to Ethel B. Dietrich in part because I had too much at hand. But I do recall going to the official level of the OEEC. The OEEC had two levels; one was the ministers, like the ministers of finance, and so on. The other was the heads of permanent delegations to OEEC, mostly with the rank of Ambassador or Minister. The Council met, and I was asked to sit for the United States. This was at the time that the European Payments Union was going to be approved by the Council. I insisted that the United States would not agree to participate in the establishment of the European Payments Union unless the OEEC agreed, in black and white, to take specific measures with respect to the removal of quota restrictions over certain amounts, a matter already discussed for some time.

The proposal, up to that time, had been

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that they would consider doing these things. With some backing from the front office (and I stuck my neck out and I was sure I was right) I read the preamble to the Foreign Assistance Act about the removal of trade restrictions and the establishment of a trading area, and I said in effect, "We have no purpose in providing 350 million dollars to the Payments Union, unless that purpose is the removal of trade restrictions. We cannot justify making the 350 million available unless, at the same time, specific action is taken which will enable us to believe that we are making some progress. We don't want the promise of action; we want action. And therefore, we want these words changed from "will study" to "we will, as of a certain date, do x, y, z, certain removals."

Well, Hervé Alphand (later Ambassador to Washington and a high official of the French Foreign Service) was in the chair and he was

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taken aback. He adjourned the meeting. I heard later that someone had gone to the American Ambassador in Paris and complained that OEEC had been given an ultimatum. When the Paris Embassy asked me and I told them what I had said and added, "Well, that's about it."

And a short time later the OEEC Council agreed, on the trade liberalization, so we went ahead with the EPU. But if we hadn't spoken up, we could have gotten procrastination, debate, and so

on. We were able to use the Payments Union as a lever to get trade liberalization moving much more rapidly than before, which was its basic purpose.

Shortly afterwards, the OEEC set up what we called the Steering Committee on Trade which was at a co-equal level with the EPU Managing Board, but which dealt with trade matters. The American representative was Ethel Dietrich, a highly qualified person, probably more knowledgeable about trade than any of us. She had been professor

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at Mount Holyoke, an expert in the Foreign Economic Administration and in the Military Government in Germany. She stayed on that board for many years, until she retired. The Steering Board for Trade proved to be a very useful body in setting up schedules for liberalization and solving trade problem disputes. There were all kinds of problems that arose in these things; a country cannot fulfil this or that obligation, something unforeseen happens. You have to have a group there which develop solutions quickly.

The Payments Union, for example, got around to the point of each month examining the financial, economic, foreign trade, and payments position of each of a certain group of countries, eventually covering all the countries in OEEC. The Secretariat did an analysis of developments and prospects. This was brought before the Board and discussed with the idea that in this

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was the Board could smell out forthcoming problems and perhaps to make suggestions. The Board was able to smell out, in '52 a kind of a wave of inflation. This led to a ministerial meeting on inflation which discussed possible fiscal measures to counteract it and coordination of policies. It didn't accomplish anything dramatic, but I thought it affected the positions of a number of finance ministers.

In '52 we had the change of administrations, following the election of President Eisenhower. Mr. [Harold E.] Stassen was appointed the new administrator. There also was a change in the central team in Paris. Mr. John C. Hughes became head and Webster Todd was the top economic man. They were not very well briefed, but on the whole there was no major change in direction. Stassen came to the major meetings of OEEC ministers in Paris. He absorbed his brief very quickly. He was completely in sympathy

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with the objectives of the Marshall plan, so far as I could see. He was willing to push the Europeans as much as anybody I knew to get on with things. He was willing to expose the U.S. a little bit more than some.

The organization did have difficulties because of a reconsideration by the Administration of the personal positions of many people in the Marshall plan in Paris, the country missions and in Washington and their dismissal or their retirement. There was a considerable amount of change in personnel. But by the end of '53, too, we had gone through a period in which we had been discussing the longer range future of the EPU. Here the basic position was how far would the British get into bed with the Europeans and how far would they not? So far as I could see they

still had, in the back of their minds, the possibilities of setting up a sterling area using sterling as a basis for payments arrangements. But sterling was still pretty weak, and

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the U.S. side was not enamored with the notion of setting up another big fund to support the British. Moreover, the Common Market was already getting into operation, at the beginning preceded by the [Robert] Schuman plan, which the United States had supported wholeheartedly, without analyzing it at length and in detail.

MCKINZIE: Without analyzing it?

HAVLIK: Yes. We bought its principle without lengthy analysis and discussion of what it might mean.

MCKINZIE: Who was responsible for that?

HAVLIK: I think there's no question about it. Mr. [David A.] Bruce and Mr. Harriman said, "This is toward European integration and we're going to support it."

MCKINZIE: Did you have any objections to it at the time?

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HAVLIK: No, I didn't. I was not involved in it. There were some analyses of it, but the real question was, "Will this turn out to be a kind of cartel arrangement with which the Americans might have difficulty in the future, or will it not?" It was difficult to foretell, but later when the statutes were drawn up, the U.S. did advise on language as to monopolistic practices and restraint of trade.

And when the Common Market arrangements began to be discussed, for two or three years there were different groupings, arrangements, and ranges of possibilities discussed. For a while, it was the United Kingdom, Italy, and France as a group, with Germany out; then it was Germany, Netherlands, Belgium, and Italy; and so on. There was constant moving around in the discussion until they finally did come to a Common Market arrangement.

There was no basic change in the Payments

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Union, essentially, while I was there. There was one change in practices; the Central Banks began to permit arbitrage operations, and they began to ease up on the ability of residents of the European area to convert their currency into dollars for purchases abroad. That brought a greater liberalization of trade and payments, and that was coming about while there began to be an upturn in the gold and dollar reserve balances of some countries. The significance of that upturn was hard to appreciate. We were still debating among ourselves as to how far was it valid to reestablish European monetary reserves, rather than cutting off immediately Marshall plan aid.

That was, I think, a question not only about changes in the European payments system as such, but also in the administration of the Marshall plan aid. But at any rate, the United States began to be in balance of payment deficits about that time, in '54. We noted the figures, but it was hard

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to see if this would be temporary or what it was. Even in April 1953, I went with a mission from the OEEC to Washington with the Secretary General of the OEEC, Robert Marjolin, Sir Hugh Ellis-Reese (chairman), and one or two others. They were pressing Washington for an additional sum of extraordinary aid to help them set up a payments stabilization fund, and also to get the United States to change its procurement policies, to try to do away with the U.S. policy of preference for domestic suppliers on public works contracts, etc. And they were making a big splash. They went to see the Secretary of Treasury, and they went to see the Secretary of State, Mr. [John Foster] Dulles, who simply told them that, well, if they traded more amongst themselves they wouldn't have to worry about trading with the United States. To me (and the mission) this was completely incomprehensible. It just flabbergasted me, and I wondered whether he ever

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listened to any of his subordinates.

The Europeans then went back to Paris, not quite realizing that they were on the verge of a sea change, with the dollar gap disappearing and with themselves in an increasingly strong position. Thereafter, my main concern was with the renewal of the payments system for Germany was now a large creditor exceeding her quotas; there were a few changes, some dealing with the inter-country debt issues and how to settle those. But essentially the payments system remained very much as it was.

Now, a remarkable thing about the Managing Board was that its membership remained fairly stable. All during the four year period I sat for the United States; Hans Karl von Mangoldt was there from Germany; Hubert Ansiaux always represented the Payments Committee or the Benelux, Professor Posthuma, except for the first year, was from Benelux; it was Hartogsen or Getzwold from Denmark and Norway and Carli from Italy.

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The British changed more often -- Sir Hugh Ellis-Rees, Roy Bridge, Alec Grant, Portsmore, etc. And it was Pierre Calvet for France and P. Rossy for Switzerland, all those years. The alternates, or number two men, might vary; my alternate was Triffin at first, then Ralph C. Wood, able and agreeable to work with. They were needed in a lot of preparatory work. The BIS personnel was the same, Fred Connally was the agent all those years. So, you had a continuity.

MCKINZIE: Was there a lot of comraderie that grew in that?

HAVLIK: Oh, yes, we were on quite good terms, despite conflicts of interests. I always enjoyed a large measure of goodwill, and they had goodwill with me. If they had a problem they wouldn't hesitate to come to my office and say, "Look, x, y, z." If there was some problem, say if I thought some question would be arising

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on the French side of the payments position or whether they were going to take some move on the payments arrangements, I wouldn't hesitate to call up Pierre Calvet on Saturday afternoon and say, "Can I come over to the Banque de France and talk about this with you?"

And he would be very frank with me. He could be tart if the occasion arose. But he could also defend the American position with great verve, especially in respect to our promptness and impeccability in the discharge of our specific obligations. Somebody had called into question the willingness of the Americans to pay in substantial sums from the working capital fund because the French were at the time running a great big deficit. Some in the alternates working party had suggested that the Managing Board request special assurance from the United States that such a large payment would be made. Calvet rejected it as an insult to the

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honor of the United States and to its creditability. He made it strong. And the U. S. did come through.

I was on good terms with Hubert Ansiaux, despite the fact that the Belgian position was a constant issue and I could not always accept his views. I was on good terms with Von Mangold, Carli with the Swiss, and with the Board's secretary, which was important; first it was Frank Figgures and then J. Flint Cahan; a Britisher and a Canadian, and we were on good terms. Occasionally we would meet for lunch to discuss things, to see how matters were going and let our hair down. I would tell them what problems I had on my side, if they wanted to know. They would tell me what problems they had on theirs, and we'd try to seek how we could persuade so and so. We used this goodwill to get people to do things. At ministerial meetings or on the lineups, everybody would go out and do a little champagne drinking, arm twisting, whatever was

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necessary for persuasion -- friendly, but, if necessary, firm but polite. I think I had a pretty good store of goodwill.

When I left the OEEC I got a very fine letter from Flint Cahan saying that he hadn't quite realized what my absence would mean; on the one hand, I could diplomatically and in friendly terms explain to the Europeans what the Americans wanted, and I could do the same thing to the Americans on what the Europeans wanted. He thought I did it in a way which left them feeling like gentlemen. I think that if I had a good store of goodwill it was in part because I never violated their trust. If I gave my word, I carried it out. But I never promised anything unless I could do it, and they knew that if I said we were going to do something, we would do it. I don't think that they doubted our motives; they'd doubt sometimes our judgment or tactics, but if so they would say so. They

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knew that, generally speaking, we were in sympathy with their objectives. Some of them aside from the EPU came in, especially in the early years, and urged me to get the U.S. to use more muscle. I remember Dr. Stoppani, the elderly Italian delegate on the first Payments Committee in

the early years. He said to me, "You Americans ought to simply tell the Europeans to stop this monkeying around. Just make them get together and sign an agreement and establish economic union."

I said, "Dear Stoppani, it wouldn't be worth the paper it was written on if we forced it upon them. If we walked out of here, it would fall to pieces. Nothing is worth it unless the Europeans are really going to do it themselves." This, I think, is essentially the thing we had to do. You can't force a marriage; you can with a shotgun sometimes, but even a marriage like that won't necessarily be real and endure.

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MCKINZIE: You might be interested to know that some of the Europeans now contend that had there been huge American force, a greater degree of integration would have taken place. Baron Snoy I think said that if there had been what amounted to American blackmail, if the Americans had simply said, "Integrate or else," they would have integrated.

HAVLIK: I really wonder whether people believe that. Let me put it this way. I suppose it's a part of American policy to defend and to foster the European Common Market. It was, may still be. We are not at the present time opposing it, nor are we, so far as I know, consciously trying in anyway to dismantle it. We may be having problems with it, because it made them more successful and that success has created some difficulties for us, including the extension of preferential treatment and other things which we may want to not like or even oppose -- the

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difficulty of dealing with a group of countries on things such as agricultural quotas, agricultural price preferences and so on. We have not been opposed to the British taking part in the Common Market. In fact, in this country there have long been, I think quite a few people who never quite understood why in the devil the British weren't in there from the beginning. The prospects for the reestablishment of a sterling area in the image of the 1930's and so on, were not good, given the social changes in Britain, given the dissolution of the Empire and given a variety of other things.

So far as I know, we did not use our muscle to try to get the British to go in there. I don't know how much muscle we would have had. We were no longer giving large credits though we were still helping them in terms of support for the pound sterling, I suppose. I doubt that we would have the wisdom to be sure that an

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agreement which we had forced would be productive, that we knew better than the Europeans what should be done and that we could make it stick. It seems to me just to be a highly questionable thing. Baron Snoy may be right. Maybe from the point of view of the Europeans, they could see areas in which a little more pressure on the British could have forced a cementing earlier, areas in which more pressure upon Germany would have done so, or some in which a little more pressure upon the French would have advanced matters. But let's consider this even in respect to the question of NATO, a thing which we have ardently desired and participated in; a combination of military forces, a unified military organization. We helped set up the size of its

tables, how it was to be managed and where its forces were located. And yet were we able to say no to the French when [Charles] de Gaulle said, "I would like to be more independent,"

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and then asked us to get our forces out of France? How much muscle did we have? I mean, if we brought additional pressure upon the English and said, "Look, unless you do so and so, you're not going to get Marshall plan or other aid," I think they would have told us, "To hell with it." And then we would have had to face the alternative of getting out of Europe, letting it flounder and perhaps founder without our aid -- a score of 0 for the Marshall plan.

MCKINZIE: One Britisher whose name now escapes my mind did in fact, say that if there were too many strings attached, Britain would rather go it alone.

HAVLIK: I think this becomes a point for many countries. There is an example as to what pressure can achieve in the issue of the use of counterpart funds. This always was a problem. For the most part these counterpart funds were held in the

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treasuries, and they were to be used for purposes with which the United States was in agreement, sometimes for financing of local construction or for the financing of specific budget items, etc. If we felt the release of these funds would have an inflationary impact, we could withhold our assent. We preferred, in the main, that these counterpart funds be used for what we called productive or economic purposes, you see.

Now, the French, so far as I know, were a classic example. Like others, they had constant budget deficits and inflation and they were constantly coming to the American Embassy, saying, "We need to use for the next quarter so much and so much of the counterpart funds, because if we don't we're going to have strikes or x, y, z difficulties." And the U.S. Treasury and ECA would be reluctant to give its approval, or Arthur Marget would be reluctant to give his approval. Bill Tomlinson, the Treasury attaché'

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in Paris, would wait his time, and just before all hell was going to break loose he would say, "Unless you fellows let this amount go, there is going to be a strike. There are going to be riots in Marseilles, and the Finance Minister, M. Petsch, whom we support and rely upon, will be thrown out of office." He just put it to them and it was tough to deny the French.

I don't say that control of counterpart funds didn't have an effect; it did have an effect. I think Marget did a superb job in terms of trying to control inflation by the careful use of the counterpart funds.

But in the case of the British, the British declined to permit us to specify for them what uses they might make of counterpart funds, or to give us the power of approval or disapproval of their use for various budgetary purposes. They insisted that the funds be used for the retirement of internal debt, which meant that

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they could therefore reduce the amount of interest and amortization over a period of years. This, in some U.S. eyes, was tantamount to heresy. If a debtor is borrowing from you and then turns around and wipes out debt elsewhere, you are being had. Now, of course, what they were doing was wiping out internal debt, not external debt, but that was the way which they had of simply canceling transactions. And so far as I was concerned, I was sympathetic with the British. They had a sophisticated experienced government; why should we establish for them priorities for economic and budget programs?

Still, we might use it for window dressing in some countries. In some countries they had urgent needs for everything. You might say to a country that you may use these funds for education, you may use these funds for agricultural research, you may use these funds for x, y, z, but not for military use and not for the police. We will

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identify the use of our funds with what we would call socially acceptable and "good smelling" projects, you see. But one can agree that if you finance a good smelling project with your funds and they finance bad smelling projects with their funds, you are indirectly, by financial osmosis, helping to finance these uses, too. It does have some effect, I suppose. You advance some things and hold back others.

MCKINZIE: But you might agree that the political people will put more emphasis on that than the people who are on the economic side?

HAVLIK: I don't know how much. I think that if so, they were certainly not altogether cognizant of what it might do. For example, look at the case of India today, where vast amounts of counterpart funds have been accumulated. I understand that it's difficult even to know what to do with these, where to turn. If they

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let them loose, there might be greater inflation, greater deficits in the balance of payments, which we and other aid participants would have to finance. If they don't let them loose, can we be in effect controllers of a part of the country's economy for an indefinite period of time? Can they ever convert them into dollars? In this I have instinctive views, perhaps. I was never happy about counterpart accumulations and I was against, perhaps rightly or wrongly, the retention by the U.S. of a certain amount of counterpart funds for U.S. governmental purposes, the 5 percent.

This, to my mind, gave rise to some reckless uses of the funds. It was in a way a partial repayment in dollars to us. If we hadn't had that money, 5 percent for our disposal, we would have had to buy the local currency with appropriated dollars. Therefore, we were escaping the use of dollars and we were reducing our dollar contribution by 5 percent.

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And I felt that if we had calculated our dollar contribution correctly, this was wrong. The second thing I thought is what to do with this money; there will be local currency leaking out of our ears. In fact, it got to be at certain points Mickey Mouse stuff used under standards which were looser

than those applied to government expenses paid out of normal congressional appropriations. But the device no doubt helped to pass the necessary legislation in the Congress, because they felt that the Government was getting something of specific value to us out of the foreign aid. Perhaps that was worthwhile.

This is pretty much my story of that period. I do want to say a word about the fact that I had been in Paris for six years. I was very happy there. My job was challenging, I was one of the top dogs on the U.S. side, financially, I think. I had considerable leeway. I worked on the whole with people of high quality and trust

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and enjoyed my European colleagues, and my family enjoyed living in Europe. But my girls were growing up and had to begin college in the U.S. Toward the end I was rather unhappy with the consequences of the change of administrations. Harold Stassen personally was a rather decent man to work with. He took a brief well, he was bold, straightforward. Still, around you, your colleagues were falling by the wayside, simply as a result of one-line cables saying, "Please resign or leave the office and get the heck out of here," without explanation and without appeal. I was concerned about staying in Paris too much longer, because I couldn't tell at what moment I might do or say something which headquarters might not like.

I was obviously serving at the pleasure of Mr. Stassen. He at any moment might have somebody else he wanted to put in perhaps a political character. Some of the new people who came to

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Paris under the Eisenhower administration were appointed because of political considerations. This is no charge against them, but the fact was that Mr. Hughes was a big textile manufacturer who made contributions, and Mr. Todd of the Todd Shipyards was a strong Republican wheel horse in New Jersey, and so on. They enjoyed their jobs and did reasonably well, I think. They did not have as much dedication as Stassen. But still I could easily lose my neck.

Therefore, in late '53 and the early part of '54, after Draper, [Paul R.] Porter and other people left, I looked around for other possibilities. Leads were forthcoming, two or three of them from back in the States. I chose to join the World Bank, which had a good reputation and to which I was invited by J. Burke Knapp, a former boss. The rest of my career was in the Bank -- and no part of it in Europe, but all of it in Latin American affairs.

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The only echo of my Paris work was that after I joined the Bank, Mr. Stassen sent a message asking if I would accompany him on the trip to Southeast Asia to investigate the possibilities of a payments agreement amongst the SEATO countries. After consultation with Mr. Knapp, I sent back word that I had just entered the service of the Bank and didn't want to lose stride and take leave from my job, especially with the assignments that I had been given. And that was the end of that discussion.

MCKINZIE: Throughout that whole postwar period you dealt with the very highest levels of monetary policy. How did the U.S. Department of the Treasury and its own independent thinking

affect your work? Particularly, Mr. Morgenthau had very strong ideas, and even after that the Treasury Department had what amounted to its own policymaking people. They oftentimes ran

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contrary to the State Department on that sort of thing.

HAVLIK: It may be that during some of the lend-lease decisions, like the Quebec Conference late in the war on the readjustments of lend-lease to Britain as a result of V-E Day (and the pipeline), the Treasury did throw its weight around. Mr. Morgenthau got to go with the President to that conference, and he was speaking on lend-lease policy, which the Lend-Lease Administration couldn't understand. It was not that he was all wrong. He was cautious and somewhat more conservative, perhaps.

On the Monetary Fund, they, of course, were the leaders. There is no question about this. The State Department input was largely through Acheson, Clayton, and Collado. On the British loan, again, the Treasury had the principal weight and, I think, some of the responsibility with respect to the problems of

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convertibility and the fiasco which followed. They had charge of the disbursement of the loan, and it was an embarrassment when at a later date the loan was exhausted and convertibility had not been reached. They were asked in the Congress to account for the money disbursed and they found difficulties in identifying the specific uses to which it had been put. I don't think that they had ever felt, and rightly so, that they had to identify things which had been bought with that money. The money was a balance of payments loan, and it didn't have to be tied to specific items. But, if I remember correctly, they did succeed in reconstructing some sort of a story as to what went out of this country which matched the amount of money which was financed.

One important institution which was set up to coordinate the views of the several agencies having responsibilities in foreign finance –

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and to my mind a rather effective institution -- came out of the Bretton Woods legislation. The National Advisory Council was chaired by the Secretary of the Treasury and consisted of the chairman of the Export-Import Bank, the Secretary of State, the Secretary of Commerce, and the chairman of the Federal Reserve Board, I think.

This operated at two or three levels. The Cabinet level members would not meet unless there was a really first rate occasion of some sort. Much of the time they would delegate their powers to their chief financial officers. Then below them was what was known as the National Advisory Council Staff Committee. This committee was, in fact, responsible for the preparation of position papers on the issues coming before the National Advisory Council. It consisted of the representatives of those same agencies, but at the working level, and met

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fairly frequently. The question of who attended at a particular discussion depended upon what the subject was. I would often go. If, for example, the question came up as to the approval by the National Advisory Council of an Export-Import Bank loan to Mexico (we knew the Mexican President was coming for an official visit, and we knew that he would have a loan request in his hand), the U. S. side had to decide in advance so that President Truman could tell him in a graceful way how much we felt we could do. And on that occasion, after discussing the question with the Export-Import Bank and people in the State Department, we had concluded, I with Norman Ness, that a loan in the amount of 50 million dollars would be appropriate and justifiable. The Export-Import Bank staff felt that that was too much, that they could get by with 25 million for certain specific projects, and otherwise we would be financing

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their budget.

I said, "Well, we could tie this to presently visible projects, if you want, but I think the 25 is just too little. Mexico is a big country, and you can't give it a small loan. And in modern financial terms that's at least 50 million dollars."

And so what happened was that I went to the National Advisory Committee Staff meetings, and the staff committee drew up a paper recommending a loan of 25 million. I asked for the paper to say that the United States State Department representative disagrees and recommends a loan of 50 million. And that was done and so the paper went up to the Council. Of course, we had discussed this with Ness and he with Acheson, who was sitting on the Council. When the matter came up (I wasn't there), the Council decided on the \$50 million. As soon as the meeting was over, George Willis of the Treasury Department

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staff, called me up and said, "How did you know?"

On the other hand, a question on an exchange rate matter or some monetary issue may have come up in the International Monetary Fund, and the U.S. director of the Fund may have referred the issues to the National Advisory Council for instruction. He would outline his position, recommend a specific decision and ask the Council for approval. On such issues Harold Spiegel from our Monetary Affairs Division would go, instead. We divided it that way and if there was an agenda with several things, we both might go. It was informal and all the people at the staff level were friendly. We could argue violently and sometimes we stood on our prerogatives. On the occasion of the first allocation of Marshall plan funds, the Reserve Board people rather objected to some of the recommendations I made. Finally, I said, "Look,

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we looked at this thing very closely. This is our decision and you can comment. We have listened to you but this is the way we still feel about it, and I'm not going to change it." Finally they accepted it. The other members had a chance to have their say and if it was a major issue they could in effect appeal it to the top. And of course they were correct on some things and then changes were made.

So, the National Advisory Council was, I think, a very effective instrument for inter-agency cooperation and clearance. The Treasury was powerful and they had a good staff, but other people would contribute. Their contribution depended in part upon their staff abilities. Federal Reserve had something to say though, often technical. The basic decisions were really financial and political. Treasury and State were really carrying the ball. The Export-Import Bank, when it came to its operations, had

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a great deal to say about the technical analysis, the worthiness of the project, the credit worthiness of the country, and so on. If the matter came before the National Advisory Council on referral from Export-Import Bank, they would almost take it for granted that Export-Import Bank was approving it.

MCKINZIE: In those early years there was some desire to have the Export-Import Bank make some fairly large loans, particularly after its capitalization was increased substantially. Some of the requests for the Ex-Im Bank were really of a political nature, and the Ex-Im Bank rather dragged its feet on these. Were you involved in any of these?

HAVLIK: Not too many. It was involved in a discussion of a loan to Italy in 1947, I think, where we in State were anxious for the Italians to get a loan. It was presented as an economic loan.

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But a question was posed by the chairman of the Export-Import Bank, Herbert Gaston, a powerful and very dignified and knowledgeable figure, with whom we had good rapport. The question from him to other Ex-Im directors in effect was, "How strong and stable is Italy politically? Are we making a loan to a country which may be disrupted by the Communists tomorrow?" They raised the same thing on loans to the Chinese Nationalist Government headed by Chiang Kai-shek. "We hear that Mao Tse-tung forces are advancing beyond such and such a river and that doesn't look too good. If we now make a loan to Chiang Kai-shek, will we get our money back?" And I would then have to haul our political and area officers to the meetings of the board of the Export-Import Bank to make a statement, to answer questions and help to clarify matters. Occasionally, if there was an issue coming up that was very touchy, I would want to be very

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sure that Willard Thorp (Assistant Secretary for Economic Affairs in State), was going to be there, because I couldn't carry it alone. For a time, Norman Ness or I were speaking as the State Department representatives at the Export-Import Bank board meetings, for the Secretary of State (who was legally a Board member). But Gaston felt that the State Department's representative voting on the Ex-Im Board had to be a person who had been confirmed by Congress in his position; it was the correct thing to do. But if Willard Thorp couldn't go, Ness and I, or one of us, would go as an observer and simply listen. Then if they had a specific question, we would reply to it. On one occasion I felt, from discussion in the Board, that we might see the Board at its meeting the next day turn down a loan that we in State were hoping would be approved by Ex-Im. I called Willard, who was at meetings in New York, to come down overnight

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and attend the Board. He came and we got it through the way we wanted to; it could have gone off the rails otherwise. There's no question we used our muscle to get some loans with special political importance to the U.S. The Export-Import Bank defended itself. There were limits as to how far we could push the Ex-Im Bank. As I explained earlier, we found that we could not finance the interim aid program for the winter of 1947 in Europe through the Export-Import Bank. Secretary Lovett went over to the Export-Import Bank to talk with William McChesney Martin about loans for such a program. Martin just felt he couldn't do it for that purpose. Having satisfied ourselves on that score, we felt that we could go to Congress with a request; and there was no criticism in Congress about Ex-Im on that problem.

As to the French loan earlier, I didn't participate in that one. I heard a lot of echoes

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from the discussions there. I had the impression that the State Department had a difficult time on that one.

But I don't think that in the main, during my period there, we had many loans before the Ex-Im Board which were of a political nature. Thus, we were anxious for the Export-Import Bank to make a loan to Chile, and we were anxious for the World Bank to make a loan to Chile. We supported it, but I don't think that we exercised muscle to get it.

On the loans from the World Bank, I think that the policy of the State Department and the U.S. Government was a pretty good one. We tried to satisfy ourselves that the loan was for a good purpose, that the bases of it were sound. But if there were elements of judgment as to how much creditworthiness there was, how good the project was, when the loan should be made, and so on, we deferred to the World Bank. Nor did we want to

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say that we didn't like it for political reasons if they made a loan to a certain country.

Now, only in more recent years, with the kind of [Bourke B.] Hickenlooper amendment business and the implications of that for the World Bank, there has begun a feeling that the U.S. Government should interdict loans to countries because of disagreeing with them and their national policies, such as expropriation in Chile or Peru. These are two that now are in the docket, so to speak. Even there the pressure against the U.S. is tremendous in the board of an organization of that kind. It's not very easy to say that just because our property is taken, we will interdict the flow of the World Bank aid and, perhaps, the flow of other aid to that country.

We sought to avoid interfering with the internal operations of the World Bank, the Inter-American Bank, etc. But the Inter-American Development Bank is different. This is based on my observations at much later date, when I was

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looking at it from the point of view of the World Bank. I knew quite a few people at the Inter-American Development Bank, and I've seen some of the history of the discussions. I was a consultant to AID on problems of the Inter-American Development Bank and related problems after my retirement from the World Bank.

And the issue is slightly different. There the Americans had practically all the hard money. There the president was not an American. There the board of directors was completely Latin Americans except for the U.S. people. There the staff was practically all Latino with very few Americans. As the Latinos explained it, "The World Bank is a lenders bank, run from the point of view of the people who put up the money. The Inter-American Bank we want to be a bank which is run by borrowers." This has caused concern, especially in the Treasury Department, which is principally responsible for backing it up. They

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named the executive director, and therefore, had a large responsibility. They named the number two man, too, so it was mostly Treasury people who are Americans at the Inter-American Bank - not altogether, but many of them. But the Treasury was concerned. In considering the appropriations of new funds for extending the operations of the Inter-American Bank, the Congress has been a bit snippy at times. As a matter of fact, it insisted upon forming a committee to review the operations of the Inter-American Bank and to audit its accounts to see whether the money had been well-spent.

Whether the same thing is true with respect to the Asian Bank, of which we are members, I just do not know.

MCKINZIE: Eugene Black used to send Mr. Truman a letter about every month and tell him, I suppose just for informational purposes, what loans

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were contemplated and what loans were made.

HAVLIK: I think an Executive Director on the Board of the World Bank is not in a comfortable position. He is presented with a package of documents about a half a foot thick consisting of the loan contract, which has already been negotiated, sometimes a guarantee contract by the foreign government, the technical analysis of the project, an economic report on the country, any side letters, and any corollary agreements. He is asked to look at that and then he has a short period of time within which to consult the country or countries he represents if he wants to obtain approval or disapproval or to seek comments.

And rarely is it that he can interject and oppose the whole deal. He may be able to defer it if he feels, for example, that the procurement arrangements under a loan are such that they would violate his country's interests or would

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give unjustified preference to some other countries. If he feels, for example, that the loan is for the expansion of agricultural production of a commodity of which there is already a world

surplus or which threatens to cause a surplus, then he may try to intervene. But in that case he would do it by coming to the President of the Bank or a top officer and asking him to postpone the item, so that the problem could be explored. And that has happened in some cases.

But ordinarily, for the vast amount of lending, he is up against the gun. What he can do is raise points about that particular loan and ask them to be taken care of during the administration of the loan. He can ask for changes in the procurement procedures or he can withhold his agreement, in which case the loan may still go through. What he would be most likely to do is make comments upon the

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issues of that loan, in which he, in effect, puts the management on notice that he expects those comments to be considered, given full weight, and taken into account in all forthcoming loan operations. It does have an effect -- not 100 percent, 50 percent, or whatever, because some of the other directors may see things differently. Maybe there is a different point of view or a different thrust. The governments are not in agreement necessarily on how things should be done, how much latitude should be given to local governments, what the margin of credit would be, whether certain projects are eligible for loans, whether the World Bank should finance education or some other sector.

But the plain fact is that the Board is not a rubber stamp board. Thus the management may be called upon to explain the lending policy for a certain country. There may be occasion to discuss lending policy vis-a-vis a certain

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area or the lending policy in a certain sector of the Bank. It has more recently published papers on lending policy, water supply, communications, agriculture and so on. In the early days, the management could practically say, "Here it is," and bang, they would just put the documents on the agenda of the Board. Within a certain number of days, I think it was seven, the Board met, and the signing took place the next day. In more recent times, there is often some time between approval by the Board and the signature to allow the Bank to assure itself that some special undertakings or certain requirements be carried out by the borrower, like establishing a new company, passing a piece of legislation, working out a rate policy, or change in a procurement policy, or something like that. And I still think that the review by the NAC is important, and the instructions to the executive director are important. The executive directors come and go; they must be baked with the feeling

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that the whole U.S. Government is in back of them. These documents are gone through and they are discussed. They are discussed at the NAC, points of issue arise, and these points of issue do take their effect sooner or later. In the Inter-American Development Bank, for example, an issue in recent years was the use of hard currency loans versus soft currency loans. On the U.S. side it was felt that some of the bigger and stronger countries like Argentina, Venezuela, Brazil, Colombia, and Mexico, were pretty creditworthy. It was felt that all or a large part of their loans should be in hard currency, the dollar, and not in local currency which is repayable in local currency. So, the question of distribution of hard and soft loans between various categories of

countries was an issue which the U.S. was pushing, resulting in a change of policy. There were some limitations. If you have so much soft

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currency and you want to make a certain amount of loans when you have only a certain amount of hard currency, you may have to make some soft currency loans to the big countries anyhow, to achieve the volume.

The history of the World Bank is interesting, too. Collado, who was my boss at the State Department, became the first United States executive director, and Eugene Myer was the president. At that time, of course, they were occupied with getting the Bank to start operations. The views of some executive directors at that time was that they would in effect make the policy decisions and decide what loans are going to be made, and the president would then go ahead and do them. Some of the directors discussed apportioning a loan program on the basis of certain criteria. This resulted in a certain amount of friction between the Board and the management, and so on. I don't know all the friction, but there

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was some. Eugene Myer left his job after a relatively short period of time. He wasn't president more than a year or so, and the question came up as to who would succeed him. The nomination of the president was in the hands of the U.S. Government. Whomever the U.S. Government nominates becomes the president, providing he is not a Jimmy Hoffa or someone like that.

So, Clayton, who was responsible for making recommendations to the President and the Secretary said, "Well, who can we get?" And Collado suggested [John J.] McCloy as being very knowledgeable, having been in the War Department and a Wall Street lawyer; a very capable person. So McCloy was approached, and he said that he would accept the job on the condition that Mr. Collado resign.

And Collado left.

MCKTNZTE: Did they disagree on things?

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HAVLIK: No, I think that what he had in mind was that if he was president, he wanted to be president and run the Bank. So, Collado resigned. He was consultant for a while and then, I think, he went to Standard Oil as an assistant treasurer.

MCKINZIE: Could you talk a little bit about the relationship between the ECA Paris and ECA Washington? You had two very strong chiefs, Harriman, at first, in Paris, and Hoffman in Washington, and in a sense you had two centers of policymaking. How did it affect your work?

HAVLIK: It did not, to my knowledge, affect my work to any great degree. I think that we in Paris always felt that we had a big input in policy issues. I don't have any doubt. But I rather think that in the final analysis, if Hoffman might have gone one way and Harriman the other,

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Hoffman would have won his way out. I think, in effect, the kind of conflict that might take place between Paris and Washington was more likely to take place at lower levels, like Bissell versus Katz on the German question in EPU, which I cited earlier. They differed as to possible relief for the German payments deficit at the beginning of the EPU. But even at the lower levels you never knew which cat was going to come down on its feet. It depended upon the force of the arguments and, to some extent, whether it was a "close to Europe" situation or whether it was a "close to Congress" situation. If it had to do with final decisions as to how much money was going to be allocated to a certain country, Paris, I don't think, had the major say about it. A conflict might take place between Washington and a country mission, but if there was a conflict, the country mission would often be overridden, possibly on the basis

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of factors which were beyond its responsibility. The final decisions were Washington's, but it wasn't necessary to override in every case by a long shot, and I don't think there were too many cases of persisting disagreement.

MCKINZIE: But you didn't see that that organizational setup had any adverse effect upon the operation of the ECA?

HAVLIK: No, I don't think so. I think, in fact, that while Harriman exercised a kind of a political and spiritual guidance, the main work of the Paris office was largely with the OEEC where the individual country missions couldn't operate and go give additional backing, support, and assistance to some of the country missions where they wanted guidance on multilateral policies or on specific issues. If a mission was trying to push industrial productivity, then the people from Paris might give additional

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impetus by visiting the mission and providing expertise that the country mission lacked. If there were problems about the use of counterpart funds, Jimmy [James R.] Brooks, who was running counterpart funds in Paris, could go there and work out with the mission people the methods of accounting for the counterpart funds and disbursements and the uses to which they were put and so on. He could give them guidance rather than them having to go to Washington.

But people from the missions often went to Washington and conferred directly. They communicated directly to Washington, with copies to Harriman. Sometimes we both replied. If there was something involving a multilateral policy, then it would be a tri-cornered confrontation. But Washington, I think, would be having the last say, pretty much.

I don't think that there was excess capacity

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in the Marshall plan central mission in Paris by reason of that kind of dual role. It was a fairly lean staff, and I think simply the presence, closeness, of the Harriman staff to the OEEC gave us an invaluable in look and influence that we couldn't have had otherwise. It was impossible to do

that from Washington; you had to have somebody there whether it was one man, two men, or four men.

MCKINZIE: In the middle of 1950, perhaps after the Korean war had begun, Richard Bissell resigned from the Washington staff saying that the aid plan had become now a military operation, that after NATO was formed the emphasis was no longer on the economic development, but on rearmament. He said, in effect, that he didn't like to be affiliated with a declining enterprise, as if to say that the ECA was phasing out. Did you note any particular change?

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HAVLIK: There was a certain shift in what you might call the noise level of policy, the direction of noises. Toward the end of the Marshall plan period, about 1950-52, we did begin to have the problems of NATO. And it wasn't simply about military organization. What was involved was the appropriate contributions of the participating countries to the common military effort. One aspect was military; but then it had to be judged in terms of the economic potential, in terms of cost sharing. It took a little time to build up. It started off in London with Charles Spofford; and then the London headquarters were shifted to Paris and it centered there. Harriman was very much involved in this, and he was extremely interested. [He was chairman of the NATO Defense Financial and Economic Committee.] It was something that was alive, it was an important issue; it was current and some of the best efforts of the best people we had were engaged in that affair. Our economic staff, what we called the

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economic capability staff of the program in Paris -- Lincoln Gordon, John Lindeman, Dearborn, Bruno Luzzatto and others -- was absorbed in that particular operation. I had nothing to do with it, but they were absorbed and they were in it. They went to Lisbon to a big conference about sharing, all of which was detailed in cost Acheson's book (*Present at the Creation*). But the glamour of the European effort in the Marshall plan was in effect wearing off. The dollar deficit was less significant than before; the countries were becoming stronger. And the dominant issues for the Americans were how to organize this help for the military and how to do it without paying for all of it. And this may why Bissell felt that way. I don't know personally that he did. I don't know personally of anybody who left the Paris office because he was feeling that that was the situation. The top people who left the Paris office later on

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left mostly for personal reasons. Milton Katz left because he wanted to go back to teaching at Harvard. He had been away for just about four years and it was just about time; he considered himself a law professor. Draper left because Eisenhower had been elected and he felt obliged to leave; the same with Paul Porter. Some mission chiefs left, too, because they were Truman appointees.

So, I don't know whether what Bissell felt also had an effect on other people or not. This I cannot tell; I just don't know.

MCKINZIE: The French at one point proposed that military production be undertaken wherever there were facilities for manufacturing military end items (obviously they were thinking about production in France). In order to equalize the cost of the thing, there should be a kind of defense pool to which all the NATO nations would contribute financially, and military end

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items would be produced where they could be produced but would be paid for on a kind of proportionate basis. That would bear upon your own work in the sense that it would affect balance of payments. Did such issues as that come before you that you recall?

HAVLIK: No. So far as I know, it didn't come up. I was never faced with that kind of a question. It may have come up at a later stage or it may have been considered on the U.S. side and simply taken care of, saying that this would not effect the Payments Union significantly or if it does, we will take care of it later. I don't know how the thing was handled. There still remains the question as to where the goods would be bought. Purchases would have to be focused where the facilities were, unless a decision were made to set up new facilities. That decision could be taken, I suppose, in some respect.

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MCKINZIE: I think the French were trying to prevent that.

HAVLIK: That may be, but I think that probably in proportion to the total trade that was not a major item. Of course the planes were largely U.S. planes, and the tanks. The Germans would not manufacture stuff knowing that this stuff would be coming from the U.S., and whatever the French were manufacturing was not that much. I don't know what they could have produced which would have satisfied the NATO requirements. The British were producing some tanks.

MCKINZIE: What kinds of outside issues would tend to bear mostly upon the European Payments Union? Were there political crises in individual countries that would periodically cause some concern?

HAVLIK: No, they were mostly economic. Some of these payments situations were reflections of concerns

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about economic policy or about the political stability. It may be, for example, that sometimes the payments deficits of the French may have reflected doubts about the strength of the franc, resulting in the conversion of francs into say, Swiss currency. A payments problem could arise by people anticipating payments, making payments in advance, and refraining from collecting receipts. All you have to do is have a change in rhythm of those two things and you can have a payments crisis.

If payments are going out at a rate of, say, 10 million dollars a month, and receipts are coming in at the rate of 10 million dollars a month, the position is balanced. But if people get alarmed and they suddenly anticipate their payments, the next month there may be out-payments of, say,

twice as much, 20 million dollars. At the same time the people are alarmed and say, "Well, we've got receipts coming

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from abroad, but let's leave them there." So, there are still the same basic assets and liabilities, so to speak, but out payments in one month go up to 20 million dollars, and then there are no or little in payments. So, there is a shift immediately from a prior balance at zero to a deficit of 20, or a balance of to .a deficit four or five times as much. Something like this operated in the case of Germany during the payments crisis in 1950, and also in the case of some other crises that occurred. I can't remember exactly the details, but there's no doubt in my mind that the swing in the terms of payments affects the current payments positions, just as I think it is affecting the position of the dollar. It's reflected in pressures on the exchange rate. There is no doubt about it in my mind. The fundamental flow of goods may remain the same, but the speed at which people make payments or accept receipts affects the

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balances in currencies in the Central Bank as a result of the inflow and outflow of foreign funds. Some of these swings reflect current political developments, and some of them reflect external or internal judgments upon the outlook of the country in economic terms or in political terms.

MCKINZIE: Were you ever in position where political considerations or a political officer influenced your own position in a way that would have been to you unsound economically?

HAVLIK: I don't think so. Of course, the political offices would perhaps stress the importance of some transaction taking place or not taking place. There may have been cases where purely political considerations would dictate, "Well, we're just not going to do this." We didn't do the post-UNRRA thing in Eastern Europe in part because of political considerations. And

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there's no question in my mind about the adjustment of lend-lease. The political considerations affected, perhaps, the volume of lend-lease.

I would never consider that one could do foreign economic work outside the context of a foreign policy; it's impossible. There may be cases of purely political, let us say, relationships, based upon power balance or military considerations. These may affect the decision financially to support or not support. But it may also be possible in the reverse; perhaps the pure force of economic events in certain countries may be caused or affected by some shift in outside political attitudes. It's more difficult to document.

I do have a feeling that we do not always respond to the impact of a deteriorating economic situation in foreign countries in the same way. It was interesting that after the Greek-Turkish program crisis in 1947, the State

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Department set up a committee headed up by Colonel William A. Eddy. He called together a committee, on which I sat, to make a review of all the countries with which we had friendly

relations, with respect to the prospects for their financial needs, the prospects of economic financial crises occurring and what we should propose doing about them.

Eddy later made a report to the Secretary of State. What he was interested in was to try to see if we were likely to get caught with our pants off in some countries. I remember Eddy saying, "Now, in what countries in South America do you think financial crises are likely to arise?"

I said in effect, "Well, generally speaking, Latin America is in pretty good shape, but we are certainly going to see a crisis in Chile and maybe in Peru, that is a financial crisis in terms of exchange rates and balance of payments."

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He said, "Well, what do you propose to do about it?"

And I said, "We propose to do nothing special. Chile is going to have a financial crisis; that's something they have to live with. We see no remedy that we can put in there in any way which would cause them to correct that situation or enable them to avoid another one. If they do the right things, they won't have another one. If money is provided, maybe they won't do the right things." So, if you feel that they are faced with a financial crisis which they can't avoid and which they can deal with if helped, you may say, "All right, we're going to help you deal with this one, provided that you also take measures to prevent the outbreak of something else." Thus in recent years the International Monetary Fund has agreed to assistance, provided the country takes steps which enables it to avoid recurrence of the situation.

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So, in the Eddy case we reviewed all these countries, and the report was made to the Secretary of State. I don't recall any argument on the political side that we should give aid to Chile at that time just to maintain good relationships with them, even though we felt that it was economically doubtful. We didn't get an argument.

At the end of the period in Paris, I went to work in the World Bank, and that set up a completely different life. I was not in contact with what went on after that with Mr. Stassen and other people in foreign aid. I was aware of what was then developing in aid, the broadening of the aid effort and beginning of the Development Loan Fund, and so on. But I didn't have any input into that; I was just aware of it and of course cooperated with the people from the U.S. side who came over to work out with us on problems of financing projects in which

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we both had an interest.

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