Oral History Interview
with
ROMAN L. HORNE

Economist, U.S. Dept. of the Treasury, 1944-46; organizing secretary, International Monetary Fund, 1946; deputy secretary, IMF, 1946-56; and secretary, IMF, 1956-66.

McLean, Virginia

December 15, 1972
by Richard D. McKinzie, Harry S. Truman Library

The Harry S. Truman Library
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NOTICE

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RESTRICTIONS

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MCKINZIE: Mr. Horne, I wonder if you could tell me how you happened to come into Government service, and then how you came to the War Production Board, and what circumstances led you then to go from the War Production Board on into the Department of the Treasury? I believe that was 1944 when you went to the Treasury.

HORNE: In answer to your first question, I have been in and out of government a number of times. First during the early years of the [Franklin D.] Roosevelt administration.

Like many other people entering college

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in the twenties, I ran into some rough sledding when the depression came along, and fortunately was offered a teaching fellowship at Ohio State University, which enabled me to get both a Masters and a Ph.D. during the worst years. While I was still working on my doctorate in the field of international monetary theory, a favorite professor of mine, Dr. H. Gordon Hayes, came to Washington to take a rather responsible position in the Bureau of Foreign and Domestic Commerce. That was the beginning of the Roosevelt administration. Right away he began urging me to come to Washington, although I didn't yet have my degree. I held off until the June of '34, because I had certain requirements to work off back at Ohio State. Coming to Washington a year after the Roosevelt administration had taken over, I was afraid that all the good opportunities were gone, but hoped that

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I might be able somehow to take advantage of my professional training.

Through introductions that Professor Hayes made for me, I was able right away to get into writing and editorial assignments, frequently on a short-term basis, without getting too deeply entangled in the bureaucracy. I got out a number of publications under my own name, and came to the attention of a good many people, meanwhile completing the remaining requirements for my doctorate, which I got in 1936.

Among the people whose acquaintance I made in due course was one Chester A. Davis, head of the Agricultural Adjustment Administration. I was doing an editorial job in the Department of Agriculture in 1937 when the AAA came under fire in the courts and Mr. Davis, a favorite of President Roosevelt, was

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shifted to the Federal Reserve Board. He invited me to go with him.

Well, that was -- in view of my background -- like the rabbit being tossed into the briar patch. I was very much at home at the Federal Reserve Board, which I had just joined when they moved into that gorgeous marble building they still occupy on Constitution Avenue.

By the time I got to the "Fed," as it is called, I was beginning to feel that my professional career was more or less launched. Meanwhile, I got married, and my wife, a Vassar-trained economist, felt that I might go to seed there because it was all too comfortable. I was in a receptive mood therefore when, in the spring of 1940, I got a telephone call from the Tennessee Valley Authority asking me to come down

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there for an interview. I went, talked to Gordon Clapp, [David E.] Lilienthal, and others. They wanted me to become their chief reports editor. I had some little difficulty understanding this or how they had even found my name. But TVA had had some rough going during the mid-thirties, what with Commonwealth Southern and [Wendell L.] Willkie -- trials, tribulations. So, they had asked me to do this primarily because (a) my credentials were generally satisfying and, (b) -- and more importantly -- I was born and reared in the mountains of western North Carolina and had a familiar -- an all too familiar -- knowledge of the kind of problems that TVA had to deal with, plus the fact that I was working then on the Federal Reserve Bulletin, a very prestigious monthly, and they wanted to introduce some of that style

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into their own publications. My involvement there, while highly rewarding, is not particularly relevant to my later career. But briefly, the TVA moved very rapidly in the early forties, with the war coming on, and by the end of '42 people with my kind of training and experience were being urged to come to Washington and make a contribution to the war effort.

The War Department offered me a captaincy in the Army Specialists Corps, where I was to work on reports to the President and the Congress. This sounded good, but you will not have found a reference to this experience in any file on my background. The Army took me on loan while processing my commission. I moved to Washington in early '43 and went to work in the War Department, then housed in a building referred to as the

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New State Department building, very close to the Federal Reserve, and shortly thereafter moved over to the newly completed Pentagon. I plunged into the kind of work they had mapped out for me as best I could, but before my commission came through I realized that a captain -- particularly with a civilian's demeanor, dress, and independence of mind -- would play no significant role whatever in that atmosphere. He was little more than a messenger boy. I felt trapped, not realizing that a means of escape would shortly appear.

After about two months on the job a man from the personnel office came around to me and he said: "Mr. Horne, there's been a mistake in the handling of your application. We gave you the wrong form to fill out to begin with. Let's just tear this old one up and you fill out the correct form and the

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processing will all move along very much faster."

I said, "Thank you very much," stuck the new form in my pocket, put on my hat and coat and walked out and over to the War Production Board where I knew, as a civilian, I could do something useful. There I moved immediately into a position as Assistant to the Executive Secretary, where my principal duty was to organize meetings of the Board, assemble documentation, and write the minutes of Board meetings. That would have been March or April, I guess, of 1943.

Well, I won't go into what happened during the war, except to say that when the Allied armies moved into France in June of 1944, all of us in the War Production Board with professional background began to think about our personal reconversion to a peacetime career.

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MCKINZIE: May I ask whether or not there was a feeling in the WPB that some modification of that organization might be possible? That the idea of planning for peacetime production was, in the minds of some, just about as important as planning for wartime production.

HORNE: Do you want me to speak on that for a moment?

MCKINZIE: If you would, please.

HORNE: This was very much in the minds of people at the WPB. When I speak of the WPB in this context I am really speaking of a staff and an office -- first under [Donald M.] Nelson, then under [Charles E.] Wilson, and subsequently under [Julius] Krug. Our offices were located on Independence Avenue about four or five blocks west of the Capitol.

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The Board itself actually was made up of more than that: the military and a lot of big brass at cabinet level. And while the Board was advisory to the Chairman, it nevertheless carried weight. People who were civilian-oriented began putting up a mighty struggle, even before the landing in Normandy, to get on with reconversion to a civilian-oriented economy, and at a minimum to initiate meaningful planning. How to let loose all these wartime plants; how to get back on a civilian basis -- these were staggering challenges. But the military-minded people -- and this is part of their training and I don't wish to fault them for it -- the military-minded people didn't want to let anything go, anything, until they had victory in the bag.

When the WPB, for example, would authorize

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the Tennessee Valley Authority to go ahead and build a new dam back in the mountains somewhere -- put up an enormous village around it to house imported labor and technicians, as you had to do -- it was a struggle to get allocations of materials and manpower to build essential supporting services. This was very shortsighted, in my opinion, because if you had all of the essential community facilities the women living there with their men would have been freed to do more important work. But you could hardly get approval to build even a sewage disposal system or a commercial laundry. So, if a woman had to stay home, do her laundry and mind the kids -- well, she didn't have much time for productive employment. And while there was a lot of pressure from some quarters to get on with reconversion, there was just as much, if not

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more, to keep the heat on until the war was over. Some people, unfortunately, had vested financial interests in this, and, indeed, there were people in the WPB -- I don't point to anyone in particular -- who, while working for the government, kept an eye on the industry from which they had been recruited. There is no doubt about that. This was a cause of constant turmoil and

concern. But everyone knew that you couldn't make a lifetime career out of the WPB, so many of us, particularly after D-Day, began casting about for opportunities to resume careers that had been interrupted by the war.

Well, in July, actually, the first three weeks of July, 1944, a conference on postwar intervational monetary and financial problems was held at Bretton Woods, New Hampshire.. And while this conference was in progress,

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I sat over there at the WPB realizing that that was where I ought to be. But I could not easily desert the ship, besides, I had not been asked to go to Bretton Woods. I was still on loan from the Tennessee Valley Authority, and I had to consider whether I would go back there when the war was over.

The Bretton Woods Conference came and went, and a few days after it ended -- and now I get around to answering your question -- a few days after Bretton Woods I was sitting at my desk reading an article in the *Commercial and Financial Chronicle*, an article by Herb [Herbert Max] Bratter on the implications of what had happened at Bretton Woods. I was, again, regretting that I hadn't been present, and I thought I must have missed the boat by not being there and getting involved somehow. And so help me, while those

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very thoughts were running through my mind, I had a call from one E.M. [Edward M.] Bernstein at the U.S. Treasury, one of the brilliant minds behind the Bretton Woods proposals. He told how he had come upon my name, and asked me if I would come over to the Treasury and talk about a job. He had just got back from Bretton Woods. They had a big campaign ahead to inform -- or I guess he must have said to educate -- the country and in particular to educate the Congress on the implications of the proposals to create two gigantic international financial institutions, the IMF and World Bank. That campaign would be carried on mainly by the Treasury, to a large extent under his supervision. I went right over. He had something I had written, and I don't mind telling you frankly what appealed to him was that I have an overly simplistic

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style of writing in dealing with complex matters. I think this goes back to my mountain background where nothing very complex ever got understood by anybody. So Bernstein and I talked, and then he took me along to introduce me to his boss whose name was Harry Dexter White. And they said, "Well, you've got a job here, when can you come to work." We agreed that I would start immediately. So I was in the Treasury now. Having been in the Federal Reserve some years before, I was back in the field where I hoped to make my mark. My job was mainly writing and editing, and dealing with members of Congress, a very exciting assignment.

Although the Bretton Woods Conference was over, the Articles of Agreement had yet to be considered and approved by congresses and parliaments around the world including the U.S.

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Congress. And there would be no International Monetary Fund or World Bank until enabling legislation was enacted by a substantial number of Free World powers. So, we went to work out of the Treasury to educate the country and to build a fire under Congress.

I guess I wrote speeches for more than 50 members of the Congress who were kindly disposed. It would happen in this way. Mr. White or Mr. [Henry J.] Morgenthau would approach these people - ask them to make speeches in the Congress and around the country. "Well, if you'll provide me with a draft," was the usual reply, "One that the folks back in my district can understand." I did a lot of that. I also went around the country a bit myself, beating the bushes, as we said. Talking to small groups, women's organizations, Rotary clubs, luncheon groups,

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classrooms -- anybody who wanted a speaker could come to the Treasury and get one. Our roster of speakers included outsiders as well as Treasury personnel.

MCKINZIE: How did you find the state of economic intelligence in the country in 1944?

HORNE: Well, I'm bound to say that the public at large seemed to be aware that during the war all normal trade relations had been suspended. No one any longer knew what the pound or franc or lira was worth in terms of dollars or -- well, all normal exchange values had simply disappeared and plans had to be drawn up for a new beginning.

If we were helping France, or England, or Russia, or anybody else during the war, as we were on a large scale, we might have used dollars as some sort of unit of account. But the thing that really counted

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was guns, trucks, numbers of men, quantities of food and all the rest -- planes, what have you. Money had lost its normal function as a means of facilitating international trade. Goods of all kinds moved <u>outside</u> the price system. And the public seemed to understand this. They knew that a big effort would be required, and I think it's fair to say that almost everywhere I went to talk, and this is true of others as well who went out to make speeches, I came back to Washington with a resolution -- some sort of a public expression saying in effect, "This is a good thing; let's get on with it." We never lost an opportunity to say, "Well, if you think it's a good thing, write your congressman, write your senators." They did indeed write, and by the summer of 1945 -- much else had happened of course -- but by the summer of 1945 this

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matter came up for discussion in Congress, and the Bretton Woods enabling legislation was finally enacted on July 31 of that year. From then on it was a question of what other countries would pass similar legislation, and no other country, not France, the U.K. nor anybody else had been willing to stick their necks out until it was certain that the U.S. was coming along.

About this time it became apparent to all that during the war the British had really blown their resources, at home and overseas. The war in Europe had wound up in April of '45. It was moving to a climax in Japan in August of '45. The British let it be known that in order to sign the Bretton

Woods Agreements and carry out the obligations specified therein, they would have to have a very large dollar loan from

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the United States. They had in mind an amount between 4 and 5 billion, as I recall. So, we in the Treasury went to work to try to show the public, and the Congress in particular, how making this loan to help a principal ally would help all of us return to normal peacetime economic relationships. Moreover, it had become quite clear that until the U.K. signified a willingness to sign the Bretton Woods Agreements no other members of the Commonwealth would sign.

The proposed loan was agreed by the U.S. in the fall of '45; they were ready to sign, as were many other countries around the world.

As the postwar leader, it was up to the U.S. to take the initiative.

A signing ceremony was arranged for the 27th of December 1945 in the old State,

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War, Navy Building, [Fred M.] Vinson, Secretary of the Treasury, presiding. Mr. Morgenthau had resigned during the preceding summer. Some thirty countries signed the Articles that day and that brought them into effect.

And on that very day, Mr. Harry Dexter White made me responsible for finding a place to hold a meeting of the prospective member States at the earliest possible date to launch the Fund and Bank as going organizations. He got in touch with the Coast Guard and had them assign to me a plane and pilot. "Judge Vinson prefers something in the south," he said, "He likes the warm weather." The meeting, he thought, probably couldn't take place before March. After much correspondence and a few scouting trips, Savannah, Georgia, was agreed as the place

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to hold the Inaugural Meeting.

Now, I've shoved aside a number of rather important points in going straight through to that December 27 date, which was a crucial date in the history of these international organizations. Perhaps you'd like to raise some questions about what happened during the preceding months.

MCKINZIE: I'd like to go back to the wartime period, when you came to the Treasury Department and undertook work with Congress and speaking to the various groups around the country. There was, was there not, a rather unusual economic view of things on the part of some people -- a view that, perhaps, is not quite so strongly held now? Could it be called economic internationalism? I'm talking about Will [William C.] Clayton and I'm talking about Harry Dexter White. The

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idea of integrated world economies -- the heritage of Cordell Hull, I expect. And yet there were some pretty strong economic nationalists at the time, weren't there, particularly up on Capitol

Hill? I'm wondering in retrospect, as you look back on that, if you think that that idea of integrating world economies as they'd never been integrated before was a feasible kind of outlook? And if it was, do you consider that Bretton Woods Agreements were a little bit weak as an instrument for bringing those ideas into some kind of reality? Now that's a loaded question.

HORNE: That is a good question, although the answer is likely to be very involved. I certainly couldn't give you a definitive answer. I believe it will be a long time before scholars can make an honest assessment. But just on the surface I would agree that

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there were many idealists in positions of responsibility. There were many people -- I consider myself amongst them -- who felt that the war had settled very little; that in general wars are bloody and useless. To be sure, World War II had eliminated some very troublesome characters. But now there was a great public revulsion. People wanted the United Nations; they wanted international machinery to settle disputes of all kinds. I'm not saying everybody. But certainly the majority of the people had caught on somewhat to the Hull philosophy. Roosevelt himself had shared this view. There ought to be, it was thought, a better way to settle disputes than to go out and start shooting. There were people on the Hill -= [Robert A.] Taft for one =- and there were many others, who were skeptical. There were people in the

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financial and business community who were skeptical. And some, I'm sure, just wanted to return to what President Harding had called "normalcy," and get out and make a quick dollar at ordinary peacetime employment. There were all these mixed views but with a substantial component of idealism. There was a large element of idealism, as well as optimism, behind the creation of the United Nations, the Fund and Bank and other organizations that were set up at that time.

Did we overdo it? Perhaps we did. The world hasn't been quite so simple as we thought it would be. Most of us certainly did not foresee the intransigence of our biggest ally during the war =- Russia. They've been very difficult to deal with, until fairly recently, anyway; maybe they still are. It remains to be seen.

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I leave it to others to assess the role of the United Nations. Having spent a good deal of time there myself, I think that its better to talk, and even to use strong language and call one another names, than it is not to talk.

In the field of international monetary cooperation. I certainly can't say that the Fund has been able to operate smoothly, but at least we haven't had the currency wars that we had in the 1930's, including under the Bretton Woods scheme, competitive devaluation. Currency arrangements, although not ideal, have been such that they tended to be neutral in the promotion of trade, leaving tariffs and the like aside, which is somebody else's responsibility. Money itself, exchange values, per se, have not generally been a detriment to trade since

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the Fund was set up. This was and remains one of its big objectives.

But the Fund, like other international organizations, is only as strong as its strongest members, and there have been times (indeed, now is one of the times) when some of its strongest members seem to be backing away from giving it the support it needs to carry out its role. I'm referring particularly to the United States. Beginning in August 1971, the United States dealt the Fund and international monetary cooperation generally a terrific blow. It will take a while to recover from that. What is more important, it will take the U.S. a while, maybe a good long while, to win back the international goodwill that they had before the events I refer to. You have to recall that during the first twenty-odd years of the Fund the

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U.S. was in the front ranks of those strong countries wielding cudgels and beating small people over the head to make them toe the mark and do exactly what the IMF told them to do. But beginning 6 or 8 years ago when the U.S. balance of payments began badly to deteriorate and the IMF began preaching to the U.S. -- preaching is the wrong word -- pointing out that they were headed for a fall -- that they would have to increase taxes, retrench somewhere, give less foreign aid, cut military expenditures, something had to be done. Trim sail somewhere along the line, or there would come a time when U.S. trading partners all over the world will have built up such large dollar balances in this country that our financial stability will be threatened. U.S. officials didn't like hearing this. They resented the Fund making public statements to

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that effect, and putting it in their annual report year after year. And then when finally the crisis came in August of 1971, and they realized they were on the verge of an international disaster -- when European countries alone, if they had cashed in their chips, could have demanded fifty-odd billions in gold that the U.S. didn't have -- well, when that point was reached the U.S. took a small boy's attitude. It might be more accurate to say they adopted the stance of a medieval potentate toward a messenger who brought bad tidings: "Off with his head:" In the intervening years, and particularly during the remainder of Mr. Nixon's tenure, the U.S. has been a rather uncooperative member. It's a very large membership; it's over a hundred and twenty countries. And this makes it difficult for the IMF to work with the other

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hundred and twenty odd members, the U.S. being by far the most powerful and supposedly the most influential of the lot.

Now, maybe we are getting off the track a little bit but...

MCKINZIE: No. That, of course, couldn't have been anticipated in 1944 and 1945, but some scholars who have written before this latest problem developed, and after the postwar problems, have said that the IMF was well conceived as a long-range balancing organization, but that in combination the IMF and the IBRD did not adequately provide for the immediate problems of postwar reconstruction. And some scholars have faulted Secretary Morgenthau and Mr. White, for not having foreseen, as they argue that John Maynard Keynes foresaw, the need for a much larger, much more powerful international banking,

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financial institution. One which could handle not only the problems of reconstruction of trade but of reconstruction of industry -- rebuilding, in short. Would you comment on that?

HORNE: Yes. I agree completely with what you say, and I shan't try to repeat it. I would just add that on the other side there are those who have been very close to the situation who have felt that it was only during the period of euphoria at the end of World War II, when the prospect of some kind of new order loomed over the horizon, it was only during that period that organizations such as the U.N., the Fund, the Bank and others could have been established, even with their limited prospects.

I think in today's world, if you had to start from scratch, you couldn't create an International Monetary Fund. I don't think

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the big powers would want to give up the elements of sovereignty they have to transfer to an international body if they had to do it all over again.

This is a very complex subject and I guess we're getting into the realm of psychoanalysis now, and somewhat away from history, strictly speaking.

MCKINZIE: Right.

HORNE: With your permission I'll go back and pick up an aspect that we have not touched on so far. We have mentioned the name Harry Dexter White, who has a place in history apart from the Fund and Bank. As I have said, I worked for Mr. [Edward M.] Bernstein and Mr. White at the Treasury. I was aware while I was there that they, partly because of the Treasury itself and Mr. Morgenthau,

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that they were in a very powerful position. It may surprise you to learn that General [George] Marshall's terms of reference for his China mission were very largely drafted in the Treasury. Now, Dean Acheson doesn't say that -- I've got his book here, *Present at the Creation* -- but that was in 1945, the NAC had not yet been set up. It was established under the Bretton Woods enabling legislation, but this hadn't been approved yet. The people on White's staff spent quite a bit of time on Marshall's terms of reference, as they did also on the creation of the independent state of Israel, and on postwar policy in Germany.

MCKINZIE: Did you work on that?

HORNE: Not really; I was on the fringe of the group that discussed these matters. The Treasury

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was very active on Israeli affairs -- maybe partly because of the special interests of Morgenthau and White. A little bit earlier, during the San Francisco meeting, it may surprise you to hear that

the Treasury was deeply involved in working out the terms of reference for the U.S. delegates at that meeting, and on the division of powers between the General Assembly and the Security Council -- that sort of thing. I saw many telegrams, all kinds of little drafting alterations in basic documents. Now, the State Department, I'm sure, was the proper channel and I suppose anything the Treasury had to suggest went through the State. But I mention all this only to point out that the Treasury was an important place. And Mr. White, assisted by Mr. Bernstein, carried a great deal of clout.

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MCKINZIE: I have a quote here which you might be interested in. This is from a book by E.F. Penrose who talks about the Treasury Department in foreign policy and foreign economic planning. He says that a group of officials in the Treasury and others near the Secretary of the Treasury had actually participated in the military government planning of Germany to the point where people in the State Department were complaining of the necessity of clearing papers with the Treasury.

HORNE: That could be true. Mr. [Raymond F.] Mikesell and others you may talk to can tell you a great deal more about the work that was done in the Treasury on postwar Germany.

MCKINZIE: Do you believe that the Treasury has a proper function in foreign economic planning and policy?

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HORNE: I would rather not comment on that. I would just say that during the war they were deeply involved in that kind of work; Treasury agents were scattered around the world. They were in the Philippines, Shanghai; in almost every theater of war there were Treasury agents who were communicating with the Treasury, and I don't know, frankly, to what extent with State. But the Treasury had a very active intelligence-gathering staff abroad. One of my Treasury colleagues, who was in Shanghai, sent back adverse reports on Chiang Kai-shek's prospects for survival. He painted a black picture of the plundering that went on -- what happened to U.S. supplies of all kinds. It won't surprise you to learn that he got into deep trouble later on, and it was just by the skin of his teeth that he escaped falling victim to [Joseph R.] McCarthy

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purges.

This reminds me of something else that I ought to mention, because it is part of the early Truman period. We've really not touched very much on the Savannah meeting, but at the Savannah meeting, where I acted as Temporary Secretary on the Fund side, I was made Organizing Secretary then and sent back to Washington with an allocation of $200,000 and instructions to find a temporary headquarters site, assemble furniture, recruit essential staff, and a lot of other things. This, after a few weeks, led me to resign from the Treasury. Since I had accepted big international responsibilities, it didn't seem appropriate any longer to be even on loan from a U.S. Government agency. So I resigned in effect from the Treasury but, as a legal matter, from the Tennessee

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Valley Authority, and cancelled the loan arrangements that the Treasury had with the Authority for my services. Thus, becoming the Organizing Secretary of the IMF, I at the same became an international civil servant.

Everything progressed as planned. The inaugural meeting at Savannah, attended by many illustrious people including John Maynard Keynes, had done a number of things. It agreed to move ahead with establishing the Fund and Bank, chose Washington, D.C., as headquarters, and agreed that the first meeting of the IMF Board would be held on May 6, 1946. The first meeting of the Bank Board was scheduled for May 7th.

MCKINZIE: Could I interrupt you at this point? Since you were the arranger of that conference it sounds very interesting. Could you give me

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a little local color about it? I notice that meetings were held in places like the beach-house, and aboard some Coast Guard cutter and .

HORNE: You want to go back to Savannah now?

MCKINZIE: Yes. I want to go back to Savannah for a minute. Since you organized that conference you mentioned that...

HORNE: Well, I mentioned that the Coast Guard gave me a plane, and I got in touch with members of Congress and the U.S. Chamber of Commerce and did a lot of scrounging to find a place where a meeting could be held. You would be amazed at how scarce such places were. The big hotels in Miami, Tampa, and elsewhere in resort areas practically throughout the country were either closed down, or if year-round hotels that could be properly staffed, they were under military occupation.

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It was difficult to find a suitable place. A Congressman from Georgia called me to say that a hotel just outside of Savannah, the Oglethorp, had been given up by the military a few months before. It was already largely reconverted for civilian use, not yet been occupied, but it could be made completely ready by March. So I hot-footed to Savannah -- made several trips down there -- and got the Savannah Chamber of Commerce and others behind the project. They were very happy to lend their support. There was a big international air force base nearby from which warplanes had been launched to war theaters around the world. Well, with the kind of introductions I could get from Mr. White and others, I could go right to the commanding officer and say, “We want 500 desks, we want telephones, we want wastebaskets, we want spittoons, we want cooks

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and pots and pans, we want everything.” They said, “Just make a list.” There was not only this military base but there was a Coast Guard station nearby, at Cockspur Island, which was under process of deactivation. Well, we could use all their facilities for printing. A conference is very

largely paperwork, you know. It's a big paper mill. So, we drew on these service facilities, and made good use of everything the town could give us, which was a great deal of charm and hospitality, all the liquid refreshments we could use. They had heard a little about Mr. Vinson's fondness for bourbon, I guess. Perhaps they had also heard that under Secretary Vinson's instructions not a penny of U.S. money would be spent for alcohol in any form. That did not mean however, that we shouldn't have it. It only meant that the local people would have to provide it, and that they did. Johnny

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Walker Black Label and Old Forester by the case, case after case. The city fathers arranged some interesting entertainment -- cookouts, brunswick stews, and all that sort of thing -- practically every evening. I realize I'm getting a bit off the track here, but I'll just go back and give you a little local color. I worked very closely with the State Department in setting up the meeting. An able and very conscientious man by the name of Warren Kelchner was State's principle conference officer, a man concerned with protocol and international niceties of which most of us, at that time, were totally innocent. He had a competent staff, which was placed at our disposal. The Treasury rode such a "high horse" in those days, however, that Mr. White really called the shots on how the conference was run. It was largely run from the Treasury, and

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I was the instrumentality.

We were all a little nervous when we saw how many people were coming to Savannah, a rather provincial town, including people from Ethiopia and Haiti; and I had to have serious talks with the hotels about serving these people without discrimination. In the end, the Haitians decided not to come because they thought it was a disgrace that the meeting was held in the part of the country where blacks could only expect second-class treatment. But the Ethiopians were coming, and so were many other dark-skinned people, including the Indians. I guess the Ethiopians created about as much interest as anyone. Most of the delegations from Europe, Asia and Africa arrived in New York aboard a particular sailing of one of the Queens, and a special train was arranged from New York to Savannah. The whole

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company, except for the Latin American contingents -- and some of them had gone to New York to come down by this train -- practically the whole company arrived on one big, long train.

The schools in Savannah were recessed for the day, and everybody was lined up with flags, "Welcome International Conference," and so forth. People like Lord Keynes, of course, got a tremendous hand. He was already a legend. They didn't know what he stood for, but they knew that he was a very great man. There was almost as much interest, I would say, in the Ethiopians as in the British and others, as no one could be sure what kind of reception they would receive. The leader of the French delegation was [Pierre] Mendes-France, whose name was quite well-known already. But many people standing along the

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route from the railroad station to the hotel were looking most particularly for the Ethiopians, and every car had a big blazer on it identifying the delegation. All told, there were about thirty-five countries represented, including Russia as an observer, and others. And finally the Ethiopian car loomed around the corner and everybody peered. Sitting inside as the Ethiopian representative, with his wife and one or two aides, was an American by the name of George A. Blowers, who was as white as you or I, and that was a big letdown for everybody. The meeting convened on March 8th. It was scheduled to go on to the 18th or as long as necessary. Actually it concluded its business on about the 16th. We all dispersed and went our separate ways. Keynes left there a disappointed man, broken in health and died very shortly

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thereafter.

I might just relate one or two little incidents about Secretary Vinson. I worked very closely with him, he being chairman of the meeting.

The city fathers carne to me one day to say that they had a dozen silver-frosted old-fashion glasses marked with a big V, which could stand for Vinson or Victory, as you like, and they wanted to present them to the Secretary at an appropriate time. Would I pave the way and make sure he would be receptive?

And I said, "Wouldn't you rather just go and give them to him?"

"No, no, we've got to have some formality and some ceremony about this and we don't want any hitch."

At an appropriate moment I went to see

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Vinson. I guess I may have had in my possession the glasses. And I led up to the subject as gently as I could, having in mind all the time that he still had a presidential "bee in his bonnet" -- was very much the professional politician; and I had in mind, too, that although he liked his bourbon he wasn't going to spend any Government money in that direction. He had made it very clear to all of us who had helped in setting up the meeting that our records had to be absolutely spotless. We couldn't <u>appear</u> to accept favors from anybody, which was a good rule.

I had all that in mind when I went to talk to him, and he said, "Well now, Horne, just what did these people say?"

I said, "Well, they wanted to know how you would receive this gift? They know that you are a stickler in matters that might

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appear to be off color, and they don't want to embarrass you in any way. They don't want to make this appear to be a reward for your having brought this conference here."

"They seemed a little concerned about that did they? Well, what else did they ask you?" I repeated the conversation as best I could.

And he said, "Well, the sons a bitches; give the goddamn glasses back to them and say to hell with them. I won't accept them. If they'd had any sense they would have just brought them in and given them to me without revealing their misgivings."

MCKINZIE: Judge Vinson often said that one of his jobs was to try to keep John Maynard Keynes and Harry Dexter White from each other.

HORNE: Well, that's right, and he did it very well at Savannah. During the months since

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the Bretton Woods enabling legislation had been passed, at the end of July, we in the Treasury had spent a great deal of time working on bylaws, and rules and regulations, to be submitted at Savannah for approval. And the British and some other prospective members sent people to those meetings. Lord Keynes was present from time to time.

There were still some unresolved questions when we got to Savannah. One was the simple matter of the fiscal year of the Fund. The British took a very strong position that the fiscal year should be July 1 to June 30th. The Americans, on the other hand, thought the fiscal year should be January 1 to December 31. Keynes and White argued over this with some heat.

There are many more substantive points over which they argued, of course, but this was just a little procedural matter and I

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use it only as an excuse to relate an anecdote. Keynes thought a fiscal year beginning July 1st made good sense because that would throw the annual meeting around September, which was a time when parliaments around the world generally were not in session, he argued. It would be possible for ministers of finance and other top people to attend. Well, there was much heated discussion over this and at a small meeting, Keynes, in his beautiful rolling English said, "Well, Mr. Chairman, if July 1 is such an objectionable date for the beginning of a fiscal year, his majesty's delegation to this conference has some difficulty understanding why and how your founding fathers, in their wisdom, chose July 1st as the beginning of their fiscal year." Keynes was sitting directly on Vinson's right, and I was sitting on his left as the Secretary of the

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meeting. Vinson reached over with his big ham of a hand and slapped Keynes on the back and said, "I don't know, Lord Keynes, why they chose July the 1st as a beginning of their fiscal year, unless it was because it is so close to July the 4th." In the outcome, those favoring July 1 had their way.

MCKINZIE: You mentioned that there were a few fairly substantive issues that hadn't been resolved by the time of the Savannah meeting, but major issues, I take it, had been, that the amount of...

HORNE: Well, their subscriptions and all that...

MCKINZIE: Yes.

HORNE: The really touchy issues that had not been resolved had to do with the terms of service of the Managing Director and the executive

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directors of the Fund. The British, the Canadians and all the delegations, I would say, from Commonwealth countries felt strongly that the boards should be comprised of senior officials from back home, who would come once a month, or whenever required, to act on important matters as they arose. Keynes felt this very strongly. White felt equally strongly that you had to have a full-time board, resident in Washington. And of course, nobody questioned the desirability of having full-time heads of the organizations. There was much discussion over the role of executive directors, and whether or not they should have alternates, and what kind of pay they would be entitled to. In the end, Harry White won on all points. It was to be a full-time board and indeed full-time alternates, at least in the Fund, unless the Executive Director decided that his alternate

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need not be full-time. This seemed a big mistake to Keynes.

If I may just digress for a moment, it seems to me that in recent years, particularly since 1965, the important questions coming before the Fund Board have very frequently required a meeting of ministers of finance. There's now the committee of twenty. There was formerly the group of ten, and so forth. And executive directors are not free agents, by any means, to give the views of their countries and to make on-the-spot decisions on important matters. They have to get instructions and where really big substantive matters are involved -- the role of the Fund in the future, for example. When such things are to be discussed, officials of cabinet rank come on from home base. At least in the big countries, with some kind of selective representation

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from smaller countries, one man perhaps representing half a dozen countries, following the pattern they use in electing executive directors. So in the long view Keynes was by no means wrong when he insisted that full-time executive directors would on the big issues become necessarily messenger boys. If these institutions were to survive and play the role he envisaged for them, people close to the source of power back home would have to be brought directly into the decision making process.

Well, in due course the Savannah meeting wound up all its business, we held an election of executive directors and laid the groundwork for the first meeting of the Board.

MCKINZIE: May I interject here? Did you feel at that time, or was there a general feeling at that time, that the Soviet Union still might

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participate?

HORNE: Ah, yes, I have not touched on that. They were there throughout the meeting. Not really troublesome, though, as they had probably already made their decision not to join. The Yugoslavs and the Czechs were there, too. It was to be some years before the Yugoslavs were to become members; the Czechs, however, were among the original members. Very active until, with the advent of the Marshall Plan, they were enveloped by the Iron Curtain and had to withdraw. There was still a hope at Savannah that the Russians would join. And within a few months that hope turned to fear that they might, after it was seen how difficult they were to cooperate with in some other international organizations. So they did not become members and they are not members today. But, as in the United Nations, the Fund and

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the Bank cannot truly play a worldwide role, without the cooperation of both Mainland China and Russia, in my opinion.

Well, I mentioned earlier that one of the last things the meeting at Savannah did was to name me Organizing Secretary, and to allocate to me some funds -- $200,000 -- to meet expenses until a permanent organizational structure could be established.

Harry White, as I mentioned, being a representative of big power was not elected, but appointed Executive Director for the United States. Representatives of other "big five" members were also appointed (the U.K., France, China and India).

Back in Washington, my first task was to set up headquarters, and in that I had the very able counsel of Will Clayton. It would have been almost impossible for me to have

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found satisfactory quarters without him. At the outset, I took a few offices in the 1400 block of G Street, N.W., in a building formerly occupied by the District National Bank, and more recently by Foreign Funds Control, until we could move into the hotel across the street from the Treasury the...

MCKINZIE: Not the Willard?

HORNE: No, the other one.

MCKINZIE: The Washington.

HORNE: The Washington Hotel. I took a wing there, perhaps a score or more of rooms. Had an office for each Executive Director. I had a small staff comprised of bookkeepers, somebody to handle the bank account, a few secretaries, secretaries for each of the new Executive Directors, some bilingual, an

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administrative unit and a file unit. I had twenty or thirty people altogether when the Board arrived at the beginning of May. They went to work mainly on organization problems, staffing problems, what the Fund would look like. Near the top of the agenda, of course, was choosing a Managing Director, who turned out to be Camille Gutt, a very able Belgian. Aside from chairing meetings however, he did not assume his full duties until a form of organization was agreed some six or eight weeks later. While we were discussing details of organization, and how the Fund would operate, I was also casting around for longer term quarters. The hotel obviously was not a suitable place. Through Will Clayton's assistance, the Fund and Bank got some space in a building at 1818 H Street. The building had been put up for other purposes, I believe for the Maritime

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Commission, or something like that, before the war, but during the war it had been largely occupied by State, and Will Clayton said, "Well, we'll pull our people out of here and make this space available for Fund and Bank. As the government of the host country, we've got to do absolutely everything possible to make these organizations comfortable." So, by the first of July or thereabouts, we were able to move into 1818 H Street, and of course, from there on staffing began in earnest. You could say Parkinson's Law took over if you like, but the truth is that we had a tremendous job to do. We were from the beginning dealing with many countries. There were language problems, the tremendous task of assembling information and establishing close working relationships with the central monetary authorities of member countries, all

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of which required an able international staff.

MCKINZIE: Were you at this time selling currencies?

HORNE: No. I can cover that if you like. There was no basis for selling currencies. Currency values in terms of one another had not yet been established. That was our first big substantive job, one that was to take many months to accomplish. As soon as we got some organizational matters settled, and got a staff together, including Edward M. Bernstein, whose name I gave you as Director of Research at the U.S. Treasury, all efforts were bent toward establishing an initial schedule of par values. This required much negotiation and many Board meetings. Finally about November, I would guess -- sometime in the fall of '46 -- the schedule was broadcast

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and put into effect.

It took a while then to -- I should say first, that subscriptions to the Fund had been paid in partly in gold and/or U.S. dollars and partly in local currencies, the local currencies always remaining in the central bank of the member country.

I'll go back to the question of par values, and the beginning of operations. There was much division over the establishment of par values. Many people thought that there was an element of aspiration involved in setting the initial par values, particularly of the pound sterling, and there were a good many other countries, too, that were flat on their backs and whose currencies had little purchasing power. Misgivings about the original schedule of par values were justified, as later events proved. In any event, actual

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exchange operations could not begin right away because we had to set up local currency accounts in central banks around the world. We had to set up a mechanism in Washington and in the Federal Reserve Bank of New York for effecting transfers. We had to devise a code system in correspondence with member countries for effecting transfers from them to whomever, or from whomever to them. A member country, when it comes to the Fund, is always seeking not its own currency but that of another member. Let us say that Japan comes in for a hundred million equivalent in French francs, they would at the very moment of this transaction put the yen equivalent of a hundred million in French francs into the account of the Fund in the Bank of Tokyo. Simultaneously, the Fund would place the equivalent of a hundred

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million dollars in francs to the credit of the Japanese in the Bank of France, in Paris, and our books at the IMF would be adjusted accordingly. So, after the transaction the Fund has no more or no less money than it had before. If anything, it has a little more because there's a transaction charge involved; and then all transactions are reversible when the condition of the drawing country improves in specified ways. The Fund keeps very close tab on all member countries and, in particular, on those that have drawn on the Fund's resources. So, as a drawing country's international monetary situation improves, it is required in effect to reverse that transaction, not necessarily paying back to the Fund the exact currency it bought, but giving back to the Fund gold, dollars, or some other convertible currency that the Fund wants. So the Fund's resources

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are always protected. It took some weeks -- I guess it was not until February or March -- that it was possible actually to begin operations. It had taken a long time to set up all the mechanics, and everybody in the field knew that this was a complicated business and a lot of money was involved, and it had to be done according to law and according to the best banking practice.

MCKINZIE: There was a meeting in September of 1946, was there not, here in Washington?

HORNE: There was a meeting of all member countries in September of '46, in Washington, over which the Americans presided. That was the first annual meeting of the Board of Governors.

MCKINZIE: John Snyder by that time...

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HORNE: Yes, Secretary Vinson having become Chief Justice of the United States, John Snyder had now become Secretary of the Treasury and Governor of the Fund for the U.S., and, by general consent of all, the presiding officer or chairman of the first annual meeting of Board of Governors. The U.S. has not presided at any Board of Governors meeting since, that honorary position having been passed around.

MCKINZIE: The reason I brought up that meeting in Washington was that in his opening speech Snyder said, "If I may be permitted to express the keynote of this second meeting of the Board of Governors it is this. Let us lose no time in speedily activating the Fund and the Bank as effective instruments in a world sorely in need of their services." Did you feel any pressure?

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HORNE: Oh, yes. We all felt pressure, and the press was putting pressure on us. But technicians all over the world understood that you just can't start exchanging money until you have an agreement on how many yen are worth how many pesos, and so on. And on top of that, you'd have to have mechanics, and a system of bookkeeping, and a system of auditing. It takes a lot of paperwork and a lot of advance thinking. Remember that in many respects we were breaking new ground in an area where hitherto there had been very little cooperation.

MCKINZIE: Now the negotiations to determine the relationship between yen and lire were done not entirely through the machinery of the Fund, is that correct?

HORNE: Oh, it could not have been because we weren't

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that well-staffed then. Certainly in the case of the Japanese, they weren't even members then. That was an unfortunate example, I guess. They didn't become a member until about 1952 or so. But discussions were going on in the Fund and bilaterally between members around the world, Treasury representatives in London and Paris, elsewhere. The bookkeeping was being done at the Fund, and the formal proclamations were made from the Fund when the schedule of par values had been agreed. A number of countries were not yet strong enough to have an agreed par value. One such country was Greece; for years they had no par value. Nor did China, Mainland or Taiwan. Their currencies were worth only whatever in the way of aid the U.S. sent to them to buttress their economy. If they had to buy abroad they bought abroad in somebody

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else's currency or they got loans. If they sold abroad, they were looking for dollars or some other currency with international value.

MCKINZIE: I wonder if you could comment on the effect of all those negotiations about a European payments union, which came up shortly after you were in operation? How you felt about that, and how other people who were connected with the Fund reacted to these European negotiations and ECA pressure in Washington to have them do it?

HORNE: That's a rather difficult question to comment on, because views about the EPU changed -- the nature of the EPU changed. I guess it's fair to say that at the very outset, although a man intimately connected with the Fund was one of the fathers of the EPU - that was

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[Robert] Triffin, now a professor at Yale -- EPU was in part his brainchild. I guess we felt that the EPU was moving into an area where we thought we could do the job. But in the end, of course, the IMF did fully cooperate with the EPU, and welcomed regional arrangements

generally if they promoted currency stability. There were also regional organizations to handle Marshall plan aid and all that sort of thing. And we learned very quickly that we had to establish formal relations with these organizations. We had to know what they were doing. They had to know what we were doing. We invited them to send representatives to our Governors' meetings and kept in very close touch with them. In the end, it turned out that IMF alone had the resources to deal with serious monetary problems. Smaller

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regional organizations were actually essential, and, in time, the Fund helped to establish regional payments unions in various parts of the world, just as the World Bank helped to establish regional development banks in Asia, Latin America, Africa, and so on. It didn't take many years for us to realize that there was more than enough work for all, and if you could find some additional way of marshalling resources and putting them to a good use, that was all to the good.

MCKINZIE: When you became an international civil servant did you have any trouble making the transition from sort of local loyalties to a wider one?

HORNE: No trouble at all. And I am happy to say that I believe 99 percent of IMF employees had no trouble at all. We did subscribe to an

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oath of loyalty in the Fund. That was just as important to me as any oath I ever took. I would say that I very quickly became an international civil servant. I don't know how long it took the others; but certainly in their work, in their recommendations and reports they were scrupulously objective. And in recent years, for example, Americans in the IMF working on the ticklish U.S. balance of payments situation haven't been defensive of American policy at all. They have been as critical as anybody else. However, all was not easy sailing because international organizations, generally, by the end of the '40s, had become suspect.

China fell. The people who had predicted that China was about to fall were somehow held responsible for China's falling. The McCarran Committee, as you may know, did some extensive investigating on the Hill, and

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talked to a lot of people, and put out some propaganda, some helpful, and some perhaps harmful. But out of those hearings came some Executive orders which affected all U.S. nationals who had already, or were to become employees of international organizations.

Now, I should say that, although I had been Organizing Secretary, and had helped to get everything ready, when the time came for appointing permanent staff to top jobs a man by the name of Frank Coe, who had been my superior in Treasury, was made Secretary, and I was made first Assistant Secretary and then Deputy Secretary. This was a bit of a blow to me because Harry White himself had told me that I would be the Secretary. However, I realized that the Fund was destined to be a big thing and in some respects Coe had qualifications superior to my own, I felt. And,

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anyhow, I believe it was Mr. White who decided that Coe, not Horne, would be the first Secretary. It couldn't have happened without him because he was now the Executive Director, and recommendations for initial staff on the U.S. side came through the U.S. director. So I became the Assistant, and then the Deputy Secretary, and continued to do pretty much the work I had been doing, although Coe was actually the Secretary and I was under his orders.

But very shortly Mr. Coe ran afoul of McCarthy and so did Mr. White. Mr. White functioned very actively and very vigorously from the time the Board first met on May 6, 1946.

Around the first of June, or maybe July, of 1947 some word got to President Truman. I don't know what the word was and who passed it along, but Mr. White was dropped like a

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"white hot potato" from the Board. This was a shock to him, and I guess killed him. He died within the ensuing year, if I am not mistaken. After a lapse of a month or less, a man by the name of Andy [Andrew N.] Overby was appointed Executive Director to succeed White. He had been a high official of the U.S. Treasury working very close to Mr. Snyder.

By the late forties and early fifties the search for people who had been responsible for the collapse of China, the search for people who had been disloyal to the United States in their dealings with Russia and other Allies during the war, was stepped up. And, as I mentioned earlier, following the McCarran hearings, President Truman issued Executive orders. I don't know the details and I can't give you the number -- there could

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have been several, I don't know -- but under his authority machinery was set up in the State Department to screen U.S. applicants for jobs in international organizations, thereafter.

MCKINZIE: Did you ever have a chance to discuss with either Mr. Coe or Mr. White their own reactions, their own assessment of why they had been singled out by the McCarran people?

HORNE: I never discussed this with Mr. White. I discussed it with Mr. Coe, and I was very sorry for him. He became relatively inactive as Secretary of the IMF in the very early '50s. Because as long as he was under investigation and his name was in the headlines, he could not properly function. So I performed the role. I was sorry for him -- my heart really bled. After talking to my associates I told him that we in the staff were behind him. We

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hoped he would weather the storm. We didn't know how all this had come about, but we felt that he was a man of integrity. We continued to give him our full support until he took the Fifth Amendment. And then we knew that we could no longer support him. And he knew, too, that he would have to get out. And he did get out. By this time Harry White was already dead.

I in due course became Secretary. But before my elevation to that post, to satisfy U.S. authorities I had to go through a fumigating process with a body set up under an Executive order. It was called the International Organizations Employee Loyalty Board. This was to screen -- maybe you've not heard of this -- the function of this Board was to screen people who had already become employed by international organizations. Subsequently the machinery for

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clearance was set up in the State Department and since about 1950, I guess under arrangements with the U.S. Government, the Fund does not employ U.S. nationals in sensitive positions without checking with State. People like myself, who had already become international civil servants, might have been thought to have crawled under the wire, and to have brought all their past sins and warped views with them. And that's no exaggeration. That was an honest view that some people held. So they all had to get clearance through this loyalty board. That was a big job, because there were U.N. employees, and employees in the World Bank -- and in terms of personnel the World Bank had grown much more rapidly than the Fund. All U.S. nationals above the clerical level, if employed in the early days of the Fund, had to run this gamut.

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MCKINZIE: You mentioned the Bank. I don't believe they delivered any money until March of '47.

HORNE: Maybe not. There would have been problems about exchange values and all that, but they had acted on loans. And they were growing fairly rapidly. So, this loyalty board had to screen a lot of people. It was not until about September of 1953 that my turn came up. And I had this thing hanging over me all that time. Meanwhile, I had become Deputy (and Acting) Secretary. Until I got formal clearance, there was no likelihood that I might be made Secretary. After all, I might get sacked. I could see this thing from the point of view of my Executive Board and my Managing Director. I tried to do a good job and I believe I did. But I raised no question about becoming Secretary until I had been thoroughly sterilized by the Loyalty

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Review Board.

I finally appeared before that Board, and this was an interesting and somewhat awesome experience. I don't know how many men comprised the panel, but three were sitting for my appearance. And there was an interrogator -- sort of prosecutor -- with a long list of questions. And he went into great detail as to how years before I got a job in the Treasury, who interviewed me, what questions were asked, what were my answers, what did I write while I was at the Treasury, what did I read? Was I ever at Mr. White's house or at Mr. Coe's house? Were they ever in my house? Did they ever introduce me to their friends? There were other people whose names they brought up; but mostly I could say that I had met the man but did not know anything about him. These were people in the War Production Board, or

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the War Labor Board, whose names had been mentioned in the press. But I had to give in some detail my relations with many people, which I did quite honestly and under oath. And after an hour or so it seemed to me that this procedure was becoming not only exhaustive and quite exhausting, and a little bit ridiculous. This, after all, was in 1953. I'd answered all the questions

that I could answer -- answered one way or another. And then, finally, I asked the Chairman if I might make a brief statement. He said, "By all means."

And I said: Well, this is September, 1953, and some years since I worked in the Treasury. You know what my associations were there. I worked with Mr. Coe and Mr. White, and many others. As a literate man, I am quite aware what's going on on the

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Hill. I appreciate the job you have to do, and I don't object to what is being done here. But I think, to put this proceeding in perspective, I ought to go back for a moment to the time when I went with the Treasury, and during the year and a half or so I worked there before coming over to the Fund. I worked directly under Mr. Coe or Mr. Bernstein, and frequently directly under Mr. White, particularly in writing speeches and policy memoranda. I felt there, certainly during the time that Morgenthau was Secretary of the Treasury, that nothing we did was trivial. We were very close to the source of power. And I might have cited -- I don't know that I did, but I could have cited -- Treasury's participation in the San Francisco Conference, Marshall's terms of reference, the broad ranging international affairs of the Treasury,

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and the very close contact between Morgenthau and the White House, and, indeed, equally close contact later between the Treasury and the White House under Vinson and Snyder, both of whom were hand-picked by Truman. So the Treasury was a seat of power.

I said to the Board that as a young economist at that time and in that place I thought I was the luckiest man in the world. I think everybody else working there felt the same way. If some people there were trying to undermine the system, I wasn't aware of it. I felt that I was very lucky, and I knew that what I was writing was frequently on the same day in front of the Secretary of the Treasury, and possibly the President as well. That doesn't happen to minor bureaucrats in many departments of Government. If Mr. White or Mr. Coe had

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Communist leanings, they certainly succeeded in hiding these from me. And, for that matter, I guess it would not have been in their interest, as they saw it, to confide in me. However, I had no knowledge -- I had no suspicion. And I believe my attitude in this matter was the same as that of many other people at the Treasury. Now we're talking about 1944, and early '46. Again, I say, those were months and years of great idealism -- of reaching, grasping for something after the war, when it looked as if we really had a chance to create a better world. I was very happy to be part of that, and if I had it all to do over, given the circumstances of the times, I would not alter one thing. It was only in hindsight, I said, that one might have had a more circumspect path.

That was all I had to say. Nevertheless

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the prosecutor had become a little impatient. He was a good lawyer, hired to do a job and wished to get on with a long list of questions. So he went back to his list, and the Chairman interrupted him, saying: "Mr. Horne, we'll ask you to step out in the corridor until someone comes to fetch

you." I stepped out and in about five minutes I was called back. The Chairman gave me a certificate of good health. Thanked me for coming and excused me. The prosecutor was still fumbling with his papers -- feeling, I'm sure, that this thing had been very badly handled. But I thought it spoke well for the Chairman that he was able to see through -- I mean, he certainly knew that I wasn't a rat gnawing away at the foundations of the establishment.

I still haven't the slightest notion of the charges brought against White or Coe,

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if any. I hope I live long enough to find out. It's entirely possible I imagine, that these able men by doing jobs they were told to do during the war irritated a lot of people. White, I must say, was one of the gruffest men I have ever known; also one of the ablest.

MCKINZIE: It's possible that simply their internationalist, integrationist views were what brought this...

HORNE: Well, maybe, plus the fact that during the war -- and I know this as well as anybody, having worked with the War Production Board -- a great many people had to have very close contacts with the Russian purchasing mission in order to satisfy their demands for countless items of war material -- transistors, radios, for component parts, for fractional horsepower motors, for food -- how many tons, how many liters, how

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many this and that -- this was an enormous job just maintaining this liaison. It had to be done. Somebody from our side had to have the contact. And yet I remember one of the allegations against Mr. White was that the Russians had delivered a package of caviar to his office as a Christmas present. Well, some things may be more sinister under the surface than they in fact appear to be.

MCKINZIE: What, if any, was your relationship with the National Advisory Council?

HORNE: Well, I'm glad you raised that question. I did indeed have a role there. The National Advisory Council was provided for in the Bretton Woods enabling legislation, which, as I said before, was passed by Congress and, I believe, signed by the President on the same day, July 31, 1945. Under a particular

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portion of that legislation the Council, under the Chairmanship of the Secretary of the Treasury, was to act as a sort of screening and funneling point for all U.S. international economic and financial assistance. Represented on the Council were, in addition to the Treasury the Secretary of State, Commerce, War...

MCKINZIE: The Ex-Im Bank?

HORNE: ...Ex-Im Bank, and the Federal Reserve Board, maybe others -- certainly including the military establishment. So that all the big requests that were coming in for financial assistance had now to be screened through that Council, which required a certain machinery. We had to get the principals, who were high ranking officials, to appoint alternates and maybe a succession of alternates; meetings were

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held quite frequently. Effectively of course, the Secretary of the Treasury was not the Chairman. The effective Chairman was Harry White. And effectively the Secretary of State and Secretaries of Commerce, and so forth, did not come. It was their technical assistants. But I was in the center of the secretariat for this thing, assembling people, putting out agendas, getting the papers together that had to be discussed.

MCKINZIE: In those early months.

HORNE: In those early months. From August through December 1945 I would say, that work all went forward and the thing was satisfactorily established. And then when White said that I had to drop everything and plan an international conference...

MCKINZIE: You must have been there at the time when

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they were considering such matters as a possible Russian loan, and a possible Dutch loan, a Belgian loan...

HORNE: Yes.

MCKINZIE: I have seen some of those National Advisory Council position papers, and for a while it did seem that some sort of loan to the Soviet Union was in the offing. Various figures were mentioned.

HORNE: Yes. A figure was mentioned. I don't think I ever saw a formal request. A figure of about five billion -- something the equivalent of or a little bit more than the UK loan was considered. But as the international picture vis-a-vis Russia deteriorated in the next months and years, somehow that request got lost. And I believe you should raise this question with Mikesell or Bernstein. I

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think they, too, will tell you that they were aware of a nebulous request. In any event, it seems to have gotten lost and I am quite sure it never came up for formal consideration in the NAC.

The UK loan, on the other hand, was effectively handled through the NAC and agreed in the late weeks of 1945.

MCKINZIE: Mr. Horne, you mentioned that when you were back in the Federal Reserve Board there was some possibility you thought that you might go to seed. When you went to the International Monetary Fund did you find that stimulating work? Was your career very exciting then for you?

HORNE: If at any time since I left the mountains of North Carolina as a young man I had been asked to sit down and prescribe the career

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I wanted I couldn't in the wildest stretch of the imagination have come up with anything half so rewarding as what actually happened. It was a lot of hard work. Two days were never the same. I dealt with an international staff of growing importance. I had an international board in which there was, by design, a periodic change in composition. This meant dealing with new faces, and stimulating ideas from around the world all the time. My business took me literally around the globe, and to all corners of it to deal with people, to hold meetings, to conduct negotiations. It was, if I may say so, a fabulous career. And I am grateful to Harry White, Morgenthau, Vinson, and to that professor back in Ohio State, who had a hand in launching me in Washington in 1934. There were many accidents in my career, just chance

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meetings which led on to something big and exciting, tremendously so in terms of my prospects as a boy in hills of Western North Carolina.

By the time I retired as Secretary at the beginning of 1967 I did, indeed, feel that I had truly become an international civil servant. I had friends all around the world and still have.

MCKINZIE: Thank you very much.

Could you say something about the operations of the Fund after 1946, some of the major problems you encountered -- perhaps whether any unusual methods had to be employed to resolve them. It was, after all, a kind of a new experience -- well, for the United States to be involved in international organizations.

HORNE: Yes, Mr. McKinzie, it was a new experience for all of us. We have noted earlier that

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there was a certain amount of aspiration in the schedule of par values adopted toward the end of 1946. It could also be said that there was a large element of aspiration in the decisions of the Board and, indeed, in the Articles of Agreement themselves, looking toward the immediate postwar establishment of universal currency convertibility. The British wanted a large loan from the Americans, which we touched on earlier, so that they could convert into other currencies a portion of the sterling balances held in London by overseas creditors. As early as the summer of 1947 (I'm just going from memory now), my recollection is that under pressure from the Americans, not so much from the IMF itself, but from the Americans, they undertook to make sterling convertible. Almost overnight their holdings of dollars and convertible

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currencies were drained away. For Britain it was a fiasco of the first magnitude.

Well, that was a sobering experience for the Fund, for the U.S., and for everybody else. We realized that a lot of work had to be done before most member countries could make their currencies freely convertible into other currencies and into gold.

MCKINZIE: Yet that convertibility clause was in the UK loan agreement at the insistence of the United States.

HORNE: The United States -- that is quite right, sir.

MCKINZIE: Whose economics was this?

HORNE: Well, I believe this, you could say was a view held by many Americans, outside government as well as inside. Within the Treasury, Mr. White was a strong advocate.

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The British certainly weren't eager to undertake convertibility. And the older and wiser countries of Europe seemed to have had a properly cautious attitude toward these things, drawn out of their long experience, which we didn't have.

The Marshall Plan, as you know, was inaugurated in the late forties under President Truman. First, I guess there was massive aid to Greece and Turkey, followed by the Marshall Plan itself, a far more extensive plan to revive European economies. And a great deal of U.S. money went toward restoring economies elsewhere, on a scale requiring resources that the Fund and Bank together couldn't begin to match. I won't go into arrangements as to how this was done. I'll just say that the U.S. undertook a very large task, and to a very substantial extent

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succeeded. And then to the extent that our former Allies learned to stand up and walk on their own legs they became, *pari passu*, increasingly independent, and increasingly, I won't say, even -- if not resentful -- at least unyielding to U.S. pressure. This was healthy in many respects, but perhaps in some respects it was not. Along with the revival of many economies that had been torn to pieces during the war, there came a worldwide movement, growing very largely out of the war, and out of Roosevelt's philosophy in particular, which was to lead, and was leading already, to the independence of many former colonial powers. This inevitably resulted in a multiplication of the number of states that had to be accommodated in international bodies of all kinds and at all levels. It also led to a certain -- I'm looking for the

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right word, and I don't have it -- but it led to a fragmentation of power and certainly a reduction of the importance, in the pre-eminence of the U.S. as a world power. I think all of this had a bearing on the work of the Fund. In the optimistic period immediately following the War when it was hoped that for all time peace would reign on earth, some of the countries that earlier had been very cooperative became understandably less so when, thanks largely to Marshall Plan aid, their factories, and railroads, and shipping facilities were rebuilt. Their people were living well again, and they had money to spare and could spend it wherever they wanted to. They were no

longer asking for handouts in quite the same way -- certainly not of the U.S. If they needed temporary assistance to meet balance of payments problems, they could come

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to the Fund. So you had a community of more independent countries, and independent in every respect, cooperating or collaborating or in one way or another, living together in international organizations but not always willing to act as a unit. And at the same time, of course, you had the very large increase in the number of states around the world that had formerly been colonial dependencies and they had their own views. Their views were mainly concerned with economic development and independence. They weren't so much concerned with the niceties of exchange rates and that sort of thing. They wanted steel, prefabricated mills; they wanted everything needed to give them an instant industrial economy. That's really all I have to say about that.

I'll just give you one little story -- a true story -- to illustrate the point. I

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was in a small Asian country in the '50s at a reception at the German Embassy. [Ludwig] Erhard was there in person. At this reception there was an Austrian who, as it turned out, had been sent there to advise on the building of the country's first smelting plant. He reported that his work with the authorities of the country was seriously interrupted at the moment. Their only source of raw material for smelting was scrap which they gathered from WW II battlefields in great quantities. Unfortunately they had put a live shell in a furnace and had blown the whole thing to smithereens.

I said, "Well, what a pity. What a terrible disaster for this lovely small country." The expert replied, "It's not the disaster you may think, because when they produce ingots they've absolutely no equipment to

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fabricate them into useful shapes. What they want is a symbol that they are becoming an industrialized country."

I'm afraid this was true in the developmental programs of a good many countries in Asia, in Africa, and in Latin America. They wanted the symbols of industry, and they wanted them fast.

MCKINZIE: This brings up the point that I've heard other people make, and that is that in some of these international financial, monetary organizations, a man's nationality oftentimes had more weight than his solid grounding in economic theory. Particularly I've heard this said of Latin American economists, who very much wanted in the late 1940s massive injections of capital for their economies, as opposed to the considered building of

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infrastructures and all the rest of it; that perhaps they knew on the basis of economics what was best, but that nationalism, feelings of national pride, required them to...

HORNE: Well, I may not have used the word nationalism, but certainly that is exactly what we are talking about. It was the growth of nationalism, and you might say to a certain extent the growth of self-respect, or national self-respect. In the world as we know it you can hardly fault these people for wanting to call the shots as they see them. And to want to do that not only in their own countries, but to an extent in the international organizations to which they adhered. They wanted to have all policies -- as they can be brought to focus -- to lead to their own improvement and economic strength. This is self-interest, which you have to accept, which indeed is part of our

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own way of life.

MCKINZIE: In your statement made just a few minutes ago, did you mean to imply that U.S. provision of capital has, or has had, as a kind of a *quid pro quo* implication of cooperation on the part of smaller nations, and that once the U.S. capital was provided they felt less need to cooperate? Was there that kind of…

HORNE: I think there's no doubt of that. The U.S. was buying cooperation, and the cooperation was effective as long as the aid was greatly desired and quickly given. I don't want to be too cynical about that; I just think it's a fact of life.

MCKINZIE: Could you say something about when the transition period ended, from the Savannah Conference until the Fund was actually in full operations?

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HORNE: Yes. The Fund began exchange operations in the late winter of 1947. During the first calendar year of operations the Fund did a fair amount of business. But by 1948 the massive aid given by the U.S. to Greece and Turkey, and then the Marshall Plan, and also development of organizations in Europe which were intended to stimulate regional self-help -- all those developments in the late forties made it quite clear that the resources of the Fund and Bank would be quite inadequate to the task to be done. More so in the Fund than in the Bank. The Bank, after all, makes specific loans for specific end uses, and you can see what is being done, and check the flow of money into a project. The Fund is more nebulous and somewhat more difficult to understand. It does not deal with individuals. It does not make resources

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available for specific projects, however desirable they may be. It makes resources available to central financial authorities only where a country either foolishly, or because of a failure in crops, or catastrophic decline in the price of some essential raw material, as in the case of nitrates, or copper, or something like that where a country has suffered a serious decline in its balance of payments for reasons beyond its control. That is where the Fund can make resources available.

The rationale behind that is simply this, if -- well, going back to the '40s when Cuba was still a very good member of the Fund, a progressive small country in the economic sphere -- if Cuba had suffered a failure in the sugar cane crop, well, that was such an important part of their total exports that they would have been unable to see how, for the next year, they could continue to import the

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clothing, food, machinery, and everything else they needed to make their economy viable. Their only recourse, before such an organization as the Fund came along, was to clamp on exchange controls to make sure that the foreign resources they had available would be used for the most essential purposes, and perhaps at the same time back their future to a Wall Street bank. When the Fund came into being they were supposed to look to it and the Fund made its resources available just to meet those adverse payments situations. When the balance was restored through better crops, more efficient production, or higher prices for goods exported than for those imported, the transaction was reversed: that is, the Fund was repaid. But there was no possibility, when the magnitude of the postwar job to be done was foreseen, that the Fund and Bank, the Fund in particular, could play

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its role effectively. Because in making its resources available it always had to tie some strings. We'll let you have the hundred million or half billion, whatever you need, to meet this temporary balance of payments deficit, but here are the things you have to do as a country before we can make the money available. All this takes place in the Fund, but of course, the policies are really the policies of the members behind the Fund who have an eye to what's going on there.

In the period when the countries were doing so much to try to repair war damage and get back on a viable basis -- late '40s and early fifties -- when Marshall aid was available on a large scale, with practically no strings attached, the Fund realized that that was not the time to put its own resources out in competition with much larger resources,

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particularly when the country providing these larger resources made them available in part to satisfy its own policy objectives, not those of the Fund. And not necessarily for the ends which the Fund lives by, which are stable currencies, stable but growing trade supported by sound financial practices. So, when Marshall Plan aid was readily available, the Fund took the position that it give no substantial assistance to a country that was getting massive aid from the U.S. And the implication was that without the kind of strings attached which would be of interest to the Fund -- namely of interest to all the members not just the U.S., the Fund would stand aside. So the Fund became comparatively inactive during the late '40s and early '50s. To be sure, it carried on

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consultations; we set up or reorganized a number of central banks around the world; we overhauled fiscal systems; we had technical teams on the road all the time; but financial transactions were not large for a period of four or five years.

MCKINZIE: But that policy, as you point out, was really the policy of the strong members of the Fund.

HORNE: You could always say that the policy of the Fund was the policy of the strong members behind the Fund. The strong members themselves were certainly smart enough to know that a time would come when the Fund could use its resources effectively. Meanwhile, if Brazil, whose currency was in an awful shambles during that period, wanted large sums of money, the U.S. would make

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it available through the Ex-Im Bank, or in some cases on direct authorization by Congress. When this was done the Fund did not try to compete, fully realizing that under the circumstances it could not use its resources as a lever to persuade Brazil or any other country to undertake needed fiscal and monetary reforms. Now, eventually all this massive aid from the U.S. came to an end.

MCKINZIE: It was '51.

HORNE: ‘51 when Truman formally announced it.

MCKINZIE: It was the Mutual Security.

HORNE: Mutual Security and other systems following on the Marshall plan. And the Fund in contrast to the Bank still remained fairly inactive, until 1956 following the Suez crisis.

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The Suez crisis came on with a sudden bang, and it turned out that some very respectable members who threw substantial resources into it -- there wasn't much fighting as you remember -- there was a big crisis but when that crisis was over we had very large drawings from France, from the UK, from Israel, and from Egypt (UAR). All had to come in and they could make a very good case for their balance of payments having deteriorated for reasons beyond their control. By this time, too, we had an energetic Managing Director by the name of Per Jacobsson, a Swede. And somehow the Suez crisis, and the large drawings the followed, touched off a chain reaction and the Fund really went into high gear. Very large drawings by many countries followed, and this was the pattern until August of 1971.

MCKINZIE: So then there was a kind of birth period

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or adolescence period until 1956.

HORNE: Until '56 there was a period of preparation, of consultations, of building up statistics, of strengthening the economies at home, both through multilateral and bilateral aid, creating the institutions back in the member countries which would enable them to use more effectively any assistance they might get from the Fund and Bank. Our training programs, for example, were expanded. We were training central bankers, and fiscal experts around the world. Well, I merely wanted to cover the point that the period of big operations in the Fund -- big and sustained operations -- did not come until after Suez.

MCKINZIE: Would you comment on the charge that some new ideologically-oriented economists and historians have made in the last few years to the

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effect that some international organizations were an extension of existing U.S. agencies. That such organizations as the International Bank and the International Monetary Fund were instruments of the United States Government and used as tools of intervention in the internal affairs, particularly financial affairs, of some Latin American Countries. There's a book called *Aid as Imperialism*?

HORNE: I think there's some truth in this, more or less truth depending on whose point of view you want to accept. Take a country like Argentina, for example, which is a very proud country with a tradition of strong-man government. Politically, it's very difficult for the Argentines to accept financial assistance from the U.S. or anybody else with any strings attached. A minister of finance who buckles under does not last long, yielding

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to pressure from another country, particularly the Colossus of the North, was dangerous. Yet on many occasions they've had to have assistance, and some local officials have had to stick their necks out making concessions in exchange for multilateral aid, and that was also dangerous, but much less so. There is no doubt that the international organizations that the U.S. helped to create have become an extension of U.S. power to a certain extent, where the U.S. has wanted to use them that way. Those same organizations have also served as an umbrella for smaller countries that couldn't protect themselves against economic or other aggression on the part of their neighbors, including the U.S. I think you just have to take the world as it is. There have been times, and there will be other times, when the ruling authorities in Greece,

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Argentina, or Brazil, or even right here next door in Canada and Mexico, will resent any interference from the U.S., however well-intentioned it may be, as a *quid pro quo* tied to a loan, whereas identical terms imposed by an international organization might be tolerable. It is also a fact, and will remain a fact, that the U.S. as its first obligation, has to look after the needs of its own people, has to be concerned first of all with what is good for the U.S.

Now the United Nations, as you may know, has just agreed to tackle the. thorny problem of international waters along coastal boundaries. Where do international waters begin? Well, it goes without saying that most countries have an interest in getting this thing settled, but their interests do not coincide. One country may be happy to settle for a

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12-mile limit, or something like that; others want a 200-mile limit. It takes some compromise, some sacrifice, some give and take, to arrive at a settlement that everybody can agree to. You have to know what you can't give up; and you have to know also what you may have to give up in exchange for what you want, or must have. I don't see any other basis for international cooperation. But having said that, I think -- I have not read the particular book you referred to, although I am quite familiar with the argument -- the fact that the U.S. over the years has

exercised influence for good as the U.S. saw it, through the international organizations, is no proper condemnation of international cooperation, per se. I think, as I have already said, any country that tries to work out a common problem with other countries is going to run into

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some sticky wickets. Now you could say that the biggest and strongest country in the world could have its way if it insisted, but even if true I don't think that's the image the U.S. wants to project. If the U.S. is going to sell democracy and maintain the good image that we've had much of my lifetime, we have to achieve some of the maturity that one has long recognized in older European countries, where governments know they have to give and take, that you can't have everything your own way. The fact that we have the kind of government we have makes this a little more ticklish, because under our system you can have a Congress made up of one party, and an Executive Branch made up of another, and they can be at swords points on many issues. Under a parliamentary form of government the administration in power, by

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definition, has the support of the majority. In that situation, it is a bit easier to achieve the kind of flexibility you need to make international agreements, and to make them work.

I realize we are getting somewhat far afield from my role and interest in the International Monetary Fund. Unless you have questions, I have nothing further to say.

MCKINZIE: Thank you very much.

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