Oral History Interview
with
DR. RAYMOND VERNON

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Cambridge, Massachusetts
July 19, 1973
by Richard D. McKinzie, Harry S. Truman Library

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MCKINZIE: Professor Vernon, maybe we could start by asking how you happened to get into Government service in the first place. You had prepared yourself more or less for an academic career and in the 1930s ended up in the Securities and Exchange Commission. Was this part of any game plan on your part?

VERNON: Heaven forbid I should have a game plan. I got out of City College in the acute depths of the depression, February 1933, and I managed by knocking on doors to get a couple of different jobs, one with the National Bureau of Economic Research, where I worked for Wesley Mitchell and Arthur Burns

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on business cycles, and one in an advertising agency where I worked nights on whether Lever Brothers' advertising sold soap. The first one proved a little bit too reclusive for me at that age, and the second a little bit too crass, though I enjoyed both, I must say. So, when the SEC invited me to come to Washington, it seemed an easy compromise between the two: some action, some research. In any case I wanted to leave New York; so, that was the combination.

The SEC became an irrelevancy once the war had started, and since I had an eye disability and couldn't get more war-connected activity, I knocked about in Government trying to find war-related jobs. One of the jobs I did was the military affairs guides for the reoccupation of Western Europe and Japan, where I specialized on securities markets, capital markets, financial intermediaries, and so on.

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MCKINZIE: Did you go down to the University of Virginia and work in that program down there?

VERNON: No, I worked entirely shuttling between Philadelphia and Washington, the SEC being then in Philadelphia. Then, by sheerest accident I was selected as a kind of third choice when the Mission on Japanese Combines was being set up under Corwin Edwards. They were looking for somebody who knew something about the securities markets, financial intermediaries, insurance companies, and all of that; and out of sheer desperation they chose me. Out of that experience I was invited by the State Department to head up a section on international restrictive business practices, patents, trademarks, and so on. This was part of -- whatever it was then called -- the Office of International Trade Policy, I guess. And I worked my way up through that not too complicated bureaucracy until I became John Leddy's deputy and then finally

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Acting Director of the successor office, the Office of Economic Defense and Trade Policy.

MCKINZIE: Let's go back and sort of work at the end of the war, and we might even take it back to how had you got onto this mission on Japanese combines in 1946? What was the kind of background preparation, as you recall, and the thinking in the Government about what should happen?

VERNON: About the mission itself?

MCKINZIE: Yes.

VERNON: Well, first, briefly, about myself. Having written these military affairs guides I had a smattering of ignorance already about Japan's securities markets and financial structure. Whoever was doing the putting together of this mission (I'll describe what the purpose of the mission was in a moment) had a fixed notion in his head that he wanted someone from the SEC. There were a

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couple of logical candidates well ahead of me in the list. They both turned out (it was either one or two of them) -- one of them later went on to become the chairman of the Long Island Lighting Company, as I remember -- they couldn't go, or wouldn't go, and I could and did.

I had never met Corwin Edwards. I didn't know anything about the Government's policies toward Japan. I didn't know anything about the Joint Chief's post-surrender directive. In short, I didn't know anything. But it was known by one or two people in the Federal Reserve Board that I had done this work on Japan. Also I was busy knocking on doors again, which was my favorite preoccupation in the years -- just from sheer habit -- after having gone into the employment world during the depression. So, somehow or another it got around. I had myself interviewed by the Board of Economic Warfare, by the Foreign Economic Administration, by everyone under the sun. They all turned me down as being obviously

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not very useful material for their purposes. A lot of my present friends were engaged in the turndown process, including Charlie [Charles P.] Kindleberger, Ed [Edward S.] Mason and others; but, anyhow, I survived that. It was then that I learned the importance of graduating from Harvard and not from CCNY.

I forget now the processes of interviewing which led to my being accepted on this mission, but from the very first, Corwin Edwards and I hit it off famously, and we are close friends to this very day. We entered the scene with a tradition which stemmed out of Thurman Arnold, Corwin Edwards, Joe Borkin, a string of people associated with anti-trust in the Department of Justice, hence, terribly ethnocentric. This was the U.S. perception of how markets should be as the leading, advanced perception. Every other culture's perception was regarded sort of pathological, or at least involved

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in going through a cultural evolution which will one day reach the high plane of the American culture. That thread in U.S. policy had been given verbal recognition here and there in a variety of contexts. One of them was in the Joint Chiefs' post-surrender directive 1066, if memory serves me right.

MCKINZIE: 1067.

VERNON: 1067, which said to the Supreme Commander, "You will abolish all excessive concentrations....", about a sentence and a half. MacArthur's role was a very interesting one. He took this directive quite literally, apparently. He hired a curious character off Wall Street, who is still around somewhere. I sometimes run into his name, but I never can remember it. He sort of single-handedly was going to go around breaking up the Japanese trusts; and then after four or five months of this decided he had better get back home to Wall Street.

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Our group came in about January 1946, about as he left. I don't think there was any significant overlap. If there was it was an overlap of a few days, during which he announced that he had largely succeeded in dissolving the trusts and there were a few cleanup operations to engage in. It may have seemed so from his point of view. Everything seemed busted in Japan in January '46, and perhaps he thought the trust problem was liquidated too.

Well, eight of us were dispatched to Japan, most of us from Government agencies, with the exception of a professor of law of Ohio University, whose name escapes me, but it doesn't matter; and some people from the Federal Trade Commission, the Department of Justice, Edwards, and myself, eight in all. We spent three extraordinarily rewarding months in Japan, from January to March 1946, during which time we were given all sorts of cooperation by MacArthur. I never detected any sense of hostility or resentment; quite the contrary.

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MacArthur had requested a mission to help him with this; and while some people thought that this was passing the buck, because he found the job distasteful, I never saw any evidence of that interpretation.

We had the facilities of SCAP made available to us -- Supreme Commander for the Allied Forces in the Pacific -- and each of us exploited them in his own way. I learned more, I think, in that three month period than any three months of my life. And of course, what one learned, if he could listen with even half an ear, was the incredible ethnocentricity of the American position, and the complexity of the phenomenon with which he was dealing.

My job was two-fold: it was to understand in detail one of the major Zaibatsu structures, the Yoshida structure; and then to understand the financial institutions and their role, whatever they might be. And I wrote various pieces of the report of the Mission on Japanese Combines, which

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was published, and then wrote most of an unpublished document which was sort of the economic analysis of the reconstitution of the Zaibatsu in a period of reconstruction in Japan.

MCKINZIE: Could you talk about the reconstruction of Japan before we move? How soon should Japan be integrated into the economy of the Far East, how long should it be reduced, to use a word that's applied to Germany, to a "pastoral situation?"

VERNON: Well, there were actually three threads, three different views, then later four. One was the remnants of the Morgenthau doctrine. That was never of any importance in Japan. Though here and there an individual embodying that view might appear, it was never of any consequence. Outsiders sometimes thought that that was the dominant thing. They were dead wrong on this.

Then there was the passionate ideologue view which (a) believed that classical competition was

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the most desirable of all situations; (b) that classical competition was possible in Japan, and usually, (c) that it somehow related, also, to the political process. Excessive concentrations of economic power were bad not only for their economic effects, but also because they were antithetical to a democratic Japan. That was the second thread.

There was a third group, which I epitomized. I wasn't terribly important to any of this, but at least I represented a point of view, that in terms of sheer productivity you had to loosen up the Japanese society and its institutions which I assumed intuitively -- without any evidence I should add -- were being restrained by the existing tight structure of business and society.

MCKINZIE: Was it a logical criticism of that, though, that by doing so you might bring about the greater East Asian co-prosperity sphere inadvertently?

VERNON: Not at that stage. That was not a significant

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factor. You couldn't picture this supine Japan doing anything more than barely struggling to its knees, much less gobbling up Asia, If that ever appeared, it wouldn't appear for many years to come.

There was a fourth group, which later became epitomized and somewhat documented in the Acheson memoirs, and, as I remember, alluded to in the Kennan memoirs, with whom you would associate the names of Wally Butterworth, as well as a guy who later went on to head Pittsburgh Plate Glass, and presumably Kennan himself. This group thought about deconcentration as a policy to punish and restrain Japan, just as many of the Japanese did. And, making that interpretation, they assumed that the appropriate policy in order to permit Japan to expand was the opposite of the policy that was being applied. In a misinterpretation of both motivation and process, they succeeded in reversing the deconcentration program; but not so soon that it

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didn't have some of the salutary effects that was hoped for, I should add. We can get to that if you like.

In any case, the Mission on Japanese Combines wrote a report which, insofar as it had a guiding philosophy, was determined principally by Corwin Edwards and myself, in that order. It was "Let's loosen the society up some. This is the time to do it, when it's lying flat on its back." The social and psychic and institutional pain involved in doing it will be less now than later when it starts to move. We had various proposals which were then brought back to Washington. I then moved into the State Department and became the man in the State Department who, with the office that was direct liaison to the Far East Commission, and notably with the cooperation of Henry Owen who is now at the Brookings Institution, spent the year selling the program to the rest of the Government and the Far East Commission. The program having

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been more or less sold in something like the form in which it was originally proposed -- it may have been even before the program was sold -- a permanent member of the SCAP staff, not a mission man, but a man who would work for General MacArthur, was dispatched to do what was thought to be the carrying out of this program.

He turned out to be someone whose views lay between number one and number two in my four categories, a real religioso, thoroughly convinced that the Japanese restrictionism was a primitive and somewhat distasteful form of barbarism, and thoroughly committed in an ideological way to an atomistic society. He set about instituting the program in a way which did have overtones of punitiveness in it. Fortunately those overtones never dominated the program, but they were there; and we watched with some distress from afar as he began to reintroduce elements of a punitive tone -- sort of the missionary telling the black man, "When we take

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away your witch idols you will cry, but it is good for you, and you deserve to have your hands slapped because you're not worshipping true gods anyway." There was that element in the program.

MCKINZIE: But while all that was going on, you had in other parts of the Government people like Will Clayton, who were saying that if there was going to be peace and prosperity in the world it had to be through the integration of economies. I suppose it would not have been incorrect to characterize Will Clayton as a kind of free trader and an integrationist in the pure sense of that; and yet here you had people who were squelching that movement, and Dean Acheson later, in his memoirs, refers to the failure of the United States to rebuild the great workshops of the Far East and of Europe and Germany.

VERNON: Well, occupied area policy lay outside of Clayton's day-to-day operations, and in the German case you went up through, essentially, [John H]

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Hilldring and then interagency activity; and on the Japan side you went up through Butterworth, and then, later I guess it was, through John Foster Dulles when he was getting the peace treaty put together. Yes, it had some of the Clayton element in it, as when later on we had so much to do with bringing Japan back into the GATT structure. We were the prime movers in that; I was centrally involved in that. But still, it was, insofar as there was a link between the two worlds, I suppose it was as much John Leddy and myself as anybody. It was on that level, low down in the Department that the link occurred.

Well, in any event, there was then -- I can't attach this to the dates, but I suppose it would turn out to be '49, when in a very dramatic, very discontinuous shift in U.S. policy, it was decided: "enough of punishing Japan. This bastion of the Far East has to be brought back as a workhorse of

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the Americans." Not for Clayton's reasons, but because of the cold war reasons; a very cold warish kind of calculation. By the "cold warriors," not by the Claytons.

Instructions were sent to MacArthur, essentially to abandon the deconcentration policy. And MacArthur, in an incredible response, sent us an 18 page unclassified airgram, saying in effect, "By God, this is the greatest policy the United States ever had, and I urge you to continue it." And be it said for the inadequacy of leaks, this unclassified airgram never had its intended effect, and the policy was discontinued and reversed. But, one of the fascinating footnotes is, of course, that if you look at the most dynamic of Japanese enterprises today, Sony, Matsushita, Toyota and Nissan, they are all non-Zaibatsu enterprises, very interesting elements of Japanese initiative. It's a measure of our inability to plumb the future. When Joe Dodge did his report on the state of the Japanese society, which I guess must have been 1950, his gloomy prediction

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of the future of Japan, which reeks through the report, was conventional wisdom of the time. No one expected Japan to get up on its hind legs and start to roar.

MCKINZIE: Did this mission meet often with members of MacArthur's staff while it was in Japan in January and March?

VERNON: No. Each of us went his own way, did his own interviewing, interviewed those members of MacArthur's staff that we thought it was useful to interview. Frank Tamagna was very important to me, as was a chap by the name of Bogdan; they are both around somewhere. But we each did our own thing and then we came together with documents and began to iron them out under Edwards' general direction.

When we prepared the report I do believe we sent it to MacArthur's staff for comment, and I don't recall the comments were terribly important

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or critical. The report was more or less, in essence, taken as written.

MCKINZIE: How did you get on Harry Hawkins' staff?

VERNON: Well, I never was on Harry Hawkins' staff.

MCKINZIE: Well, in the same...

VERNON: In the same area. Well, my first job, which was restrictive business practices, patents, and trademarks was in the Industry Branch of the International Resources Division of the Office of International Trade Policy. My first contact with international trade was in the restrictive business practices area, when the ITO charter was being negotiated. I was then the chief of this innocuously named Industry Branch, and, therefore, I was the chief action officer for Chapter 5 of the ITO Charter on restrictive business practices. So, as it got negotiated and then the drafts were sent back, it

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was for me to develop a governmental opinion on whether this approach or that was appropriate. The other man on that was my predecessor in this job, Robert Terrill, who was actually on the scene at Havana with Leddy and Wilcox.

Then, gradually, as I kept working in this field, I naturally enough began to be assimilated into the larger activities of that office, and finally to the work of GATT. As you may or may not remember, that entity was excised from the ITO Charter and put in place as a temporary agreement -- that event taking place, I suppose in Geneva while the ITO Charter had been negotiated in Havana. Formerly Chapter 4 of the ITO Charter, contained a dreary long, incredible article, known as Article 18, which it was thought was going to be terribly important. It was the article which dealt with all the things that developing countries could do, the restrictions that they could place on their industry; it's amusing to look back on it. Then

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it was thought to be a very important, but on the whole very narrowly constrained, exception to the general rules.

Our blindness, our tunnel vision, really, our conception that we were forging a world with classical competitive conditions, is really bemusing as you look back on it. In any case, because it was thought to be both complex and tortuous, and yet important, it was assumed that there would have to be some specialist in the office who would spend full time on it and I was asked to do this; and by that time I learned all I could about patents and trademarks and international restrictive business practices. I'd managed to get placed in the bilateral treaties of friendship, commerce, and navigation of the U.S., a standard clause on the subject. I had managed to some extent, with Bob Bowie's overwhelming help on the German end, to keep the deconcentration laws rolling a little bit longer than they otherwise would have rolled; they didn't roll for very long in

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Germany. And, as you know, we were renegotiating the copyright agreement; the patent convention looked as if it were going to be there forever and couldn't be changed much; so there wasn't much to do anymore.

MCKINZIE: To what extent did this kind of work bear upon what was going on in Germany, or had gone on in Germany, where there were some industrial teams over there, as I recall, already raiding, if not the German patent office, at least some German plants for designs and...

VERNON: Well, that confuses several different things.

MCKINZIE: Okay.

VERNON: First there were the reparations agreement which allowed people to dismantle a plant and take it away. We all had rights in that regard; and the Russians really exercised theirs, and the others

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essentially didn't. The British didn't know what to do with the Volkswagen plant, for example; they couldn't imagine it of any use, so they left it there. It probably wouldn't have been any use in British hands anyway. But anyhow, the patent business is something else again; you can't raid a patent. A patent is a monopoly right granted by a sovereign in return for which the inventor discloses what he invented, and you can buy the disclosure for 25 cents from the U.S. Patent Office, which anybody could do.

MCKINZIE: And did.

VERNON: And did. But that's a monopoly granted by the United States to an inventor, and there was an agreement among the Allied governments, that those monopoly rights would in effect be cancelled; that all German patents would be available to anybody on a royalty-free basis which is the same as canceling them. That's what you mean by raiding

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German patents, but it had a meaning quite different from what a layman would suppose.

MCKINZIE: Yes, thank you. I've talked to a number of people who worked in the GATT-ITO negotiations. Most of them say that they think this was probably a pretty good idea, that the GATT provisions were excised from the larger idea. Do you concur in that, that there were provisions for full employment, or all kinds of other...

VERNON: Well, actually there was no choice. The ITO Charter was doomed, given the preoccupations of the U.S. Government, given its sense of priorities at the time, given the fact that the process of the ITO Charter was overrun by the Marshall plan, by the postwar shortages of Europe, the Anglo-American loan and the U.S.-French loan, the operations of the International Monetary Fund and so on. You couldn't get anything higher than an Assistant Secretary, say Willard Thorp, to even think about

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getting the ITO Charter through Congress. The Charter was introduced in the various committees of the House and the Senate, and languished there with nobody high enough in Government, neither the Secretary of State, nor the White House, willing to expend any time, effort, or bargaining power to jimmy it out of committee.

So, there it sat and I remember writing a release announcing its demise, I think, in December 1950, saying in effect that the U.S. Government was discontinuing its efforts to try to get this thing ratified. No other country would ratify it, I think, except Liberia; they were all waiting on us.

In the meanwhile we had taken the GATT and put it in effect. We had taken Chapter 5 and, either then or later, introduced it in the Economic and Social Council as a resolution, thinking naively that that would mean something. The commodity agreement chapter was being, in effect, used as a

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guide for the negotiation of commodity agreements. So, it was only the hortatory stuff that wasn't somewhere being used as quasi-legislation, and the hortatory stuff never had much bite in it anyway. The full employment articles and the protection of foreign investments provisions were all that was left.

MCKINZIE: Do you recall the processes or the circumstances under which you drafted Chapter 5, since you were the chief action officer? Who did you get help from? What kind of discussions took place? And people today are concerned -- I guess, the word is policy alternatives -- with the sort of dissenting opinions that you had to fortify yourself against.

VERNON: Well, I'm not sure I understand the context of the question and remark. Do you mean, was there an alternative to Chapter 5 which might have been pursued?

MCKINZIE: Yes, one which you had to argue out in your

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own shop.

VERNON: Oh, in our own shop. Well, that's not the atmosphere in which these things were done. Let me see if I can capture it. There were the true believers and the scoffers. The true believers believed in the anti-trust, the classical market, the atomization of economic activity. They gravitated to the jobs that represented the institutionalization of those views, while others gravitated to other jobs, and there was so much to be done that every man's taste for action had its release in its own field, and there was not much energy spent on the mutual process of canceling each other out, as one might have done in a period of noncreativity.

So, while it is true you had to clear telegrams, the passion of the convinced, of the ideologue, was so strong in many of these fields. The guy who had the action copy of the telegram was nine-tenths in command. Also the primacy of the State Department

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in those days in relation to Commerce -- not so much Treasury, Treasury was a little more complicated, but certainly Commerce -- was such, and the trust and confidence of the White House in the State Department was such, that the trouble of clearance wasn't all that great. The real struggles developed later when the Marshall plan was launched, which is well after the ITO Charter had been negotiated, and the question was a reconciliation of those two philosophical approaches.

So, I don't recall that there were any really bitter, difficult struggles in getting Chapter 5 negotiated. In any event, the substance of Chapter 5 was there before I arrived at the State Department, developed by Edwards and Terrill primarily, I guess, and my job was refinement and elaboration and that sort of thing.

MCKINZIE: Could you talk about in a kind of narrative way, going to Geneva in 1950 for those negotiations?

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VERNON: Oh, yes, the fourth session.

MCKINZIE: When it later went back to Geneva, I guess.

VERNON: That's right. Well, before we get into that, the largest single other element that is worth introducing into the picture, of course, is the reconciliation of the philosophical approach of the GATT with the desire to speed European recovery.

Now, of course, the conflict which arose was obvious; all the Europeans had import barriers, and licensing of goods, and the licensing of foreign exchange transactions, and when you are in a situation of that kind it's readily apparent that two countries, if they simultaneously lift their restrictions, can engage in a higher volume of trade without any fear that either of them will be having to use foreign exchange. It's a simple step from there to the view that you can take a group of 15 or 16 countries and by simultaneously lifting

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their restriction, and then financing the imbalances that might occur, in some generous way, you can get them to trade more with each other. Obviously you couldn't introduce the U.S. into the system because it would swamp those markets. All these markets were high priced and had shortages; our market was lower priced and had no equally severe shortages, and, therefore, the essence of the trade policy and payments policy of the Marshall plan was a liberalization among a limited group of countries which meant discrimination against everybody else. In that context you went up against the philosophical approach of the IMF which said, "Yes, you could do this, provided that you did it against countries with scarce currency, which was the dollar, therefore you couldn't do it against Japan, or against Finland, because they don't have a scarce currency. There was that philosophy which was antithetical to the Marshall plan philosophy, and then there was the

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GATT which said that Belgium couldn't do it because Belgium didn't have a scarcity of currency, and, therefore, though Belgium was thought by the Europeans to be part of Europe, it was thought by the GATT and the IMF to be a country not entitled to discriminate. So, it was a reconciliation of those conflicts that constituted the biggest single issue, I think, in that period of trying to find some modus vivendi.

MCKINZIE: How did this reconciliation take place? How did it work itself out?

VERNON: It was a continuous hassle amongst at least three parties and sometimes more. There was the European Bureau of the State Department, which was concerned, theoretically with the political aspects of the Marshall plan, but which had economists in it like Miriam Camp (who later married a man named Camps, thereby continuing history). Leddy, Camp,

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and Vernon constituted an almost continuous negotiating triad. Leddy standing for the classical GATT-ITO approach; Miriam standing for "let's get on with European Recovery;" and my job

being that of peacemaker and compromise-developer, which compromise then would have to be negotiated out with the Marshall plan people. And by that time oftentimes the remaining difficulties were negotiable. And then there were the Treasury and Commerce and Agriculture hovering on the edges of all this.

Well, the general formula was essentially that the arrangements for the Marshall plan were temporary and interim. They were a process which it was intended would lead as rapidly as may be to the full convertibility of the European currencies, and the little old detours and aberrations on the way were not to be taken too seriously, just so long as you never lost sight of the ultimate objective of convertibility; and rather to the surprise of those

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people that argued this slightly disingenuous position, that's the way it worked out. It was an abstract concept which happened to coincide with history. Therefore, whenever I went to the GATT -- not so much the first time, but at subsequent times, at Torquay and later on back to Geneva as the acting head of the delegation -- my role was the role of "Mr. Compromise," "Mr. Water on two shoulders." Be it said to the everlasting credit of Leddy, he sort of looked the other way at times; he couldn't quite give up the rather pure form of adherence to GATT and all that; but on the other hand he's such a sensible and well-balanced guy, that neither would he quite block the process that was going on.

The Code of Trade Liberalization, for example, which was, I guess adopted in '49 or early '50, was a kind of epitomization of this. It was invented simultaneously by the British, the French and the State Department. But none of us was inventing

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anything; I mean it was in the air and we all of us settled on it at about the same time. While I was peddling it through the State Department to a reluctant Leddy, to a not-so-reluctant Thorp, and to a joyous Miriam Camps, the British and the French were negotiating almost the identical formula with each other and they introduced it just about the time we cleared our own positions; so that when they announced their intentions to us -- I went over to Paris to join the U.S. delegation there for the purpose -- there was nothing to it, it had already been cleared in the State Department in substance. It was a very creative period, but we were all creating out of a common environment more than everything else.

And then the job was to never lose sight of the ultimate objective of convertibility, and that objective was won partly because the British were discovering that for their own reasons, they didn't care for all this ad hoc discrimination that they

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were engaged in. The Labor government about this time lost and the Conservatives came in, and differentiating their political product, the Conservatives always differentiated in favor of a sort of a free market.

Second of all, the British Government mandarins were getting tired of all this clutter and fuss and mess of detailed trade arrangements, were looking for broad principles, and were rediscovering Alfred Marshall. So, they had their own internal dynamics for wanting to go back to a kind of open process, a fact which began to be apparent in the meetings of the GATT around '51 or '52. Also, the European currencies were gaining additional reserves. At the same time, we in the U.S. were keeping our eye constantly on the goal of convertibility and trying to end discrimination against the dollar. It all converged on a common policy, which probably would have happened no matter who was in the saddle. There was a kind of determinism in the process that

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I find fascinating.

MCKINZIE: You are not putting much emphasis on our negotiation in all of that.

VERNON: Well, there are necessary conditions, and sufficient ones. Our negotiation taken by itself would not have been a sufficient condition. Nothing could have been done against the sort of laying back, intransigence, unwillingness to be dragged along of the British and the French. We could have railed and howled and yelled, but it wouldn't have availed us had it not been for these other forces. The objective fact that European currencies were getting stronger, coupled with the British desire for a more open system; it all added up, and those were the necessary and the sufficient conditions. Sure, if we hadn't ideologically wanted to push this, events might have been slower; they might never have happened. But with negotiation

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they added up to a sufficiency. It's an interesting process to have lived through.

MCKINZIE: Could you talk about the European Payments Union and your role in getting that set up?

VERNON: Well, of course, it was [Robert] Triffin more than anybody else who did this, and I would say critically Tomlinson in Paris. Tomlinson's wife is the only foreigner, I was told, who was voted a pension by the French Government for his noble services on behalf of France. Tomlinson was our Treasury attaches in Paris. He was dying, still in his thirties, of some kind of heart disease that was going to kill him shortly. Out of sheer ability and energy, and a willingness to take long risks, he made his mark before they planted him; he made himself indispensable to [Jean] Monnet and captured also the loyalty of the then Secretary of Treasury.

MCKINZIE: Oh, you don't mean Vinson?

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VERNON: No. John somebody.

MCKINZIE: Snyder.

VERNON: Snyder. And Acheson had a lot of respect for Tommy which made him a vast power in Paris, which is critical. Triffin, I forget where he was at the time, was the diddler and creator of all kinds of mechanisms, and he had a grasp of the intricacies of the process which was indispensable. Back in Washington, there were two people -- Dick...

MCKINZIE: [Richard M.] Bissell.

VERNON: Bissell, and the other, Jim McCullough -- a man you would want to interview, by the way. They were really the key guys. My job was the job of essentially seeing to it that the State Department came along, and finding a philosophical basis for making it consistent with IMF-GATT objectives.

MCKINZIE: Of course, for the layman the obvious

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question is, why did you need the EPU when you had the IMF?

VERNON: Oh, the EPU was wholly different. First of all the EPU required day-to-day operational decisions. It differed from the IMF in the same way that an executive decision would differ from a constitutional provision almost. Here you had the central banks in constant touch with each other in Europe, constantly asking themselves if the lines of credit being extended were going to be sufficient to carry the code of trade liberalization along, or whether there were going to be breakdowns, whether the various tranches were going to be sufficient to cover this or that; constant modification, constant revision. It took operating almost on a telephonic basis to keep that thing going. The underlying principles were clear; there was to be a free credit swing, and then a little bit of pain, and then a little more pain, and then a lot more pain.

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MCKINZIE: Was that the Helsinki Doctrine?

VERNON: No, the Helsinki Doctrine said, "You fellows can discriminate as long as you like with each other, but you've got no rights to discriminate against currencies that are as weak as yours, and therefore, you've got no right to discriminate against the Finns. You can discriminate against the Americans but not the Finns. And that's what that was about.

MCKINZIE: Did you introduce this idea?

VERNON: Yes, it was a perfectly obvious idea. And it gained notoriety enough not because it was a terribly important provision, but because the Marshall plan people, on my insistence, sent a telegram (I don't know why we did it this way), to Helsinki which was in their code "Telegram number one to Helsinki," enunciating this doctrine as an assurance to the Finns, as I remember, transmitted to our Ambassador there.

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MCKINZIE: It was not then worked out in Helsinki?

VERNON: No, it was not worked out in Helsinki, it was an affirmation of our policy and our assurances. You have to remember the American position in the world; it was running the world

-- or thought it was -- and its relation to EPU therefore, was one remove away. In light of our other interests in the world, we were playing the honest broker between our Western Europeans, our Marshall planners who are in a separate agency, and our traditional GATTists and ITOists who are in another world.

MCKINZIE: I wonder if you might talk about economists in the State Department during the Truman years? Would it be fair to classify them generally as believers in the Clayton view of international economics or were there some a little more nationalistic? The question is prompted by the recent historical writings that contend that every economist in the State Department was somehow a follower of

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the free trade position.

VERNON: Well, there was a critical group, narrow in base, deep in penetration; Corse, Leddy, Wilcox, Brown, Hawkins, not so much Thorp. Thorp was broader gauged. Certainly not Ed Mason, who left the State Department about the time I came in, who is also much more eclectic. And ultimately Clayton, who had a passionate commitment to a certain view of the world, open, competitive, non-discriminatory. They were the ideologues, but in a very decent and constructive sense; if this happened to coincide with U.S. interests, they were not conscious of it.

That is to say, as you trace it historically, my suspicion is the reason why the Americans became identified with the open door, non-discriminatory position, probably goes back to their struggle with those two great colonial powers, Britain and France. And that goes back to a period which probably

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begins in acute form about 1895 and carries on through to World War II. The punctuation marks in that relationship were our struggle with the British in Mexico in the period from about 1900 to World War I over oil and mining, and the British, according to our lights, playing dirty poker, using their government and all that sort of stuff. Later, our struggle in the Ottoman empire with [Nubar Sarkia] Gulbenkian and the British and the French over the Iraq oil concessions; our efforts to penetrate Asian and African markets, were repeatedly rebuffed by the British and French colonial interests.

And then finally the Southern interests were very important. The Southern Senators, the Congressman, who being completely wrapped up in agricultural exports, existed on, in part, their ability to continue to export apples and tobacco, and citrus and cotton. And <u>their</u> roots go back to the Civil War of course. These were traditional free traders, because they have to export. This was all institutionalized

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in a so-called philosophy, which stemmed from self-interest, but they probably never were aware of the connection.

MCKINZIE: All right. Now, the question is did the economists really have the ability to communicate with the political people?

VERNON: Well, the ones that they were in agreement with they didn't have to communicate with; they were just walking on parallel paths in the same direction. They were stimulated by different paradigms. One had the Alfred Marshall view of the world; another had the apples and tobacco view of the world; and another had the colonialist's view of the world. But they moved in parallel directions and verged on a common policy.

I don't suppose there was much philosophical back and forth among these various groups. If you went up on the Hill and talked with Mr. [Wilbur D.] Mills, or -- well, I guess before him it was Dan [Daniel A.]

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Reed, and that was a different kettle of fish. But if you talked to Mr. Mills or to Mr. [Hale] Boggs or Will Clayton, it may be that they were conditioned to believe in the open world because of cotton, and we were conditioned to believe in the open world because of [Alfred] Marshall, and some other people were conditioned to believe in the open world because of oil. But we all believed in the open world, and that's all that mattered. And of course, there is the revisionist concept of a convergence of views, a single view, that of an American hegemony. Well, in one sense it's true, the sense that all of us were conditioned by paradigms that involve self-interest. But the notion that there was any joint view of the hegemonic reach of the Americans was so far from reality that it was unhistory.

MCKINZIE: At that point had you considered making Government a full career?

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VERNON: Oh yes, sure, I couldn't have contemplated any other career. But there were two or three factors involved. One was that I was right in the center of the security business, in two different senses. One was that I was the Acting Director of the Office of General Defense and Trade Policy, and there were two things wrong with that, one of them was that I was in charge of the East-West trade program, and, therefore, constantly running up on the Hill and explaining to Bob [Robert] Kennedy and Senator [Joseph J.] McCarthy's staff (Bob Kennedy then being the minority counsel of the staff), all about why it was that Americans were not shooting up British ships when they brought cargoes to Shanghai.

And the other was that my job was an obvious target for the Eisenhower administration. So, I began to hear the dim echoes of, "My dear fellow, there are various ways in which we can get your job, and we're not above using any of them," and this was happening all around me. Another factor

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that was involved was essentially a distaste for Mr. Dulles' style, which was very strong.

MCKINZIE: Style or policy?

VERNON: Well, they are inseparable. Let me describe. I can epitomize this whole business by telling you a story that I think appropriately belongs in history. Joe Harsch wrote a famous article in the *Atlantic* or *Harpers* around 1954, which captured the spirit of what I am going to tell you now, about as well as anything.

Dulles had been appointed a Senator from New York to finish an unfilled term of somebody. Dulles had been a protectionist Senator on the whole, voted against everything that had to do with freer trade. And it was one of the curious ironies of life that when he became Secretary of State, one of the early appearances that he had to make -- and I think the first that he had to make before the House Ways and Means Committee -- was a renewal of the

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Trade Agreements Act, to give Eisenhower the authority to reduce tariffs, which otherwise would have expired.

Now I was then acting director of the Office of Economic Defense and Trade Policy and I was working out with the Japanese on the side some kind of a scenario for getting them into GATT.

We had it almost worked out when this thing came up, this renewal business. I had a superb staff of real pros. Leddy by this time was, I guess, Deputy Assistant Secretary of State. Carl Corse was in charge of this kind of thing. They prepared the usual briefing book, and they were such pros, you know, they could say, "Well, around 10:50 if he follows his usual custom, Congressman [John O.] Pastore [who was then Congressman from Rhode Island, not Senator] will ask the following question: 'Mr. Secretary, if we give you this authority, do you propose to use it to do anything for those blankety-blank Japanese who are ruining

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our good Polish-American workers in costume jewelry in the great state of Rhode Island?'"

Now, Mr. Dulles had been Special Assistant to the Secretary on the Japanese peace treaty. I had had some slightly distasteful experiences with him there, not acute, but enough, and I didn't look forward to having to brief him for this. First, I thought he wouldn't enjoy the experience, and, secondly, I thought that I wouldn't. I was wrong on both counts. The briefing book was prepared and Dulles took his briefing with infinitely more seriousness than anybody I've seen in a comparable position before or since. Later I was to be George Ballts special assistant during the Trade Expansion Act period; the contrast in preparation was very amusing.

Anyhow, Dulles gave me parts of two days, and we sat, partly in his office and partly at his home, going through the briefing book. And we came to the Japanese business, and I said, "Well, Mr.

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Secretary, the staff says that right about the middle of the session Congressman Pastore will ask the following question. It would be presumptuous of me, I suppose, to suggest what the reply might be, but the staff suggests the usual: "Bastion of American Pacific defense. They have to export to import, and so on." Dulles said nothing.

Then, the next day we went down to the House Ways and Means Committee. I was the little man who sat behind the big man, you know, and passed him notes. Sure enough, right on schedule, Congressman Pastore asked the question. Dulles looked him right in the eye and said, "Congressman, there is nothing the Japanese make that we need in the United States. No," he said, "I see no reason to use this authority on behalf of the Japanese. There's no connection between their problems and this bill."

Pastore's mouth dropped a foot. I masked my face, the hearing went on, and I thought, "Oh, God,

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wait until I get back to my office." Well, sure enough when I got back my office was swarming with Japanese, all demanding, "Mr. Vernon, what does this mean?"

And I said, "Well, I don't know what it means, but I sure aim to find out." Because of course this bill was critical to us in getting the Japanese back into the GATT. There was going to have to be some negotiation, there was going to have to be some give and take. So, I ran up to our new boss, Sam Waugh -- a wonderful old guy -- and I said, "Sam, you had better find out what the Secretary means by this. I can't finish my negotiations with the Japanese until I get some guidance."

And he said, "Do I have to?"

I said, "You're damn right you have to." He was a fine man, with whom there was no need for diplomacy.

He said, "Well, okay, the next staff meeting is on Monday, why don't I do it Monday?"

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I reluctantly waited three days. Well, the short of it was that he learned nothing that week or the next week or the week after that. Finally I said to the Japanese who were on my telephone every five minutes, "Why don't we pretend Dulles never said it, and let's finish our negotiations, find a pattern of action, and put it to him for approval?" Which is what we did. I sent up a memo from the Assistant Secretary through S.S. to the Secretary, subject: Japanese-U.S. Negotiations, page and a half long. The second page said in the last paragraph, "The Secretary will be aware that if he approves this memorandum, it will be directly at variance with his testimony before the House Ways and Means Committee on such and such a date in which he said," and I quoted him verbatim. He approved it in 18 hours, "Approved, JFD," and without a word, not even a word.

One more incident will give you the flavor of the time.

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In the very early days of Eisenhower we had a lame duck Assistant Secretary of State, Harold Linder, a very fine man, and McCarthy demanded that the Secretary of State should appear before him to explain why we had all of these Communists in the State Department, who were letting the British bring all these goods to Shanghai which were killing all our boys in Korea.

When Dulles received this request, he thought he had an easy out. [J. William] Fulbright or somebody on the Foreign Relations Committee, wanted him to testify at the same time of day so he turned to his counsel, Herman Phleger, and asked him to testify.

Herman said, "I'm the counsel to the Secretary, I don't testify. But let's get the Assistant Secretary of State to do it." When Linder was asked he said, "I can't do that. I'm a lame duck Democratic carry-over, just here to help you fill the post."

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And so, the next man down was the Deputy Secretary of State, John Leddy, and Leddy agreed he would do it.

I was horrified. I undertook to prepare his testimony because he was my very close friend, and I thought he was bent on suicide. And so I prepared some testimony which took a string of National Security Council decisions and just put them together, as an explanation of our policy. When it was ready I said to John, "Well, John, we've got to clear this with the Secretary," and John, almost in a sleepwalk, said, "All right."

We went to see Herman Phleger, who was designated by the Secretary as liaison. Herman took this eight-page manuscript and he flipped through it obviously at a faster rate than a man could read, and put it down on the desk and said, "Well, fellows, do you know what I would do with Mr. McCarthy? Whatever he says, I'd say yes. Then he'd get tired and let you go."

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John sat there. I said, "Yes, Herman, that's very good advice, and I think essentially that's what this testimony does. Would you mind reading it?"

He picked it, ostentatiously, did the flip act again, put it down, and repeated the statement he made before. This happened about four times. Then John sighed and we left the room. I was <u>furious</u>! The day of the hearing came, and John went up before McCarthy and there was the usual circus. John tried to read the statement and McCarthy kept his microphone button open so that as he chatted with the people next to him his voice mingled with John's. John slowed down and stopped, and McCarthy would look at him and say, "Go ahead and read." John would start again and his voice would mingle with McCarthy's on the microphones. That happened three or four times, and then John stopped altogether. Then McCarthy turned to him and said, "When are you Communists going to get out of the

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State Department? I don't want to listen to you hirelings that come down here, I want the Secretary of State," and he stomped out in a rage.

That's briefly -- it took longer than that -- but briefly, that was the scenario.

Well, we got in a cab and went back to the Department and went up to Herman Phleger's office and we reported to him, and Herman said, "Yes," he had seen it on the news ticker. And he said, "Now, you fellows understand, I never approved that statement." (We handed out the statement, by the way, to the reporters in the hall outside.) "But never mind, don't you worry, we're right behind you." But what we didn't know and what we weren't to learn in fact until the next day, was that the Secretary had been testifying before this committee, before Fulbright and someone had asked the question, "Mr. Secretary, how do you explain all this trade that is going on between the British and the Chinese?" Dulles made a perfectly reasoned

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statement of the relationships between the British and the Chinese, and how you can't shoot friendly boats out of the sea, and so on. And this was taken to be a staged defense of John M. Leddy, misinterpreted by the newspapers to be that.

At his press conference the next day, Dulles was asked, "Mr. Secretary, in connection with your defense of your employee, Mr. Leddy..." and he never corrected that, he just went on to a wide-ranging statement and that saved John M. Leddy. Sheer accident; John would have been thrown to the wolves if it had not happened, and that of course left a scar on anybody who had seen this sickening performance.

Well, anyhow, that was not exactly my idea of the conduct of foreign affairs. And so all these things led me to decide that I had had it. I proposed to go out vertically instead of horizontally.

And so I went.

Then I came back into the State Department

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briefly, on a one semester leave of absence in the early 1960s, to develop the early version of the Trade Expansion Act in the early Kennedy administration.

MCKINZIE: Did you have any dealings with any Truman Secretaries of State in the direct sense that you had with Dulles?

VERNON: Yes, with Acheson, for whom I had great admiration. Well, I knew Acheson as two different people. I knew him as Assistant Secretary of State, I forget for what, for Far Eastern Affairs I guess.

MCKINZIE: He was Assistant Secretary for Economic Affairs at one point.

VERNON: Yes, I guess so, and I may have known him then, but somehow, I don't know why, I associate him with the Far East. That's probably wrong. In any case, I knew him immediately upon my entry into the State

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Department, when I thought of him as brash, smart-alecky, and glib. Then I knew him as Secretary of State, not well, but enough to form an impression. And he almost seemed like a different man to me, with balance and wisdom and forbearance. Then I knew him again through his memoirs, and he seemed to me like the young man again in various places rather than the old.

A very strange thing. His memoirs by the way, were edited by Marina Finkelstein, who was my editor here at the Center [for International Affairs].

MCKINZIE: Oh, I didn't know that.

VERNON: Yes. But the contrast between Acheson and Dulles was really quite marked to those of us who were in sensitive positions where we weren't strong enough to have our own political base, but were powerful enough to need defending.

MCKINZIE: What has all of that experience in the Truman

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administration and the first years of the Eisenhower administration meant in your own subsequent career?

VERNON: Oh, it's been <u>profoundly</u> important.

MCKINZIE: In the sense of idea formation?

VERNON: Yes.

MCKINZIE: Or as a launch pad into...

VERNON: Both. Well, yes, both. When I left the State Department anybody at that time leaving the State Department left under a cloud. Also I was naive. I had spent 18 years in the Government; I had no remotest idea about what the world was about in some senses. I'd lived in a cocoon. In some respects I was highly sophisticated, because I had to be with that experience. In other senses I was as narrow as an arrow; I didn't know anything. I suppose that with any degree of sophistication then I would not have taken the first job I took when

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I left, which was as the planning and control director of a candy company. Suddenly I was plunged into the business world. I was a damned good businessman; I was offered the presidency of the company in a couple of years, but that wasn't my dish of tea.

So, even when I was in the business world I was writing for *International Conciliation*, for *Foreign Affairs*, I was teaching at Princeton one day a week. I went to Willard Thorp's Merrill Center down in Southhampton -- that's an institution that you may not know, but it was an institution that gave Bob Triffin and me exposure to a wide group of people who we might not have otherwise have known. Willard discovered both of us actually, if discovery is the right word. So, I was kept in the eye of men like Ed Mason, Carl Kaysen and Charlie Kindleberger. Kindleberger was a contemporary, Kaysen younger. But we came out of different backgrounds and culture. I came out of the slums in

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New York via the City College route, and they came out of the more traditional Princeton-Yale-Harvard route. It was at that point that our careers essentially converged. I had overcome the handicap of a slow start, which was essentially what it amounted to. About that time, I was offered the candy company presidency. I came home and asked my wife, "What should we do?" I fell in love with her again on that day when she said, "Let's get out of here before we can't afford it."

So I announced to a not so breathlessly waiting world that I was prepared to take another gamble and at that point Ed Mason offered me two jobs: one was to go to Pakistan on a Harvard development advisory service team, which Dave Bell had been heading. The other was to direct something called the New York Metropolitan Region study. I spent the next four or five years directing the New York Metropolitan Region Study, and was then offered a professorship at the business school.

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