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ORAL HISTORY PROGRAM

Transcript of interview with

Mr. Eugene R. Black, President

Brookings Institute

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By Prof. Robert Oliver

Mr. Black: I am Eugene Black, President and Chairman of the Board of the International Bank for Reconstruction and Development. I'm serving now my third term as President. I came to the Bank in the capacity of American Director, and served as American Director for two years. So I've been with the Bank pretty much since its origin.

Q: How did you happen to decide to come to the Bank in the first place? What were you doing at that time?

Mr. Black: Well, at that time I was a Vice President of the Chase National Bank in New York. I had become very much impressed in my travels in Europe with the great interest in, and hopes for, the Bank. After I returned from Europe I met Mr. McCloy, who had been offered the Presidency after it had been offered to several other people who had declined. When I met Mr. McCloy I told him about the impressions I'd gained in Europe as to the possibilities of the Bank, the possible importance of the Bank, and asked him to consider very carefully whether he should accept the Presidency. He informed me that most people he'd talked to had advised him not to do it. There was a difficult situation at the Bank, where the American directors, who had about one-third of the votes, could really control the operations of the Bank. My suggestion to him was that that could probably be solved if the American Director were someone who was en rapport with the

President. As a result of that suggestion, he agreed to accept the Presidency on the condition that the American director would be such a person. Then, much to my surprise, he asked the Chase Bank to allow me to take this job for two years, which was the duration of the appointment. I was released by the Chase Bank and came down as the American director.

Q: You met Mr. McCloy for the first time in January or February '47?

Mr. Black: That's right. I'd never seen him before. He had returned from his duty in Washington in the War Department, and he'd come back as a member of the law firm in New York who were the attorneys for the Chase Bank. In this capacity he was put on the foreign committee of the Chase Bank. I was on this committee, and after I came back from Europe I went to a meeting of the committee and saw Mr. McCloy for the first time.

Q: You knew he was being considered for President then.

Mr. Black: It had been rumored that he had been offered the job and he was thinking about it. There was a lot of concern at that time because nobody else would take it. The Bank was new. Nobody knew anything about it. People who had been offered it were not willing to take the job. There was a good deal of concern as to who was going to take it, whether they were going to find somebody to take it.

Q: And you were the first person to suggest that the job might be a reasonably good one, that the Bank might have a future if the President were allowed to choose the Executive Director.

Mr. Black: I think I was, because he told me at the time that I was the first person who had not advised him to turn it down.

Q: Has it been the policy of the Bank ever since that the President of the Bank will have a say in who becomes the American Executive Director?

Mr. Black: Well, there's no agreement that he will pick the man - but I think there's an understanding that the American Director should be acceptable to the President. There's no agreement. The President of the Bank hasn't got the right to select the American Director. That's done by the President of the United States. But if you look back on the history of it, if the American Director has such large share of the votes, it would be an impossible situation if he and the President of the Bank didn't get along. One of them would have to quit.

Q: What was the Bank like when you and Mr. McCloy arrived in Washington?

Mr. Black: Well, there wasn't much there. Eugene Meyer had been President for a short period of time, and what he had done was to try to get some people to start up the Bank going. He'd hired some people,

and he'd hired some very good people, people who were very valuable and very important in organizing the Bank. Quite a few of them are still there.

Q: Where did you live when you came down here?

Mr. Black: Well, Mr. McCloy and Mr. Garner, who came down as Vice President of the Bank, were all in a house owned by Nelson Rockefeller, a friend of all of ours. We lived there for a while. We spent most of our time working during the day, in the Bank and at night at home, getting the Bank organized, and even more important than that, establishing policies.

Q: Can you tell about some of the policy questions that arose?

Mr. Black: Well, one of the important things we had to decide was how we could make foreign loans with safety. The history of foreign loans had been very bad. There had been numerous defaults on foreign loans all over the world. We had to study the causes of those defaults and try to see to it that we wouldn't be guilty of making the same mistakes again. In a way the defaults helped us because we saw what the record was. We could tell the reasons why those defaults took place; we could set up policies to safeguard the Bank and not repeat those mistakes that had been made in the past.

Q: I take it one of the earliest policy decisions you made was not to

make loans to countries that were in default on past loans.

Mr. Black: That's right, until they had settled the defaults. By "settle" we didn't mean that they would pay the loans in full, but that they'd make a settlement, with the bondholders' protective committee, as it was set up in that the settlement would be one that the protective committee would accept as representing the ultimate capacity of the countries to pay. That might mean that there'd be a change in interest rates; it might mean an extension of maturity, but in every case the par value was kept the same as originally. In other words, instead of being a 7 percent interest rate, it might be 2 percent; it might be a scale of interest rates over a period of time, but the important thing was to extend the ultimate life of the debt and to make the amortization payments within the capacity of the country to settle.

Q: Did you feel it was a job for the Bank to actually arrange what the settlement should be?

Mr. Black: No, we never stated what the settlement was to be. We just said that it would have to be a settlement that was approved by the bondholders' committee. We had to be satisfied that the defaulting country had the will to settle and that the country was prepared to make a reasonable settlement. As it turned out, the settlements affecting our member countries were practically all accepted by the bondholders' committee because they were reasonable settlements.

Q: Would you tell the story you told me before dinner about the Chilean negotiations, in this connection?

Mr. Black: When I first came with the Bank, I think the first application that the Bank had was from the Chilean government for a sizeable loan. At that time, the Chilean government was in default on all bonds that were sold in the American market, or other markets, between the two world wars. The Chilean delegation came in to see me, as the American Director, to acquaint me with their application and to see whether I would support it.

Q: Had they been given any reason to suppose that the Bank would support this loan, before you arrived?

Mr. Black: Probably so. But I told them that I wouldn't be willing to do it until they had made a settlement on their debt. They were very annoyed with this, but finally did make a settlement and we received the thanks of the government that we'd gotten them to do it. They were very proud of having made this settlement. But all the time that they were talking about the loan, I received a telephone call from one of the important banks in New York which said that they had heard that we were about to make a loan to Chile, and if we did make it they presumed that we would write the loan off to 10 cents on the dollar. That's what Chilean bonds were selling at.

Not only did we feel that it was important for the countries to re-establish their credit, we also felt it was important that we get them to make a settlement before we made a new loan to them. If we

didn't, it would hurt our credit to make loans to people who hadn't even made an effort to settle their defaulted debt.

Q: What was the condition of the Bank's credit when you arrived in March of '47?

Mr. Black: It didn't have any. The Bank was new. Nobody knew what it was, except that it was set up to make foreign loans; and foreign loans were suspect because of the very bad record. We had to acquaint people with the Bank's intentions and what policies we proposed to follow, and then show what the safeguards were on the bonds that we might sell, the safeguards being the call on the unpaid capital of the various member countries. We had then to show that we were going to make some sound loans, that we were not going to give the money away. Until we did that and until we acquainted people with what the other safeguards were, the Bank had no credit. Not to mention the fact that one of the first things we found was that we had to have legislation passed in all of the states of the country to make the bond a legal investment for insurance companies or savings banks or pension funds or fiduciary funds. We had a big program of getting this legislation passed.

Q: Hadn't this legislation been passed before March '47?

Mr. Black: Not that I know of. I don't think so.

Q: You don't recall whether the state of New York...

Mr. Black: I don't think so, no. That was done after we got here. There may have been some conversations, but I don't think it was actually done until after we got there. I don't remember.

Q: Had the executive directors contemplated any bond issues before March of '47?

Mr. Black: Well, they'd had some talks with the Bankers. These talks were conducted by Mr. Collado, who was then the American Director, and he didn't get much encouragement. His ideas were too big and too soon. I mean, they were premature; the figures he was talking about were completely out of the question because they couldn't possibly be reached.

Q: What sort of figures was he talking about?

Mr. Black: Oh, I don't know, a billion or two billion dollars of borrowing at a time or something like that. You see, he went on the assumption that regardless of what the Bank did, the call on the unpaid capital of the different countries could be a sufficient safeguard for the big institutions to buy the bonds. The mistake he made was to include the countries that were members besides the United States. We discovered in talking to the American institutions that they didn't have any interest in that. What they wanted to know was what the call was on the United States.

Q: Do you recall when you first discovered that - that the dollar capacity of the borrowing market was limited to the guarantee of the United States?

Mr. Black: We discovered it as soon as we started talking to some of these institutions. When we would tell them, we expect to make good loans and we expect to build up a reserve and we've got this guarantee fund, which is a call on the unpaid capital of all the different countries, the first question they'd ask was, "Well, what is the unpaid capital of the United States, and how foolproof is that call?" When we finally proved to them that it was a real call, that was all they were interested in.

Q: How did you prove it?

Mr. Black: We had the legislation to show it. The unpaid capital stock of the United States is an obligation of the United States. It hasn't got to be set by any future appropriations. It's merely a call on the Treasury. You haven't got to go and get an appropriation in some future year. It's a call on the Treasury. It's like any obligation of the government.

Q: Did the investment bankers in New York ever attempt to get a statement on the bonds themselves?

Mr. Black: We got legal opinions bearing us out. I think that the

stand of the investors was pretty extreme because what they said was, "Well, we want to know what happens if all the loans you make are no good and you don't have a sufficient reserve and these other countries don't put up any money? What's the protection?" That's what they wanted to know. That was an extreme case. If the situation we had was that all the loans we made were no good and the obligations of all the countries were no good, the world would be in a pretty bad fix! That's a pretty extreme case, but that's the way they approached it.

Q: So you got an opinion from the Attorney General himself. What New York institutions did you talk to?

Mr. Black: Well, we talked to the leading investment bankers and the leading banks and the big insurance companies. But there again when we first started we didn't have legislation which would allow the commercial banks to deal with our bonds. We had to get that legislation, passed through the Congress of the United States, making our bonds what we called "exempt security." An exempt security is a security that the commercial banks can deal in. They can deal in government bonds or municipal bonds, but they can't deal in railroad bonds, industrial bonds, public utility bonds or foreign government bonds. We had to get special legislation which made our bonds exempt securities and gave the commercial banks permission to deal in our bonds. Then these banks joined the nation-wide syndicate, you see.

Q: Did you get this federal legislation prior to the June-July '47 bond issue?

Mr. Black: No, it came after.

Q: The national banks couldn't participate until...

Mr. Black: They could buy the bonds for investment, but they couldn't deal in them. They could deal in municipals or government bonds. Federal Land Bank bonds, governmental agencies, but they couldn't deal in our Bank bonds. It was important to have them deal in them because their sponsorship was valuable.

Q: How did you go about trying to decide which particular investment houses you would use in America?

Mr. Black: Well, we tried several different marketing operations until we finally hit on the system we now use. We picked the firms that we thought were the best to have as sponsors and had the best distributing ability. We tried different things. We tried an agency operation, we tried competitive bidding, and we finally tried an underwriting syndicate. This underwriting syndicate now includes all the leading investment bankers and the leading banks in the country. I don't remember how many there are now. There must be 150, 175, of the firms that underwrite our bonds when we have an issue.

Q: What was the reason for the change in your method of marketing the bonds?

Mr. Black: We were just feeling out the best way to do it.

Q: You discovered this as you—

Mr. Black: Well, we tried competitive bidding, and when we tried competitive bidding, there were several syndicates that bid for the issue, and the syndicate that finally got the bonds paid too much money. That was good for us because we got a very good price. But the syndicate couldn't sell the bonds, and that hurt the market. So in the long run it was not to our advantage, although in that particular issue we got money on very favorable terms. We were more interested in building a lasting market than we were in having any one particular issue, so we discarded competitive bidding. We felt that it would be better to have a group of bankers who were working with us all the time and who would help us, who had an incentive to help us establish a market.

Q: I've heard that, by coincidence or whatever, the Federal Reserve began to reduce its support for the United States government bond market very shortly after you placed the initial issue of World Bank's bonds, and this was one thing that helped make it difficult for the underwriters to sell the issue, or, alternatively, caused the market to decline.

Mr. Black: I don't remember that. I think that they were supporting

the markets. There was a very strong request that we support our market. We didn't do it. We didn't feel that it was a proper thing to do. We never have supported. We never bought a dollar's worth of bonds to support. We've always had a perfectly free market. So, as I recall it, they were still supporting -- which I personally did not approve of and still do not approve of.

Q: It was just a complete coincidence that the market for bonds softened somewhat?

Mr. Black: Well, I don't remember what happened to interest rates at that time, but I don't think that was the trouble. The trouble was that we hadn't "sold" the bonds, and by which I mean we hadn't gotten people familiar with them. One of the difficulties was that the people who bid for them, particularly on the competitive bidding, didn't realize how important it was to sell these bonds. They just thought that they'd sell themselves on this call on the U.S. guarantee. But there was a whole lot more to it than that, so we had to put on a campaign that lasted several years to sell the people on the Bank and on the bonds, and sell them on the operation as a whole.

Q: What form did the selling campaign take?

Mr. Black: Well, we made speeches all over the country to groups of financial people. We invited groups to come to Washington, and we had what we called "information conferences", where people would come and

spend two days or three days. We would have the various officials of the Bank discuss with them how we planned to operate or how we were operating. In that way they became familiar with what we were trying to do, what our objectives and our policies were. That takes time. It's a lot of work. We just made speeches all the time, everywhere. That's been going on ever since.

Q: Was there any particular reason that should be recorded as to why you finally hit upon First Boston and Morgan Stanley as the houses to market the Bank's bonds as the managers of the syndicates?

Mr. Black: Well, we thought that Morgan Stanley was important because of their position in the American market and because of their affiliations and their high standing in Europe. You see, Morgan Stanley has a close connection with Morgan Grenfell in London and with the old firm of Morgan in Paris. They had a very fine reputation in Europe. We thought that was important -plus a very top standing in the American market. The First of Boston we thought were good because they had a very fine system for retail distribution. Morgan Stanley is more of a wholesaling house; but the First of Boston had a number of offices and a number of salesmen. We thought that they could do a good job, and, as a matter of fact they were running a market, they were trading in our bonds and helping to establish a trading market, and that was very fortunate. But the way we selected those two firms was by making a very thorough check of the leading institutions as to which firms they thought would be the best. This wasn't our personal decision, but

a consolidated opinion reached after talking to a great many people. I'd say that the majority of them said "These are the two firms." That's no reflection on other firms, but these were the two that were most popularly picked by the people we talked to.

Q: Did it create any ill feeling?

Mr. Black: Yes. Yes. Yes. That was bound to happen. People we didn't pick, some of them got mad, and some of them refused to come along. Some of them continued to refuse, but we got along without them. Halsey Stewart was one of the principal ones that got mad, and they were mad because they had been the people who had bought the bonds on the competitive bidding. They'd lost a good bit of money on it, and they felt that they ought to be among the people picked.

Q: Was there bad judgment in the competitive bidding episode that influenced you against picking them subsequently?

Mr. Black: No. No, I had nothing against them, because the price was such a good price that it saved us a lot of money. No, the reason we picked these two firms was a consolidated opinion of the leading institutions that we talked to about it. We didn't pick them for any reason of friendship or any animosity at all. They were the ones we advised to pick after talking to a lot of people. But you always make people mad if you don't pick them, because a lot of people think they're the best. Several of the firms that got mad have since gotten

over it and are now members of the syndicate. I think there are only two firms that never have gone along. One of them is Halsey Stewart and the other is C.J. Divine and Co. I think everybody else that got mad has come along as members of the syndicate.

Q: Could you tell a bit about your decision to start selling bonds outside the United States?

Mr. Black: Well, we thought it was very important that the Bank should always be international. We felt that, if we could sell bonds in other countries, that would help to internationalize the Bank. Also we felt that it was very important not to depend too much on any one market, because if we raised all of our money in the American market, we'd have too much dependency on that market. Furthermore, it might mean that we would have issues too often in the American market, and that would probably make us pay more interest. In other words, if you come to the market too often, you've got to pay for it. One of the finest credits in the American bond market is the American Telephone and Telegraph Company, but they've had to borrow so much money, that company and its various subsidiaries, that they have to pay a high rate of interest, more than other companies that might not have as good credit. They just come to the market so often. We wanted to avoid that. We thought that if we could spread the raising of money around the world, this would be very important.

As a matter of fact, in several cases we borrowed money and paid a higher rate abroad than we would have paid in the United States. We

felt it was worthwhile, because although the bulk of the money would still come from here, we thought it was important to build up a market. So that was the beginning of it. Then later on we made an effort to try to make our bonds a unique bond. I invented a word I'm not sure is in the dictionary. We tried to do what we called "pedestalize" our bonds. We tried to interest foreign governments in buying World Bank bonds as part of their reserve. These were dollar bonds. We've been very successful in doing that. Every time we sell an issue now, particularly of short-term bonds, we find a tremendous demand front all over the world. I think the last issue of dollar bonds we sold must have been sold in over 30 different countries. Countries buy them in a good many cases as part of their reserves.

Q: In the case of dollar bonds like this, do you sell them directly, or do you still do it through your underwriters?

Mr. Black: We do it directly.

Q: Does this save commission?

Mr. Black: As a matter of fact, in those issues we don't sell in the United States, not to save a commission particularly, but our bankers just don't know how to do it. That isn't what they're got up to do. They're largely investment banking houses. We wouldn't subject to the commission, but we do it because we're familiar with these people, they're not.

Q: Did you ever think of selling foreign bond issues because you wanted to lend that particular currency?

Mr. Black: Well, as you know, in the beginning, the only way we could lend other currencies besides dollars was out of our original paid-in capital. At the time the Bank started, in the early days, we couldn't lend that capital without permission of these governments, and a number of these governments, because of the fact that they had not recovered sufficiently after the war, were unwilling to let us lend this money out of capital. But we were very anxious, again, to establish the impression that we were international, and that we felt if we loaned nothing but dollars and we got all our money either through using US capital, or the US government or the US market, that we'd be looked on as pretty much of an American dollar institution. We thought that would be a mistake, and prevent us from having the international character that the Bank should have.

Q: Was the Yugoslavian loan the first loan which actually required payment in Swiss francs?

Mr. Black: Well, in the case of Yugoslavia, we made two loans, and they were made, as I recall it, in about nine different currencies. No dollars. That was important because at that time the Yugoslavian dollar trade was very limited, and their economy was all geared towards trading with Western Europe. It would have been very difficult if we'd

made the Yugoslav loan in dollars, for Yugoslavia to get the sufficient dollars through their dollar balance of payments, to service these loans. It was not too much of a hardship for them to service part of their debt in francs, or Swiss francs, sterling and guilders and so forth. In that ease we were very anxious to get the other currencies in order to make the loan a safe loan.

Q: Did you in some cases actually borrow local currencies prior to the release of the 18 percent subscription?

Mr. Black: They were concurrent with the gradual releases. Or to put it another way, we did not wait until the 18 percent was all exhausted before we went into those markets. We didn't wait in the United States. We sold a bond issue here before we'd used up the American 18 percent.

Q: The dollar's 18 percent had at least been released.

Mr. Black: It had been released, that's right.

Q: My question was, were there some cases where the Bank floated foreign bond issues before the 18 percent had even been released?

Mr. Black: I don't recall whether we floated a bond issue where none had been released. There may have been cases, but my impression is that there had been releases in countries where we borrowed. These

were gradual releases. We kept hammering away at trying to get this money released. It took quite a while. There might have been a bond issue before any was released. I don't recall that. I don't know.

Q: What sorts of techniques did you use to induce the member governments to release their 18 percent?

Mr. Black: Persuasion along the lines that I was talking about - saying that I thought it would be a mistake if the Bank was looked on as a dollar institution. This was important in selling bonds. I'd have to try to sell bonds, and people would say, "Well, who's putting the money up?" If you'd say "The United States is putting the money up, all the bonds are being sold on the American market," then the people would say, "What are those other countries doing? What contributions are they making?"

Q: Do you recall any particularly interesting negotiations you had along these lines?

Mr. Black: Well, I don't remember. This was just sort of hammering away at it, picking away at it. I don't remember any particular negotiations. It was a tough job.

Q: Was there ever a time when, as a corollary of the Bank's giving the country a loan, you asked that the country release its 18 percent?

Mr. Black: I suppose that was part of the persuasion! I don't think we made it quite that pointed, but it would be part of the overall persuasion that we were doing. We'd say to a country, "You're getting a lot of benefit out of the Bank, now you ought to do your share." We didn't link it directly, but - you know.

Q: When did the Bank decide that it might start selling some of the borrower's obligations out of its own portfolio?

Mr. Black: Well, we felt, when the Bank first started (as I said to you before) that the Bank was looked on as sort of a bridge between war and peace. When peace came along, pretty soon the different foreign governments would be able to borrow their money in the private market, and there wouldn't be a need to use the Bank. Well, we didn't realize how long the bridge was going to be or how long it would take, and so we felt that one of the important jobs was to help re-establish the credit of these foreign countries, or for new countries to establish their credit.

One way to do it was to do it gradually and get people who were familiar with our operations - that they'd been successful and we'd had no defaults - to buy something out of our portfolio and then later on to participate with us as we went along. This was a slow process in a gradual way, to build up the credit of these countries, in the minds of the investors.

Q: How about the question of the Bank's guarantee? Did the Bank

guarantee?

Mr. Black: Well, we did that on one or two occasions in the early days. A good many people thought that would be a very useful function of the Bank, to make guarantees, and we did it. We tried everything. We tried every way of raising money. But we discarded that because we were worried about having a number of different names in the market, and we were afraid that we might have some loan we'd made with our guarantee sell at a different price from some other loan made with our guarantee. If we had too many of these things kicking around, it would be harmful to the establishment of the market for World Bank bonds themselves. So we stopped that.

Q: When you started selling the obligations without guarantees, did you find that you lost money because you had to sell them below par?

Mr. Black: Well, we didn't sell them below par at first. We sold them at par. In some cases we sold them at a premium, because there'd been a change in money rates. Later on we decided to sell them at a loss. There's no reason why we shouldn't do that. If we sell them at a loss, we sell them on a yield basis, and that yield basis would be at a lower rate than we were going to lend money at. In other words, if we had some loan that we'd made at 4 1/2 percent, and we sold it at a 5 1/2 percent yield basis, we'd take a loss, but we'd take that money and we'd lend it at 5 3/4 percent, so we'd make money on it. We thought that was important to do that, because there again that was another

step in establishing the credit of these countries. If the money market had changed, and if we didn't sell them at a loss, there'd just be a number of things in our portfolio that we couldn't sell because we'd happened to make loans back when the money market was much lower. So this has been a very helpful thing. So we show a loss on our books, but we turn right around and re-lend the money at a higher rate than we sold the paper at.

Q: I wonder if we can come back to the period when you were Executive Director and ask you to tell something about the relations of the Bank with the US government.

Mr. Black: Well, the American Director of the Bank is supposed to represent the US government on the board. As I said before, he casts about a third of the votes, because of the size of the US participation. As you know, we have weighted votes. We don't have vetoes like the United Nations. We have a weighted vote, like any corporation, based on the size of the stockholding. The American Director is in constant touch with the US government. Every time a loan is submitted to the board of the Bank, the American Director has to get instructions from the US government about whether he can vote for or against that loan. Those instructions are obtained from the National Advisory Council of the US government, when I was American Director, I used to attend the meetings of the National Advisory Council, all the meetings, because that was the agency set up to pass on all the international fiscal transactions of the US government.

Q: Who were the members of the National Advisory Council in those days?

Mr. Black: Well, the regular members were the Secretary of the Treasury, the Secretary of State, the Secretary of Commerce, the head of the Federal Reserve Board, the head of the Export-Import Bank, and later on the head of the Marshall Plan organization. I don't know who the members are now, they may have changed, but the Secretary of the Treasury was the chairman. The American Director for the Bank and the American Director for the Monetary Fund attended those meetings. We couldn't vote, but we could express our opinions. They'd take a vote, and the regular members would vote instructions as to what we should do. Also they'd vote on whatever other financial transactions the US government might have -- Export-Import Bank loans, other things.

Now, I don't know what that's going to do now that there's a new Foreign Aid Bill. There'll be a new member. But that's the way it's always been. Members change as the administration changes, as these positions are filled. A new Secretary of the Treasury would take over, a new Secretary of State and so forth. They have a working group of subordinates in these various government departments, and they study these proposals and brief the members of the National Advisory Council on what to do.

Q: Doesn't the President of the Bank himself deal directly with the Secretary of the Treasury, the President and whoever?

Mr. Black: Well, he really shouldn't. The President of the Bank is an international character, and his liaison with the US government is through the American Director. As a matter of fact, the President of the Bank, if he stays in Washington very long, gets to know the officials, and quite frequently has direct meetings with them, but that's not the normal procedure. Of course, in my case I happened to be an American. I knew all these people personally, and frequently had talks with them. If I was not an American, it would not be as simple as that. It would be more abnormal to do it that way.

Q: I Just can't imagine a case today, for example, where the American Executive Director would be obliged to, represent the US government in a manner different from the desires of the President of the Bank?

Mr. Black: Well, that would be a very difficult situation.

Q: It hasn't happened?

Mr. Black: No. No, it hasn't happened, but it could happen. It could happen that you might find two people who thought differently or had different ideas. It would make it very difficult for the President of the Bank.

Q: I've been told by other people I've interviewed that one of the strong points of the Bank is that it has been very independent from

political influences of the various member governments, including the United States. I was wondering if there isn't some story as far as the history of the Bank is concerned that helps explain that?

Mr. Black: Well, I think that if the World Bank was influenced by the US government or by any other government, it would lose its independence or its objectivity or its international character. And I think that's where the strength of the Bank is; it is international, and it is not inclined to make loans for political advantages or to try to sell goods for any one country. I know of no case since I've been at the Bank, either as American Director or as President, where the US government or any government has tried to get the Bank to make a loan. The power of the governments is not in getting the Bank to make loans, the power of the governments is to prevent the Bank from making loans. It's a veto power.

Q: Has the veto power ever been used?

Mr. Black: Well, I say veto - I mean, they could outvote it. It's not the veto as we look on it in the United Nations, it's just the number of votes that each country has. They might be in the majority. The one case was the Polish loan. The Poles were members of the Bank and wanted a loan to modernize their coal mines. If they had been able to modernize those coal mines, they would have been able to step up the amount of coal they supplied to Western Europe. The project that they put up to the Bank was a good project. At that time, the Marshall Plan

was about to start, and, as you will remember, Poland and Czechoslovakia were going to be members of the Marshall Plan. At the last moment they got orders not to be, from the Russians, I suppose. The United States government felt that this was a pretty inconsistent thing (the Poles had refused to come into the Marshall Plan) - for the US government to vote for a loan to Poland. I got instructions, as the American Director, that if that loan came up to the board to vote against it. It never got to the board because I conveyed this information to the President of the Bank, Mr. McCloy, and the loan was never put up to the board. So since I've been with the Bank there's never been a loan voted down. There might have been some that, if they had been put up, would have been voted down, but they never got that far. You always feel out the directors ahead of time, and you can get an idea what will happen.

Q: Do you recall whether there was any debate on this subject in the National Advisory Council?

Mr. Black: I don't remember. I don't know. I wasn't there. I don't recall a debate. I don't think it ever got to the National Advisory Council. I think there was probably a debate in the State Department.

Q: I thought the American Executive Director took his instructions, so to speak, directly from the National Advisory Council.

Mr. Black: He does, but by that time the loan is ready to go to the

board, of the Bank. It never got that far. You see, the National Advisory Council has a meeting, with all the data and information on a prospective loan which has been gone over by their staff. But the Polish loan never got that far. I mean, there may have been a discussion, an informal discussion by members of the National Advisory Council, but it never got to the point where I went to the meeting to get instructions on that loan.

Q: Do you recall whether the Secretary of State or some other Secretary took the position that you should vote against the loan?

Mr. Black: I don't remember who I got it from. It was a long time ago.

Q: Were there other people who were in the government at that time that you think I should talk to, or some historian should talk to, about that issue?

Mr. Black: I don't think anybody would know. There wouldn't be anybody around now, I wouldn't think, that would tell you how it actually happened.

Q: I don't mean people who are still in those positions but people who were in those positions at the time who could perhaps add to this?

Mr. Black: Well, I imagine Acheson would know about it, but I don't think this was any spirited debate. I think it was just decided this

just didn't make any sense - to be voting for a government that had turned down the Marshall Plan, after they had originally accepted it. They backed out on it, changed their minds.

Q: How did the people in the US investment community feel about the Polish loan?

Mr. Black: It never got that far. One of the loans we made that I was worried about the reaction of the New York market to was the Yugoslav loan. Yugoslavia is the only case we've ever made a loan to a Communist country, and I had to do some spadework in getting acceptance of that loan. As a matter of fact, it turned out that of all the loans we've ever made, probably no loan had as much benefit as the Yugoslav loans. Those loans for the most part were used to modernize mines, which would enable the Yugoslavs to step up their production of minerals, of which they have a great amount. By stepping up production of those minerals, they could export more and improve their balance of payments. So the projects were good; the effect on the balance of payments was very substantial, because the exports jumped right up.

Q: Why do you suppose the US government didn't react against the Yugoslav loan as they had with the Polish loan?

Mr. Black: Because the Yugoslavs had broken with the Russians.

Q: The British also were very negative about some loans, as I recall,

to Belgium, in these early days. Do you recall anything about this?

Mr. Black: I don't remember.

Q: Do you recall any other loans that were talked about in the initial stages but then, the Bank decided not to go ahead with them because some member government might object?

Mr. Black: I don't remember any except the Polish loan. I don't remember any. There may have been loans that the management decided, but not because of any pressure by any government.

Q: What might cause the management to decide it was going to be lukewarm about a prospective loan?

Mr. Black: Well, either the fact that we thought that the government was not following sound policies, or that the government had failed to do things that the Bank had agreed to do, or that the project wasn't good. You might start out negotiating and events would take place that you'd feel would jeopardize the safety of the loan. In the days of the Marshall Plan, there was a lot of criticism of what they called the negative incentive, that the countries who were doing the worst job got the most money. Belgium probably at that time, I don't recall it but it may have been that they hadn't taken as drastic steps to put their affairs in order, or that they hadn't been willing to carry out austerity programs like some of the other countries. Maybe some of the

European countries that were doing that might have objected to the Bank helping them. I don't recall it about Belgium. Belgium might have been a country that hadn't, at some stages, carried out a very drastic financial policy. I don't remember, that's all. We never stopped the Belgian loan. If there was any opposition to it, it wasn't important.

Q: Well, this was in early '47, early '48, that I'm talking about.

Mr. Black: We never turned one down. I don't remember that. If we didn't make any loan to Belgium, they hadn't wanted any. Belgium has always had good credit.

Q: Has the Bank management ever been particularly anxious to make a loan for reasons that were other than straight economic? I've heard that in the case of the first loan to Australia, which I think was about 1950, that this was expedited because the Bank was anxious to get in ahead of the Export-Import Bank.

Mr. Black: No, there's never been any competition between the World Bank and the Ex-Im Bank; there's never in any way been any competition between us and anybody. We are not out to build up an empire. We're not out to make money. We're out to help these countries. Our quarrel with the Ex-Im Bank was not with the Ex-Im Bank as a bank, but the fact that we felt they might be doing things that would jeopardize the credit of a country. We thought that they might be willing to lend money to a country that we'd turned down, because it wasn't following

the proper policies. That would be, so to speak, pulling the rug out from under us in trying to get the country to put their affaire in shape. But our real concern was that every time the Ex-Im Bank made a loan, it was adding to the debt of that country, and those loans were going to rank pari passu with ours. It wasn't a question of whether we made a loan or the Ex-Im Bank made a loan, it was what effect what they did would have on the overall debt picture of that country.

It may have been that we felt in the early days that certain countries had a limited amount of credit, and if the country went and tried to get all the money they could from the World Bank and all the money it could from the Ex-Im Bank, they might get more than they ought to get. That was the only competition we had. We didn't care whether they made the loan or we made the loan. It made no difference to us. We never have cared. We're concerned about the repayment of that loan and the overall effect of loans on the economy of the country.

Q: Did you feel that your loan would probably be sounder from the standpoint of the country than the Ex-Im Bank loan?

Mr. Black: Well, I would think that any loan whose object is a political object as compared with a loan to sell goods is bound to be somewhat inferior in quality to one that isn't influenced by those considerations.

Tape 2

Q: You don't care who makes the loan?

Mr. Black: We don't care who makes the loan. We're not in business to make a profit. If somebody else wants to make a loan, that's all right with us. Our only concern is - whoever makes the loan - that the loan is made for a proper purpose, and that the loan will contribute to the economy of the country and help to establish the credit of the country, at least or not impair that credit.

Q: I'd like to question the short term credits such as some of the Export-Import Bank.

Mr. Black: Well, some years ago I made a speech at the Annual Meeting pointing out the serious dangers of what you call suppliers' credits. A suppliers' credit was a credit given to some country maybe by European countries, or by the United States, and these suppliers' credits were for the specific purpose of selling goods. Now, in a good many cases, particularly the European, suppliers' credits were short term at high rates of interest. There was no competition in buying the equipment, and it meant that when the borrowers got a suppliers' credit they'd have to buy the equipment from the country that gave the credit. The terms, particularly the length, were not proper. Oftentimes they would make a loan of three years or four years to build a hydroelectric power plant. It would take three or four years to build the plant. By the time the plant was built, the loan would come due, and the borrower had no chance to establish any earnings to pay the loan off. I pointed out the danger of that. As a matter of fact, we set up a system where

we kept a record of all these debts and we supplied this record to the capital exporting countries just to show them what was happening, because if they didn't watch out they were going to build a top heavy short term indebtedness which was not properly geared to the project That would create a very serious problem as has happened in a good many countries.

Q: Which countries?

Mr. Black: Well, the principal one was Brazil. This new administration in Brazil is now, going all over the world and getting these short-term credits extended. They couldn't pay them because they were too short and times were too difficult for them to pay. Turkey is another one. Turkey was a country that got a great number of suppliers' credits and rolled up a debt of about a billion dollars. They couldn't begin to pay them. They had to go around and get all these debts extended. They really were defaults, but they avoided the actual default by extending the time. This was purely a case of people trying to sell goods and not take into consideration the effect this would have on the credit of the country.

Q: Was it largely the aspect of creditworthiness that caused the Bank to break off loan negotiations with Brazil and Turkey?

Mr. Black: Yes. In the case of Turkey, they were not following the proper credit policies or fiscal policies and they were building up a

very heavy debt. In the case of Brazil, Brazil refused to face up to the serious effects of a growing inflation every year. We refused to go in there until they had done something about it. The United States didn't follow that policy. Brazil would get in trouble, and they'd come to the United States and get big credit. They would agree to do certain things, which they didn't do, and inflation continued and inflation got worse. The credits didn't do any good because the United States didn't make sure that the Brazilians would do the things that they ought to do before the United States gave them the credit. The United States just did it on promises and the promises weren't carried out.

Q: I gather from an earlier conversation we had that you feel that's one of the Bank's most important activities. Does this include helping a country understand what its creditworthiness is?

Mr. Black: That would be one of them. We would certainly do that. It might be done through conversations that we would have with the officials of that country, or in quite a few cases we would send representatives to that country to live there for a couple of years, two or three years, to be the advisor to the government or be the advisor to the finance minister or be the advisor to the development board. While he was there, he would constantly try to impress on them the importance of following sound fiscal policies in developing their credit.

Q: What other technical assistance services did the Bank offer?

Mr. Black: Well, there are all kinds of them. Trying, to help a country set up a proper investment program or plan, trying to show them how to establish the proper priorities as to what should be done first - how many things you can do at one time - or trying to help them to work out projects, to make the proper studies of a project or see to it that a project was properly carried out. George Martin of the Bank's Marketing Department has been sent to several countries to teach these people how to establish bond markets, how to float bonds - government bonds - in these countries. We've done a good deal of that. There are just all kinds of things.

We have a training course to try to teach these people, when they get back to their countries, the important principles of sound planning, sound development. We must have had over 100 junior trainees here who would come and spend time in the Bank. We have an Economic Development Institute where we bring in the senior officials of the government and we give them a six months training in the principles of economic development. They may be financial, they may be engineering, they may be planning.

Q: Do you feel that the Bank would be even more successful in these areas if it was the only lending institution, so that a country wouldn't get bailed out, so to speak, by other agencies?

Mr. Black: Yes. Yes, I think so. The strength of the World Bank is

our ability to speak frankly to these countries and to insist upon them carrying out their proper policies. That's very difficult for the US government to do, or for any large government to do, because then they are under suspicion: a big country trying to interfere in the affairs of the small country, trying to dictate to them what they do. Now, we can do that, because we say to a country, "Well, you're a member of the Bank, you're a stockholder in the Bank, and all we're asking you to do is what you'd want us to make some other country do to protect your interest in the Bank."

We haven't got any political axe to grind. As a matter of fact, the World Bank is the only place that anybody can go to get money where there's no selfish motive involved. If they get money from the US government or from the British government or the German government or whatever it is, political and commercial considerations are very likely to be the primary objectives, certainly important objectives. We haven't got either one of those. We're not making loans in order to line up votes for the West in the United Nations. We're not making loans in order to help the manufacturers of any one country get business.

If a country goes to Wall Street, and borrows money, if they float a bond issue, the Bankers at least want to make money out of it. They want to make a profit, they want to make a commission, so they've got that selfish motive. This is something I've said to a number of governments, "You can dislike us all you want to and you may disagree with us all you want to, but it's the only place you can go. There's no motive in back of what we do. The only motive we've got is to help

you. Now, you won't agree with us a lot of times. You won't agree with the conditions that we think are essential. You won't agree with us as to our appraisal of your credit worthiness. You may think it ought to be a whole lot more than we say. But you can't claim we've got any ulterior motive. Analyze our motive, what is it?"

It's a very hard question to answer. We then said to them, "All we're doing to you is what you want us to do in some other country to protect your interest, because you're a stockholder in the Bank." There's no answer to that. That's why I'm very much in favor of multilateral aid. I think someday that will be realized. That will be recognized. The time hasn't come yet, because there are still a lot of people who think that there are great advantages to be had from bilateral assistance. And they've just got to learn. They'll find out.

The Germans today are running into that. The Germans are prosperous. Everybody's beating a path to the door of the Germans, and the Germans are proud of what they've done. They've made an amazing recovery. They have a lot of money. They're very proud of what they've done, so they're pleased that everybody's coming to the Germans and trying to get money, but they're beginning to get some headaches because the minute they make a loan to Brazil, the next day the Argentines walk up and the Uruguayans walk up and the Colombians walk up and say, "What about us?" And they're beginning to get a little puzzled as to what they should do. It takes time for them to learn that.

It also takes time to learn that they're not going to accomplish a

lot of things they're setting out to do just with money. That applies to combating Communism. I think the big mistake that the United States is making today is to try to sell the foreign aid program by saying that the main reason for it is to combat Communism. Well, now, it doesn't make any difference how much money they put out around the world, they're not going to combat Communism if that money isn't properly used. All they've got to do is just take a look at the record and see where they've poured money in and see whether they've stopped Communism. That's the easy way to sell it to the Senate and Congress. "We've got to do this. Look at Laos, look at Berlin, look at Castro; we've got to do something."

It doesn't make any difference how much you pour in. Money doesn't do any good on earth, no matter how much it is, unless that money is well spent. If it's well spent, that will help against Communism, in that it will help that country to improve its economy, to improve the standard of living of their people, and to make it less likely for them to be suckers and to take up Communism. If the money isn't well spent, it's just pouring money down a rat hole. It doesn't do any good.

That's why I think that if all the emphasis were put on the quality of the money and not the quantity, the quantity would be forthcoming. The best example I can tell you is that when the World Bank started we had a capital of ten billion dollars, and if anybody ever told me a few years ago that we could go and in a few months double that capital, I wouldn't have believed it. But when we went to the United States Congress, it just went right through, no question at

all, we just doubled our capital. We never could have done that if we hadn't made effective use of the money we had before. I never dreamed we could double our capital. In my wildest fantasy I never believed that could happen. But there wasn't any trouble about it at all, no objection in the slightest.

Q: Whose idea was it to get more capital?

Mr. Black: Well, it was ours, the management. We felt that it was important to have additional resources. We were fearful of the same point I've been telling you, that as the amount of our bonds got nearer and nearer to the amount of unpaid American capital, it might be difficult to sell our bonds over that figure. We wanted to be sure. We weren't going to use this capital, we just wanted to use it as a guarantee to enable us to sell more bonds.

Take an insurance company today. Suppose an insurance company's got 50 million dollars worth of World Bank Bonds. Those bonds today, regardless of our loans or anything else, are perfectly good because you've got a call on the US capital. If your bonds reach the amount of unpaid capital, and then you sell bonds over that figure, you would dilute the security because you wouldn't have a 100 percent US government obligation; you'd have only a percentage of that. You'd be going around to all the big institutions and saying, "We want to sell you some more bonds," but if they bought them, by their own volition they would be diluting their security. We didn't want that situation to come. In order to prevent that, we took the precaution of doubling

our capital. I don't think we'll ever have to worry about it, because the amount of the US obligation is so much greater than the amount of the bonds outstanding. I don't think we'll ever have to do it again, because now, in the meantime, we're getting repayments. It's going to be revolving to a large extent. But we didn't want to get caught. We had some discussion, "Well, the debt's going up, and pretty soon you'll be up at the US figure." We got some hints from some of the leading institutions - investor services who give us a Triple A ratings - that if they found that our bonds weren't 100 percent backed by US obligation, they might have to reduce the rating. That would hurt our credit. This was a precaution against that.

Q: Going back to this question of quality, do you feel that the Bank has made about as many, as rapidly as it could, high quality loans?

Mr. Black: Yes. We've never turned down a loan for lack of money. Not only have we not turned them down, we've gone out and tried to find loans, tried to make suggestions to countries as to what they might borrow money for. We just haven't sat down and waited for people to come to us. We've gone out and tried to create projects and make suggestions to people.

Q: Do you think the Bank will do more of that in the future?

Mr. Black: Oh, I think so. The Bank has worked on what we call a banker-client relationship, where it takes time to understand a

country, to understand the problems of a country and have them understand our philosophy and our policies. You can't just run out and set up a plan, set up a program. That's why I'm very skeptical about this big Latin American program that they're talking about, because you just can't send a working party to Bolivia and spent two or three weeks and come back with a plan. You've got to live with Bolivia. You've got to know what their problems are, what the difficulties are. You just can't whip up these plans overnight.

As we get to know these countries and have them know us, know our people and we know their people. That grows. You'll have disagreements and you'll have periods where we'll stop doing business, but it's very interesting to see that they're always happy to have the Bank start operations again. It's not all just love and kisses; you'll have periods where the relations are not good.

Q: Perhaps you'd tell a few of your own personal experiences in negotiating, either about loans or mediation of disputes?

Mr. Black: Well, I don't do much negotiating myself, as far as loans are concerned. That's done by the members of the staff. The only time I get into it is when we get into a knotty problem. If the members of the staff and the members of the negotiating team from a country run into some problem they can't solve, I get into it. I have to try to work it out. But I don't sit in with a negotiation until it comes to an impasse, a breaking point.

When I go to a country on a visit, newspapers will say, "I've come

to negotiate a loan". Well, I don't. I go there to discuss with them their overall program. I try to learn about their problems by going there.

On the mediation question, we've had several cases of that and I think we may have more. The principal ones were the Indus River, the dispute between India and Pakistan about the Indus water system, and the settlement of the Suez Canal dispute - the settlement between the British and the Egyptian government as to the proper price that should be paid for the British properties that were seized at the time of the Suez crisis. We had another mediation between the French bond holders' committee and the City of Tokyo. That was a personal mediation that I did. I think we'll have some more of those. This is not a thing that we're soliciting or trying to get, because they are very difficult, time-consuming jobs.

We state that we will not get involved in these unless we're asked by both parties and unless the question is primarily a financial question. We wouldn't think that the settlement of the Kashmir dispute would be a proper function of the Bank. This is a political question. On the other hand, the question between India and Pakistan over water, which called for enormous expenditures for building irrigation systems and reservoirs, this was a financial question in that not only you've to get agreements on an overall plan that would be of benefit to both countries, but you've got to find out the way to raise the money to do this. That wouldn't be involved in Kashmir.

The question of the Arab-Israel dispute, which is a political question - we wouldn't want to get involved in that. But if it was a

question of trying to work out a system of reservoirs and dams in the Jordan River dispute, if that could be done in isolation without getting into the whole Arab-Israel question, that would be the same kind of thing that we did between India and Pakistan. We haven't been asked to do that. That's something that Eric Johnson's been working on for a number of years. But that would be the kind of thing that we could do. We haven't been asked to do that, but if we were asked, our answer would be, just as I said. We'd have to be asked by the Israeli government and the Jordan government or the Egyptian government or whoever was involved in it. Both of them would have to ask us.

In the case of Suez, that came about because when Nasser seized the Suez Canal, he made a statement the day he seized it that they expected to give proper compensation to the old Suez Canal Company. He never did anything about it. I had a meeting with the Minister of Finance of Egypt, that I knew quite well, and I told him that..

Q: Here in Washington?

Mr. Black: In Washington, I told him that I thought it was very important that something be done about it, that until something was done about it, there was no way for Egypt to have any credit. They couldn't seize property like that and state that they were going to pay for it and not pay for it. Certainly we couldn't lend them any money. I wouldn't think anybody would lend them any money until they made a proper compensation. So then they asked the Bank if we would try to solve this question. And we did. We spent some time on it, and

finally what we did was to try to get a figure that the Egyptian government would pay for the Suez Canal Company and a figure that was agreeable to the stockholders of the Suez Canal Co. That's what we did.

The same thing happened in the case of the British properties, because at the time of Suez the British properties froze all of the Egyptian government's assets in London, their reserves, and in turn the Egyptian government seized all the British properties, banks, insurance companies, airlines, oil, everything. Then they said they were prepared to make a settlement for these properties that they'd seized. They spent months and months trying to make a settlement and didn't get anywhere. Finally Nasser asked me if I would personally get into this and try to arrive at a figure, and I did that.

Q: How did you come to know Nasser so well in the first place?

Mr. Black: Well, I'd met him at the time of the Aswan Dam, I had a very good relationship with him until Mr. Dulles called the deal off. Nasser got mad with me because he thought I was a party to that, which I wasn't. But there was no alternative for the Bank. When the United States decided to pull out of the Aswan Dam we had to pull out because there just wasn't enough money. They were going to put up so much, the British government so much, and we were going to put up so much; and when they pulled out there just wasn't enough money. I'd gotten to know Nasser very pleasantly, and then when this thing happened, he made several speeches and attacked me because he thought I was in agreement

with Mr. Dulles, which I wasn't. Later on he discovered that I had not been at fault.

Q: How did you discover this?

Mr. Black: Well, he just learned the facts. I don't know. I didn't tell him. He learned the facts about it from different people, I suppose.

Then he asked me to come over and mediate on the Suez. When we accomplished that, we ended up friendly. I was asked later on to do this other job, and I did that. So we established very close relations.

Later on, after all this was done (we wouldn't do anything until it was done) we made a big loan to widen and deepen the Suez Canal. There was terrible pressure put on me not to do that by the Israelis, but we did it anyway; and that helped establish even better relations with Nasser.

Well, I haven't seen him lately, haven't done anything with him lately. As a matter of fact, at the time of the Congo situation, he seized all Belgian properties. I have sent word to him; and his government that we're not going to make any loans to them now until they settle with the Belgians. We won't lend money to any country that seizes property, until they make proper payment.

Q: Did you get a reply from him?

Mr. Black: I didn't make it to him. I had one of my men go there and make it to the Minister of Finance. He didn't like it at all. I don't know how I stand right now. Maybe not very well. I haven't seen him. But my relations have always been very pleasant with him, except for this little hiatus when he was mad about the Aswan Dam, which wasn't my fault.

Q: At lunch one day you once told me a good story about a conversation you had with him trying to talk him out of mortgaging his future cotton exports. Do you want to repeat any of that story?

Mr. Black: Well, I don't remember now if I said this to Nasser. I talked with his officials and they told me that they were very unhappy about it. They had made this arms deal, and they had agreed to turn over a large part of their cotton crop. I think about 70 percent of it goes to the Iron Curtain countries. This is long-staple cotton. This is more long-staple cotton than they need in Russia or in all the Iron Curtain countries, and so they've been dumping this cotton. The Egyptians are very unhappy about it, and they've told me that they were. I don't recall warning them about it.

Q: How about incidents in the case of the Indus mediation?

Mr. Black: Well, that was started by David Lilienthal, who took a trip to India. I think he was paid to go to write an article for some magazine, Colliers or Look or some magazine. In this article he

pointed out the very serious situation that existed between India and Pakistan over this water, how this might lead to war; that if the Indians, the upstream country diverted this water or slowed down the supply of water to Pakistan, the Pakistanis might fight. This was a much more inflammable situation really than Kashmir, which was really a political situation. This was a question of life or death for these people, if they didn't get the water. In this article he suggested that what might be done would be to try to get the engineers of these countries together to see if you couldn't get them to work out some overall plan to give both countries more water. A large amount of this water just flowed into the sea. If you could capture this water and set up these big reservoirs and have an irrigation system, you'd give both countries more water.

In his article, Lilienthal said that maybe the World Bank could do something about this. I read this article. I bought the magazine. I don't usually buy magazines, but I bought this one. I picked up a telephone and called Lilienthal and told him I read this article, and that I thought I would take steps about it. So he said he thought that was a fine idea.

I wrote a letter to Nehru, a personal letter. I wrote a letter to Liaquat Ali Khan, who was then Prime Minister of Pakistan. I told him I'd read this article, and I wanted to offer the services of our Bank in trying to work out a program like this. I was naive about this because I thought maybe we'd get all these engineers together and sit around a table. You could work out a big master plan, because I felt that engineers were different from other people, that they were

interested in combating nature, that they were above politics, they didn't care much about politics. I thought if he'd get all of them together, we could do it. But I was naive in that because I didn't realize the feeling between the two countries and the historical difficulties involved.

It took us seven years to do it. That was the beginning of it. It was very discouraging. It cost us a lot of money, a lot of time, but the good thing about it was that all during this period, we worked out ad hoc arrangements about the supply of water and got agreement that nothing would be done to disturb that supply of water until we had finished or the whole thing had blown up. In that way over that period of years, we prevented any bad situation from developing. I think we stopped the war. It's the most important thing the Bank has ever done, by far.

It was a very difficult job and very discouraging. It cost the Bank at least a million dollars of our own money in engineers' fees, lawyers' fees, travel expenses, not to mention time. It finally worked out. We not only had to get them to agree on a plan, which incidentally was our plan because they both submitted plans which were miles apart. The Indian plan would have given India a whole lot more water, and the Pakistan plan would have given Pakistan a whole lot more water. I said to them all one day, "We can make money but we can't make water. There's just so much water, and both of your plans are unreasonable. The hell with both of you; we'll make a plan of our own." So we worked out our own plan. Then we had to sell them on our plan and that was a terrible job.

Then we had to go out and raise a billion dollars. That wasn't half as hard as getting them to agree, but we had to get a billion dollars. This is the biggest thing we've ever done in the world. The biggest undertaking we ever carried out.

So these things are wonderful when you pull them off, but gee, they're tough.

Q: Did you recover the cost, the million dollar outlay to investigate this?

Mr. Black: No. No, that's technical assistance. It's a contribution.

Q: It encourages me to wonder whether or not anybody ever raised the question as to whether this was in conformity with the Articles of Agreement of the Bank.

Mr. Black: Well, management couldn't just run out and do it. We had to get permission from the board. We had to get approval of the board to do it. Sure, we can do it.

Q: Are there any cases of mediation that you turned down where people asked for help and you decided not to?

Mr. Black: No. I think we may have had some feelers, but nothing specific. We've got one cooking right now. There's a dispute between the Colombia government and some contractors of one of the big American

banks, where we've been asked to mediate, which we probably will. We've been asked by the government. Some work was done, and the former government paid for the work in bonds of the Colombian government. The contracting firm took those bonds and discounted them with the Bank of America, and the new government came in and refused to honor them. So the bonds that were given in payment haven't been paid.

The interesting thing about this is that we were asked by the Colombian government to do this. If we had been asked by some contractor, we wouldn't have done it. Then you'd just be helping somebody to collect money from a private firm. But in this case we were asked by the Colombian government to do it because these people were trying to sue them and get their money. They asked us to come in and make the settlement. This has all happened in the last week or two. We'll probably do it. I think we'll have more of them.

But there again, they come into the Bank because the Bank is objective in this thing. As I say, we just do it between member countries. It's a thankless job; the only way we can work out a financial settlement is to make both sides unhappy.

Q: Not as unhappy as either one would have been if the other had had his way.

Mr. Black: Well, yes. You just can't go in and, say, make one side very happy. The other man wouldn't take it. We don't arbitrate, we haven't been asked to arbitrate, just to offer our good offices, services, mediation, but not a compulsory settlement. We haven't been

asked to arbitrate. We may be, but we haven't yet.

Q: There are a couple of short questions I'd like to ask. I wonder if you'd tell a little about the circumstances of your becoming President?

Mr. Black: Well, as I told you, I came here for two years on leave of absence from the Chase Bank, never intending to stay any longer than that. My two years was spent in a rather unusual capacity. I didn't act like a regular director would act today. I really spent my time on management stuff, trying to establish a bond market. When I had gotten that started, then the Chase Bank was very anxious for me to come back. I went back to the Chase. I had no intention of coming back here.

Q: This was in March '49?

Mr. Black: Yes, that's right. So I went back to Chase. Pretty soon after I got back, Mr. McCloy was offered the High Commissionership to Germany. He said he would not take it unless he was satisfied as to who his successor would be. A lot of these investors, these hard boiled investors would say, "Well, Mr. McCloy, we like you fine, but what's going to happen when you leave the Bank? Who's going to be the next President of the Bank? Suppose you put some damn politician in there, what's going to happen then?"

McCloy would say, "Well, as long as I'm there we plan to follow sound policies, and I'm not going to leave the Bank until I'm satisfied as to who my successor will be." I've made the same promise a number

of times since, because any number of times people have said to me, "Well, this is fine, you've done the job the way we think it ought to be done, and as long as you're there, we're perfectly satisfied, but what's going to happen when you leave? What protection is there?" I've given the same answer, that I'm not going to leave until I'm satisfied as to who my successor is going to be. I've got an obligation to the bond buyers.

Now, it's not going to be hard when I leave, because the Bank is now established. In the old days, nobody would take the Presidency. Now there will be plenty of them who'll be glad to take it. I don't think this question will arise, because if they tried to put some politician in there, nobody would buy the bonds. They wouldn't have any money. If the Bank doesn't follow sound policies, they won't be supported, regardless of the US guarantee thing.

So anyway, when McCloy had this job offered to him, there was some talk that I might be offered the Presidency. I was in Europe, and I sent word back that under no conditions did I want my name to be put up. I tried every way in the world not to take it. I made various suggestions of other people. I did everything on earth to prevent my taking the job. I didn't want it. I wanted to make a career in Chase Bank.

Anyway, I was in Europe. As soon as I got back, the pressure was put on me and the pressure was put on the Chase Bank to release me, and I finally took it. I didn't want it. I tried every way in the world not to take it. Then after I got it, I came down here, and I became very interested in what I was doing. I found that there was more inner

satisfaction in doing this than there was in making money. That's why I stuck it out. I never dreamed I'd do this.

Q: You're not sorry now?

Mr. Black: No, I'm not sorry. It's been among the most interesting years of my life, the happiest years of my life, because you do get a great kick out of what you can do for these countries. It's more than making money. I've had several very tempting offers since I've been here, which I had to weigh. It wasn't too hard to make up my mind not to take them, but this is the last thing in the world I ever dreamed I'd do. I had no training for it in any way, shape or form. I never had anything to do with foreign financing. Any banking experience I had was all in domestic banking. I didn't know anything on earth about making foreign loans, but it's just one of those things that happen to you.

Q: Would you care to comment on your reasons for not accepting other positions in the United States government?

Mr. Black: I haven't publicly made any statement about that. I felt that I had a job to do where I was. I was under contract. I have a five-year contract. I'm in my third five-year contract. I've got two years to go. I felt that I should finish up the job. I've got an obligation to the people who've elected me. I've got an obligation to the people in the Bank who were working for me. I don't want to just

walk out on them. I just felt that I could serve a more useful purpose where I was.

Q: And final comments about any issues at all?

Mr. Black: No, I don't think so. No, I don't think so. Does that help you?