

WORLD BANK HISTORY PROJECT

Brookings Institution

Transcript of interview with

ARON BROCHES

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By: John Lewis, Richard Webb, Devesh Kapur

*[Begin Tape 1, Side A]*¹

BROCHES: . . . to the foreign minister. He said, "This is ridiculous. We'll make you unofficially member of delegation." So while by the actions of the government, the secretary of the delegation in fact, and he put me on the drafting committee of the IMF [*International Monetary Fund*], where I learned a great deal. And then as it happened I didn't join the IMF but the World Bank.

WEBB: You don't happen to remember a Peruvian delegate.

BROCHES: Pardon? What?

WEBB: Would you happen to remember a delegate from Peru?

BROCHES: Well, probably. Which one?

WEBB: His name was Barreto.

BROCHES: Yeah!

WEBB: Emilio Barreto.

BROCHES: And then leader of the Peruvian delegation was . . .

WEBB: Emilio Barreto.

BROCHES: Yeah, then there was a businessman. He was even briefly president. He was head of the Peruvian delegation. Who was the head of the Peruvian delegation? There was Barreto, there was another man . . .

WEBB: Beltran?

BROCHES: Beltran. Pedro Beltran.

WEBB: Oh, yes? I didn't know that he had been there.

BROCHES: Oh, yes. He was very active. You see, there was a--at Bretton Woods the lineup was very strange because the conservatives were the Canadians, the British (mostly), the Dutch, the Belgians, the Peruvians, and one other Latin American country. Very unexpected.

LEWIS: And the Americans were?

BROCHES: No, they were not very conservative. They had one conservative, [*Edward E.*] Brown, the--I think he was the chairman of the First National of Chicago, then a very strong bank, and he was the only banker on the delegation.

¹ Original transcript by Brookings Institution World Bank history project; original insertions are in [] and (). Insertions added by World Bank Group Archives are in *italics* in [].

LEWIS: And was [*John Maynard*] Keynes thought of as conservative?

BROCHES: No, but Keynes, well--Keynes mostly—he didn't appear very often. Sometimes in a crisis, they said, "The Lord is coming!"

But the interesting thing was what later occurred in hearings here on the Hill on the Bretton Woods Agreements Act, and [*Robert A., Jr.*] Taft, I think, said, "Well, this is really a strange institution. It's controlled by borrowers or would-be borrowers, and we have the money and it's all going to be 'sucked out,' taken out."

And then maybe Dean Acheson himself or people from his staff said, "You don't know. You see, you don't understand. The Dutch are very poor now that they don't rule anything. They don't act as if they are. They say exactly the same thing they would have said in 1928," which was a fact. I mean, the tightest provision that we're talking about today, the tightest provisions and some overly tight on lending limits and the so-called special reserve which had to be kept, they were Dutch proposals. And the lending limit--the Poles proposed that the Bank would lend three times its capital, the U.S. one and a half times, and some technical advisor from the Dutch delegation, without consulting the chairman, said 75%, at which the chairman was just livid. It was there on the table! And then the chairman of the meeting said, "Well, why don't we split the difference? One side goes down one-third and the other goes up one-third." And that's how we reached this 100%. But that is la petite histoire.

LEWIS: No, that's fascinating. Who was the chairman, do you remember?

BROCHES: Well, the overall chairman was [*Henry, Jr.*] Morgenthau, the Secretary of the Treasury, but then there were three commissioners: Commission I, which dealt with the Fund, and the chairman there was—wait a second--Harry White, I guess—no, no, it was Keynes, full Commission I. It was Keynes. And Commission II must have been White; no, White was also on the Fund side. [*Inaudible*] In fact he gave a speech about--no, I'm all wrong, but it is very easily checked. But Keynes made the opening speech about the Bank, so that must have been, he must have been chairman of Commission II. In that he explained to the capital structure as a way of permitting [*inaudible*] rely so much on guarantee powers, permitted the countries that were resource [*inaudible*] more liquid nevertheless could play a significant role. And the country he had mostly in mind was the United Kingdom. Because in the meantime the correspondence between Keynes and White has been published. I looked at some things in the archives in London, and it's quite clear that England was forever trying to keep immediate, to keep immediate or to stay away from immediate financial obligations.

LEWIS: Well, you know our kind of monumental task, and we haven't talked and probably won't talk to anybody who has a longer run of continuing participation in this institution than you've had. And really I think that we'd like to get almost in your hands. We will go read your oral history. But what would you advise us as we pursue this issue? Do we see this as a story that is a fairly continuous one? Or does it have sharp turns in the road? Are there phases and eras that we should be very

mindful of? You were always involved, I think, in the—no, well, you were usually involved in the legal side of things.

BROCHES: Yes, but legal goes a bit broader and certainly in the last twenty years or so I was a member of the management, but still with responsibility for legal matters or the legal dimensions of policy acceptance. But I was there while mistakes were being made or good things were being done, but not in most instances as a participant, not as a leader, except where questions of legal policy were . . .

LEWIS: You were general counsel, right? You became a vice- president, I think, in '72 or something like that.

BROCHES: Yeah, but that was only--the fact that I became a vice-president is, in a sense, insignificant. We paid—sometimes I still say “we” although I stress that for eleven years I haven’t belonged to the family—we paid McKinsey [*McKinsey and Company*] two million dollars for which we got eight vice presidencies. [*Laughter*] There were two people—the structure was very strange. When 1972 came around to us--another reorganization, and the first time that we had McKinsey involved--and there were issues of structure, of going from or going to a regional organization [*inaudible*] McKinsey at the same time did for the Chase [*Chase Manhattan Bank*]--they did the study that did exactly the opposite. I don't know how much they were paying. But in the process it was almost inevitable that titles came up.

What was clear--you see, you had area departments, which were the loan departments, and you had economic department and there was the project department. And when the thing was put into five regions—I think it’s varied; sometimes it’s five, six—you needed, there was an additional layer, and there the title vice president was considered appropriate. So that made for five. The head—the administration became more important, put some things together, and the report said “vice president administration.” This title indicated it was a very important role—I don’t know [*inaudible*] and said it could be a man with technical background. He could be European, for instance, French. They wanted a particular man to have that job, you see.

But then there were two people, there was Hollis Chenery, who was the economic advisor, and our legal advisor. We were members of the management committee, but we didn't have the title vice president because there were no vice presidents except for the operating people--the lending man and the financial men.

And then [*Robert S.*] McNamara called me and said, "Say, you know the Board doesn't like proliferation of titles and, you know, in some corporations the general counsel is a vice-president and in others he isn't, and it doesn't going to make any difference in your position in the organization. Do you want to be a vice-president?"

I said, “I'm opposed to proliferation of vice presidents, but if everybody is going to--I know what you feel and what I feel, but there is a certain externality to these things.”

Well then he called back and he said, "Okay, okay." So Hollis and I--in the announcement it said, "So and so has been appointed, so and so has been appointed,

and Chenery and Broches's titles have been changed" to make clear that it was not a promotion at all.

So I was general counsel since 1959, for the last 20 years.

LEWIS: You worked with Dave [*Davidson*] Sommers before that?

BROCHES: Well, actually, Dave left in--in the reorganization of '56, Dave became a vice president and then he had a number of departments that he kept tab on, and he kept the title of general counsel for two reasons: in the first place because, he said, "I hate this vice president and it doesn't mean a damned thing. I'm a professional." That was number one. Number two, he thought that because I was not an American that the New York bankers who were then our principal bankers, that they would feel safer with legal opinions of Americans. It turned out later they couldn't have cared less. But he said, "So let's see how we do this." So in fact I became the head of the legal department three years earlier in '56. And then one day he sat down with notes that kept saying he ought to change it and called in a secretary and dictated that "I am today relinquishing the title of counsel." So it was twenty, twenty-three years.

But shortly after that he left, he left in part for family reasons. I mean, his wife was ill, and he thought--she hated Washington, and that didn't help. And then he became senior vice-president and general counsel of the Equitable [*Equitable Life Insurance Society*]. They were looking for a long-hair general counsel, and they got one certainly. Then later they asked him to become president, which he refused, but he accepted to be chairman on condition he would not be CEO, the much-desired thing, and said, "Now, I'm willing to be chairman." No, Dave is a wonderful man. Fortunately he's still in very good health.

LEWIS: We've interviewed him. I've known him for a long time because I do some moonlighting at the Overseas Development Council.

BROCHES: Oh, yeah. Well, I was at that wonderful occasion . . .

LEWIS: Yes, yes, yes. So what should we be looking for?

BROCHES: Yeah, well, I think there are many times when certainly when you look back and you see that the institution changed. It's very hard to put the thing in. Sometimes it's linked to persons, which is not necessarily the right thing. For instance, the existing study that ran to . . .

LEWIS: [*Edward S.*] Mason-*[Robert E.]* Asher? Through '71. It came out in '73, but I think it . . .

BROCHES: But it didn't cover much more than . . .

LEWIS: It went through '71, so it just caught the very beginning of the McNamara era.

BROCHES: The beginning of McNamara. Now, sometimes when you look back—I'm not really giving an answer here to what you talked about. McNamara was--it

was before the famous poverty speech of Nairobi in '73, but certain things that McNamara stressed were not entirely new. [George D.] Woods had already, such as education, agriculture, and if you looked back, so had [Eugene R.] Black. The question is what they did with it. You know, you can say it. It was--in Black's time which ended when he resigned at the end of '62--we had specialists and programs, Black's program for black Africa which went for small agriculture, not very much was done.

Another thing in Black's days was education. The Bank engaged a professor of Vanderbilt University, [Harvie] Branscomb, to draft a program for education, and we set aside 5 million dollars [inaudible] I was asked for a legal opinion [inaudible] whether we had power to do that. That didn't lead to anything, that [inaudible] Our first education loan in fact was to Tunisia, and it was criticized because it was brick and mortar. You know, that was their education needs, and it was probably a boarding school which you have in so many--secondary education in developing countries you go to boarding schools [inaudible] expensive. And the answer of the Bank was—I remember the debate in the Board--was that--it didn't say it as crudely, but it was really a bribe. By making this loan for that more or less elite school system, we could get certain policies accepted, so that it was not very relevant what the money was spent on. But it would be unfair to say, "Well, all you did was to finance high schools for the sons of officials," but otherwise it was very difficult to get the government to agree to certain policies, including less emphasis on boarding schools and private [inaudible]

LEWIS: That's fascinating. The idea, although you say you didn't use the word, of using a loan as a bribe to affect policy was active at the--when was that?

BROCHES: I would say it was maybe in the transition Black/Woods. That would be early '60s.

LEWIS: Yeah, yeah, yeah. And that must have been for local cost financing, I mean . . .

BROCHES: No, no. That was not an issue. No, I don't think that there there was mostly inputs. Because the tragic thing was that we also had consultants, and they were half of them or all of them were killed in an automobile accident, which gave it an unfortunate thing. But I distinctly remember thinking of that as a bribe or inducement to achieve policy.

LEWIS: I was in India about that time, and that was precisely my interpretation of what the Ford Foundation was up to: giving bribes, giving dollars for local—in that case it was local [inaudible] in order to influence policy.

BROCHES: Yes, but then the U.S. had all the local currencies.

LEWIS: Yeah, but then they turned around and started to buy their—in fact, the U.S. government almost insisted that they buy their rupees from the U.S., so that bribe factor disappeared, but the Indians in part--by then sort of in the habit of listening anyway.

BROCHES: Well, I think it's legitimate to—I used to *[inaudible]* bribes accepted. It may also be easier for a country to swallow it politically vis-à-vis its politicians or voters.

LEWIS: You mentioned Woods. Has he been sort of underplayed, neglected, not given enough credit for some of his innovations?

BROCHES: I think to a certain extent, yes. Woods's career in the Bank was this and then that. At the end he was fighting everybody. I did a thing that--you know *[Robert W.]* Oliver?

LEWIS: Yes, yes, yes. He's working on something . . .

BROCHES: Yeah, and I did, or he did an interview with me on Woods. Well, when Woods first came in--Woods was a friend of Black, and Black selected him. The strange thing is that their close relationship ended the day Woods became president. They were not enemies, certainly not, but now it was very much a different because Black--the Bank was Black's Bank, that was the way it was known, and so that is one point of, you know. And you probably read or you know about the book by *[James]* Morris, and that came out at an unfortunate time--well, it sold very well, but it came out at an unfortunate time for Woods because he had just taken over and here was a book about Black's Bank *[inaudible]*

But Woods--Black had been—in part, he was a conservative and in part he knew that he was—this is my interpretation of it—knew he was going to leave and thought it wouldn't hurt when IDA *[International Development Association]* came on the scene (which is also a point that you could check) to show that IDA would not be a way of siphoning off funds from the Bank and putting them there and mixing up the two. So he took a very straight line, strong line and *[inaudible]* of course he warned and all that.

And then Woods came, and he told Woods, "Look, I said this, and I had to do it. If you find a way to do IDA, you won't find me criticizing you." And he never did. So very soon after Woods came in he started making the transfers from the Bank to IDA.

LEWIS: Of profits, you mean?

BROCHES: Yeah. That was done in '64 at the annual meeting in Tokyo, so there was a year and a half after Woods came on the scene. And Black thought it was fine. He said, "I couldn't do it because I had said these things, keeping them totally separate."

You know, the big thing about IDA was that--and the talk about it started already in India in '58, at the annual meetings in India--is that the situation which you, the situation that had arisen was a new one. When the Bank started, there was money and there were no projects and no programs so that they really had to send missions out, *[Lauchlin B.]* Currie mission in Colombia in 1947, I think. Then countries did design programs, certain projects but also programs, and then their absorptive capacity became much greater than their creditworthiness. They said, "Now we have to do something else." And IDA was supposed to be the answer because that was cheap

money or maybe free if it ended up as a small service charge. But it changed the character--from the point of view of the executives and also the directors it changed the character of the dynamics because until IDA the president ran the Bank with the Executive Directors, but mostly he. The big financier, the United States, didn't get a word in edgewise. There was no cash, just we issued bonds, and the thing ran fine. So there was a minimum of political interest, let alone political pressure. The moment you start working with taxpayers' funds—you have to use the word "taxpayers' funds" and that is what Black hated; you know, he couldn't imagine getting involved in that--and that was, so that changed the character of the relationships within the Bank. Then governments became very--and especially the U.S. government--took an interest, sometimes holy, sometimes unholy, and other countries, too. So politics--not small politics yet, as happens sometimes now--but broad, political politics rather than economic or social--began to play a role and so the . . .

Now Woods . . .

LEWIS: What you say about IDA--it's often said that one of the motivating factors was the idea that, the alternative idea that there should be a big capital fund in the United Nations and that this was sort of a lesser of evils, as far as the big donors.

BROCHES: Strangely enough, even the IFC [*International Finance Corporation*] I think was at one point a lesser evil. That was supposed to keep the Inter-American Bank [*Inter-American Development Bank*] from being created. The IFC and the Inter-American Bank.

No, you are entirely right. It was the capital fund, and that was the SUNFED. At first it was called—you know, people don't watch their initials—and it was called the United Nations Fund for Economic Development which was "UNFED." [*Laughter*] Then they made it "special" and it became SUNFED, which makes it sound like California raisins. Yeah, no, you're entirely right, that's what--with the help of several capital exporting countries, which by then had arisen and were becoming stronger, so it was not only the United States; it was also Europe. No, that's absolutely right.

But--and the form in which was done was something silly. Senator [*A. S. Mike*] Monroney said we must do something with all the PL [*U.S. Public Law*] 480 funds, which were billions and billions, and the U.S. could contribute those to IDA and would get special development certificates. It's even in the charter! In the Board there were uproarious sessions because one of the interesting things of the World Bank is that all the affiliate institutions would draft—not at international conferences but in the Board of Directors of 20 to 22 people. And later obviously it have to be approved and ratified by the membership. That makes for an entirely different kind of drafting also, although at that point B. K. Nehru was a director at the time and he was merciless on this question of special loans. [*Louis*] Rasminsky who was then the--it was just before he became governor of the Bank of Canada--said, "Is that something like trading standards?" It's never been used, never been used, it would not be used, and Canadians were particularly vociferous and the Dutch—[*Pieter*] Liefstinck, who was a powerful director at the time, said it was the most inflationary thing you can think of. That money is--now it's safe, now it's all frozen, and you start spending it But that was--and IDA came about in 1960, 1960.

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Then we started at a billion with the idea that there would be replenishment maybe every five years--it was shorter each time--and the first replenishment got into trouble because we opened our mouth too wide and we didn't get it. And after that, of course, IDA has become an art, the IDA replenishment--I think they are now up to the tenth--and the question of burden-sharing, currencies, everything. And I—it was actually my number two did most of it, Lester Nurick. He's negotiated—there were endless--voting rights, how do you protect the voting rights the LDCs [*less developed countries*] even though they don't put, are not asked to put in any money? So you know you dream up all sorts of salary schemes.

LEWIS: Don't they put in token amounts?

BROCHES: Token amounts, yes. But then you have to--in order to give these token amounts more than a token significance, you divide up the contributions in a broad sense into two parts: subscription and contribution. The subscription, you know, it's a token amount; everybody had small amounts. That was for the vote. And the other part, that was called subscription or something, didn't give voting rights. In the end, I must say, while it's all--frequently there were unpleasant meetings with fights, long meetings, delays--it was solved. It could have been solved much easier if there'd never been an IDA. I was in the minority, the defeated minority, saying, "We don't need an IDA. We need a fund." In other words, the Bank, the same thing, you have a fund for soft [*inaudible*]

LEWIS: Like the regional banks have? A development fund?

BROCHES: Yes. And administered by the World Bank. In any event, the boards were identical. But it was felt by, especially by the U.S., also by the British, that you had to have a new institution to create confidence, you know. [*John Foster*] Dulles once said a new bank will keep the Russians away, and a plan for a Middle East bank which never came about.

LEWIS: Maybe the fact that this was a substitute for SUNFED made it cosmetically better to have something . . .

BROCHES: To have something visible--yeah. There were definitely two points of—and maybe I looked too much at, I could foresee the troubles which this would lead to and enormous expenditure of energy and brainpower for things that are not terribly important, to get the right structure, to . . .

LEWIS: And the governance side and . . .

BROCHES: Yeah. Well, later, of course, more recently, and especially since I left, the issue of burden sharing, which was always there but then the Japanese were called on and others and the U.S. was trying to go down, there were no--what did this mean for voting rights in the boards? And of course, the Japanese wanted more votes. And the U.S. said, "They don't get more votes." That led to a big fight. So that those things could have been avoided, but--although the issue of the burden sharing and the influence which you get if you contribute more is an issue that would have arisen

anyway. And with the shifting positions of the U.S., Europe and Japan, that was bound to create a problem *[inaudible]*

But so in a way—it was such a short period, 1946 to 1960—then the Bank was more or less on its own or the management was on its own with a fairly quiescent Board. Then came the more policy issues when IDA was in . .

LEWIS: That's an interesting point. We have sort of heard that Black managed the Board very well, so that was the explanation of how tame the Board was.

BROCHES: No.

LEWIS: But you're saying that partly it was because the money was raised in New York and that the governments didn't, they didn't have as much really, they just didn't . . .

BROCHES: No, even the United States government felt quite comfortable, said, "There are competent people who do it, there's no cash, there's no, nothing in Congress, it's all been done, and let them play with the money."

No, see the, clearly, first, when the Bank was legally created—that was in December 27th, '45, slightly fraudulently, perhaps, to treat some things as ratifications that weren't ratifications because the drafters had forgotten to put an extension clause in. So if the Articles of Agreement had not become effective on the 31st of December '45, the thing was finished and you would have to start all over again. And it would have been all off because the atmosphere changed--the cold war and whatnot—so it would have been a disaster. So the U.S., which was the depository of ratifications, accepted some ratifications, one of which was a telephone call or maybe a telegram from the ambassador in Oslo saying that the minister of foreign affairs had told him that they had ratified it. Things like that. We nearly died when the Fund at one of its birthdays decided to publish some of the early documents in which you could see that we were not established at all.

And the first general counsel of the bank, Chester McLain, a former Cravath *[Cravath, Swaine and Moore]* partner, said, "We are not going to have bonds counsel," as is customary in public authority borrowing in the United States, an independent bond counsel to attest the bonds are *[inaudible]*, et cetera. He said, "We're not going to do that."

I said, "Why not, Mr. McLain?"

He said, "Because if they will look at it they'll find out we don't exist. So we'll just say, 'No, we don't do that.'" And he thought the Bank was absolutely *[inaudible]* He said, "Now after a few years and after we have borrowed money nobody will want to send me to prison. And we don't, either." *[Laughter]*

So--now I'm sorry, it is a very interesting point, but it has now obscured something else that I want to say which is more substantive.

Oh, yes, now I know. So then—so the Bank was in existence. We had to find a president, and he was to be an American. There was a deal made in Bretton Woods, which still stands up, that the president of the Bank would be an American and the director general of the Fund, managing director of the Fund, would be a non-American. But it was really European. In fact, it has been European. There was once talk of a Canadian, but . . .

LEWIS: [*inaudible*] the Japanese now.

BROCHES: So, well, you look for an American. And the press was full of unenthusiastic appraisals: it's going to be a not very interesting, it might not work. Finally old Mr. [*Eugene*] Meyer of the *Washington Post* was talked by Jimmy [*James F.*] Byrnes, who was Secretary of State at the time—was he a former Governor of South Carolina? I think so. James Byrnes.

LEWIS: I think he'd been—let's see—I think he'd been a senator from South Carolina. Maybe he was governor.

BROCHES: He was a South Carolinian. And he is supposed to have told Meyer that he should take it and there was no--Meyer must have been close to 70 at the time—there it was not much of a burden because there would be a capable staff and, you know, you would come in a few hours in the morning, and that's it. So Meyer accepted, and he was elected in May. And [*Camille*] Gutt of Belgium was elected to the IMF at the same time.

Well, then nothing happens for a while. And he would go to New York to talk to his cronies, but the cronies were of the same age. And as one critical member of the Board of Directors said, "You know, he would come back and we found out that they all talked about some bond issue that succeeded or failed in 1913." There was nothing very contemporary about it. So things went slowly, and it was a very . .

LEWIS: You were on the staff already then?

BROCHES: I came on the staff in September, September 25th. I was the fourth, I think, of the lawyers. There were already three others. Dave Sommers came two months later.

The--there was a very dynamic U.S. director--he went later to Standard Oil—[*Emilio G.*] Collado, and Collado began to push and he didn't like the slow progress or lack of progress. And I was--I heard some things, but I was certainly not sitting in the inner council, but one of the policy directors told me some gossip. So that Meyer got discouraged. He didn't like the criticism, and so he resigned in the middle of December. And he said the institution was now firmly established; it was time for younger people. [*Laughter*]

Well, you know, when the president goes, you need a new president. Now there was a vice-president who was the ex-director of the Budget [*U.S. Bureau of the Budget*]. .

LEWIS: Yes, Harold Smith.

BROCHES: . . . Harold Smith--whom everybody liked, but they didn't think at all that he was the material to be president. And he then died, so nobody knows. He died of a heart attack because that was also [*inaudible*] so unhappy; whether that brought on the attack . . .

So then there was zero. First there were two, there was one, then nobody. And there was a small committee of directors, and one of them I knew--comite de salut public, you see--and they started to talk to the U.S. and they were furious with the U.S. Treasury. They said, "It has to be an American; you've got to produce a body!" And here is this institution, wallowing. Some of us wanted to resign because there were other things we can do, too, especially since--Collado then said as long as there is nobody, then the shareholder with the largest number of votes will preside over the meetings and will be the executive head of the institution.

Then the general counsel said, "That's illegal. If you do that, then I resign." And he packed up his books and said he was going to resign.

And Dave Sommers said, "Well, I guess I've seen it, too."

And I said, "Yes, I've seen it, too. I could get another job."

And he said, "No, no, don't leave the ship." He said, "I have to do this, but you stay here."

LEWIS: Collado said that?

BROCHES: No, our boss, McLain, said to Dave and to me, "Don't do that; I have to go, but . . ." But then Collado receded, and he accepted the defeat, so he resigned. Then there was also no Executive Director in the U.S. But it made it possible--then the negotiations started with [*John J.*] McCloy, and McCloy came in. Somebody found [*Robert M.*] Garner, who came from General Foods, and Black was the U.S. Executive Director. He was vice-president of Chase.

Then it really started. McCloy drove a very hard deal. There were some articles in the paper--there was a bunch of chatterboxes--and he wasn't going to stand for that, and there was a memorandum which must be described in the, should be described in the Mason-Asher book which is still sometimes brought up in which the leading role of the management was established. The Board would act on recommendations of the management, and the Board would not come with loan proposals and they wouldn't do this, et cetera. So that laid down a very strong manager position, and McCloy accepted that.

His relations with the Board were so-so. He was cold, he was very cold, and he took a bit of a Wall Street lawyer's attitude, a protective attitude. Black was a very open fellow. But part of the deal which McCloy made with the U.S. government [*inaudible*] this program, which affected all countries, not just the U.S, but he said, "We don't want any interference from Executive Directors, including, including the U.S. I'm an American, and that's enough." So all this together worked . . .

LEWIS: Didn't he make some kind of deal that he would have a chance to approve the U.S. Executive Director or something like that?

BROCHES: That may have been, but this was all before he--certainly not his successor, also. At least that never surfaced; at least I don't know about it.

Now, Black is a charming person. He thought this all great fun, and he went out to become a bond salesman because in order for the Bank to start operating it needed to borrow funds. There was enough in the beginning--I think 600 million dollars--but the market had to be established.

Now in the U.S. the institutional market is subject to government control, as in many countries. But in the U.S., particularly, with the federal system, each state has rules for the investment of pension funds, just the kind of investors that the World Bank has to sell to. So there was a big legislative program, and Black went all over the country together with McCloy. And McCloy looked honest--he was honest, "Honest John"--so the two of them worked the country clubs of the country and did a lot, did a lot of good.

We didn't make very many loans in the beginning. There was one loan was to France, the first one. The second one was to Holland or to Luxembourg, I forget, then then there was Denmark. Between May and August '47 we made loans of 495 million dollars when we had about 600 in the kitty.

But--and then the Bank started borrowing at the same time. Now, there's a financial thing. I don't know how important you think it is. The whole idea--and this was an American idea--of the notes that you can substitute for cash as long as the Bank didn't need them was intended to keep the expenditure, the cost for member countries, shareholders, down. There was no reason to pay in cash if the Bank didn't need it. So these are the substitution notes which are callable any time.

LEWIS: It's the callable capital.

BROCHES: No, it was not the callable capital. It was—it was not the contingent callable capital. It was the 20% which was supposed to be paid, of which 2% was in gold--some, actually, Ethiopia [*inaudible*] a little back and forth--and in gold or U.S. dollars at the parity of a tenth of a dollar and 18% in local currencies. And that part you could substitute notes for, but they could be called as needed for operations but pro rata. Well, so after--when we made these loans, say, for 500 million dollars that we borrowed, I think, 250 million dollars or something like that—and these loans, you know, the Bank doesn't pay them out immediately; there's a certain [*inaudible*] Now, the U.S. could have said, "Okay. You now have 250 million dollars, X million dollars. Use it!" But they permitted the Bank to cash the notes, and then we could invest because you can't invest with capital. You can invest what you borrow. So this was a sort of conspiracy. I find it significant because this was sort of a conspiracy in favor of the institution to strengthen it, but later the U.S. was trying to put the brakes on. So that we were able to invest the 250 million, and we called on the U.S. and Canada, who also paid a little, in financing those loans.

WEBB: Who in the U.S. government in particular had to do with that?

BROCHES: Well, of course, it was the Treasury exclusively, the Treasury. That depended a bit on the interest of the people, who would take the leading role; it was frequently not the secretary himself.

LEWIS: John Snyder was the Secretary, I guess.

BROCHES: Yeah.

LEWIS: I don't know who would have been . . .

BROCHES: Oh, John Snyder was--there were any number of secretaries . . .

LEWIS: But this was in the '40s, you're talking about, that they did this.

BROCHES: This was in the--yeah, when John Snyder was secretary. Was Barr in the number two? No, not yet. But there was a very--for years, not just this example of '47--for many years the U.S. was backing the Bank and would try to, to help in one way or another, say a little bit beyond what it had to do.

LEWIS: It was probably true through the [*Dwight D.*] Eisenhower administration [*inaudible*]

BROCHES: Yeah, and later--in my view at least--they often didn't even do what they were supposed to do, let alone a little extra here and there. The atmosphere just changed completely.

At that time also, since there was no need for Congressional action--something that later became a problem and it still is a problem, was the lack of coordination. It was not a problem then because it could all be done within the Treasury.

For instance, now, to jump ahead to this MIGA [*Multilateral Investment Guarantee Agency*], the U.S. was in favor of it. First not and then later on they were. And they pushed it very hard in the Board, got others along, and then it was approved. And it goes to government. Two and a half years delay in ratification because the U.S. didn't act. Why didn't they act? Because they suddenly realized, had a side that said, "We want to help private investments" was one side, but then came the labor unions, said, "Exporting jobs? We're opposed." The finance side came up, and nothing had been planned. You notice if there's one group looked just at the draft--and it was a good draft--and then it was approved, and they said, "Oh, my God! Now how about Congress? How about the unions?" It took two and a half years, which can kill an institution, and I certainly think that they didn't kill it but it carries over into . . .

LEWIS: That was when?

BROCHES: That was '85.

LEWIS: Oh '85?

BROCHES: That was MIGA. It was approved in '85 and it didn't enter into effect until '88.

LEWIS: But there were some guarantee predecessor proposals, weren't there?

BROCHES: I worked on those; they all failed. I thought since—I thought it was a very difficult subject, and I had some doubts about it, but I worked those very hard from--it was the OECD [*Organization for Economic Cooperation and Development*] who brought the package to us and said, "Look at it"--from '66 to '73. So we worked on it for seven years. But then that's typical of McNamara . . .

(TAPE CHANGED SIDES; SOME CONVERSATION LOST)

[End Tape 1, Side A]

[Begin Tape 1, Side B]

BROCHES: . . . "I can't go out; it's not my agenda; I can't really go out and promote it." And it went so far that he wouldn't preside over Board meetings. He let me do it. So it was not officially the Board because it was what was called the Committee of the Whole, but they were the same people in many cases. The directors themselves came, on the whole.

It didn't go very far. Various countries were opposed for different reasons, and I said, "Bob, as you know, this is a program you're running. I think you could come to a meeting and hit some people over the head and see where we are going because we are wasting time."

He said, "No, it's better not to have a confrontation. You just go on." Well, it went on forever.

Then came the [*Richard M.*] Nixon election. So there was . . .

LEWIS: '69?

BROCHES: Yeah.

LEWIS: Well, '68 actually.

BROCHES: '68. We had just—we had had a year and then came the election, and then the U.S. said, "Well, we'd like to postpone further discussion of this proposal until the new administration is formed anew." That took exactly a year, and in that year you lose some constituents. I could see that you got one in and somebody else ran away.

Then it was a very strong line on the U.S. for participation of the developing countries in losses--not of the developing countries, of course, the losses--all developing countries in losses because that would create solidarity. Yes, that would create solidarity; that's why nobody ought to buy it. So these things went on. The developing countries were opposed to that, but they were prepared to pay administrative expenses. Then when the U.S. and some others—not just the U.S.--

became tougher on the question of loss-sharing, they said, "In that case we don't want to pay administrative expenses either."

It went from bad to worse until finally I got McNamara, so far as he was willing, to send a memorandum saying that things were very difficult and that the staff thought that the differences could be bridged but it was necessary to have a willingness to negotiate, so unless he received word of a substantial number on both sides, the rich and the poor, that they were willing to continue negotiating, to continue study which necessarily involved a willingness to negotiate, that there would be no further work done. And it met great silence. It stopped in the '70s. Then . .

LEWIS: Of course the U.S. had gone in for OPIC [*Overseas Private Investment Corporation*] bilateral guarantees in '71, I think. They'd done it before that under AID [*U.S. Agency for International Development*].

BROCHES: Oh, yes. The U.S. had an extensive program and the Japanese on paper and the Germans in reality, both for commercial losses and political losses, political risk. That was all there. But the idea of multilateralizing this was at one time the U.S. line because they said, "If there are more participants in such a scheme, we don't need to—we get some help because if the losses are shared, then the losses on U.S. investments will be borne also by the other shareholders."

Countries like the Dutch and the--or particularly the Dutch, which became finally a nuisance--they would pick multinational companies there. They said, "My God! If we are forced to have an investment insurance scheme, we can be bankrupted by a single expropriation!" So they wanted a scheme in which things were shared. You know, it's Philips and Axall and Unilever, Shell. They said, "We can't do that." So they were always clamoring for an international scheme.

But then the British were not in favor because they said, "We don't really want to encourage capital export." The French were not in favor--this was the first stage that I was working on--the French were not in favor because they said this would be discrimination to the old investors. Some people would say, "Well, why didn't you do anything for us. You do it for the new ones, but," they said, "you know you wait a few years, then everybody will have been expropriated and then we'll come in." [*Laughter*] The Germans didn't want to come in because they said, "These international schemes would be watering down the sound principles on which we work, and our system is fine. So, no." Well, that doesn't leave very much, does it? And the developing countries had their own problems. The Japanese--no, Japanese were in favor, but there was something else there--so, you know, there were times when one was a bit more optimistic but mostly I had great guilt feelings that I was wasting my own time, three or four other people's, and the Board's.

But that's a horrible thing in these international institutions: nobody wants to say, "Let's stop. Let's forget it." There was a very angry opponent of most of the elements, for instance, arbitration. They didn't like it--it was the Latin Americans, in the first place. A Colombian who made a strong statement on that, Jorge Mejia, and I said, "Dr. Mejia, do I hear a motion to discontinue discussing?"

"Oh, no, no, no!"

It was impossible, until finally McNamara was good enough to, the sense to say, “Well, in that form I’m going to put an end to it.”

Now, why was it started again? That was an idea of [Alden W.] Clausen’s. And Clausen had talked to, must have talked to people outside the Bank, as many new presidents do--which may be not so bad--and so in his first annual speech he started mentioning this scheme. Well, the then general counsel was a man who later, who left for personal reasons after two years--was not a success--started working on it, and that didn't go very far. And then [Ibrahim F.I.] Shihata came.

LEWIS: And he was for it when he arrived, I think, because I remember—he was in favor of it even before he arrived, I think.

BROCHES: Clausen? It's possible.

LEWIS: I mean, Shihata was.

BROCHES: Oh, well, Shihata was. Shihata knew, knew the . .

LEWIS: Knew that Clausen was . .

BROCHES: . . knew the scheme in—no, no, he knew the scheme that was working. You see, he was familiar with the only multilateral scheme that was in existence.

LEWIS: That was the OPEC [*Organization of Petroleum Exporting Countries*]?

BROCHES: In the Middle East, no [*inaudible*] and his wife was the economic advisor there. So Shihata knew the subject matter. As a matter of fact, Shihata was also on our short list for all sorts of jobs. I knew him very well. It was as an institution very conservative in which all countries had to agree to international arbitration, and there were all sorts of penalties on expropriation which could have been written by the right wing of the Republican Party. This was, it had eight or nine countries. They didn't do very much business because . .

LEWIS: They were the Arab countries?

BROCHES: Yes, yes. No, that was Arab. But this was interesting. Good charter, perfectly good. Now, then Shihata, I think--but this is my own interpretation--he knew the subject. And in principle, I was also in principle in favor of it, but after awhile you see that maybe it's not worth while. But he knew that Clausen wanted it, and I think I might have felt the same way. You know, ICSID [*International Center for the Settlement of International Disputes*] was one thing he had in mind, and he wanted to have one, too, to--as a symbol of his period. And this was then wanted, and he did it in a very capable way.

LEWIS: He was actually talking this way, very explicitly, in June of 1981. He came--at that time at DAC [*OECD Development Assistance Committee*] we used to meet with the Arab donors informally for a day or two in June for the two sets of donors to sort of exchange notes, and he had become the doyen of the Arabs because

Abdul Latif Mohammed had become finance minister, and so I saw a lot of him. We were sort of co-chairing the meeting. And Peter McPherson had come for the first time as the U.S., the AID fellow, and the two of them had been in law school together at Harvard. And they were chatting up this guarantee scheme to a fare-thee-well. In fact, they got very tiresome, including it in all the rest of the debate. So I know that he was thinking about it.

BROCHES: Well, but this was wanted. We felt that Clausen had wanted it, and I guess the Board said, "Okay, let's go at it again." Some people had forgotten about the MIGA in the meantime, it was late '70s, no, it was later—it was the beginning of '80s. So the other thing was stopped in '73, so they'd forgotten. And he beat this thing, and he did a terrific job in talking people into accepting the scheme that he and his staff designed.

I wrote--and then he wrote the book, you know, this enormous book about MIGA? Well, I reviewed it for the Harvard, American Society of International Law. Detlev Vagts of Harvard is the book review editor. You find that in number 2, I think, the April issue of the American Society, which shows some reservations, by the way. I showed it to him, and he said, "Well, it's fair enough." But apparently he wrote that book before the institution had been created. You say, "Why would you do that?" He had to, because once it was created he would have nothing to do with it. It would have its own legal staff, which is clear. Now, you can't write a book about another institution, you know, within the same family, if you--so he had, if he wanted to write it at all--and he wanted to write, he wanted to be on the scene and was very much on the scene--he had to do it before. But that's a certain danger, so he made a number of—and that's the point that I criticized—a number of ambitious predictions which came to naught. I said it's unfair, it's unfortunate and it's unfair to the author, because he did a terrific job, and he can't help what happened later. And he has taken his hands off this completely. He doesn't want to hear anything about it and the people, so he can say they're mismanaging it, which they may well be doing. I don't know.

They have a Japanese head who should have been president and maybe wouldn't have been as good as the other president, either, but [*Barber B.*] Conable, I think, was a mistake. Conable said, "Well, I'm president of IFC. I'm president of this. Why not also of MIGA?" You know, the Japanese--I don't think the Japanese liked that very much. But that is, that is Shihata who took it up.

KAPUR: Wasn't it true that in '81 when the Bank asked a group of consultants about the MIGA idea that they issued a rather negative report on the whole thing?

BROCHES: The Bank's report was negative?

KAPUR: No, the Bank had asked a group of consultants . .

BROCHES: Oh, yes. That was also after my time. Yes, it was rather negative. And he mentioned that in the--you know, he spends 106 pages in his book on the past history.

LEWIS: Does he really?

BROCHES: Yeah. And the parts that might reflect on me he showed to me, and he said that you can also take them out; it doesn't matter. I said, "No, they're fair enough. Well, it reflects the sense that I was discouraged." And I told him one thing that should be changed. He said that when he came, when he became general counsel of the Bank in '83, he asked me what the chances were, what he should do about this, and I said, "You might as well forget it." And that in, more or less, issue was not yet in there, and I said, "That's true, but you should also add why I said that, and that was I said you shouldn't, you should forget about it as a global organization, make it regional" because the big point at the time--gradually the Latin Americans are changing a little bit, but at that point this was a big thing. "Now, you should realize that and say, 'Well, let's just do it with people who like it. It doesn't matter if the others don't want it; they don't want it.'" McNamara was also prepared to say there was no reason to stop because one group doesn't like it, because it is optional. So then he said, "Oh, yes, I will put that in the book."

No, I think that what he did--he was very, he came on very strong. Somebody--of course, I was not in those meetings--somebody said it was just like a firehose presiding over the meeting, getting people working in line as slaves. And they did. But, you know, then the document is, has been published, then it goes to governments and say, "Do we want to come in." And then, as I already said, the problem was mainly the U.S.

And there was a constant problem with the U.S. on denomination of obligations. You know they don't recognize the ECU and the SDR [*special drawing rights*]. That's a small thing, but it's also a symbol again. For instance, the capital of MIGA is one billion, I think, yeah, one billion SDR, but then in a footnote for purposes of financial statements the SDR is \$1.08. Well, that's--and of course you can say whatever you want but don't call it an SDR because the whole idea of the SDR is you don't have a fixed dollar or franc or pound. So these little things and irritation on that.

I worked for six years trying to--the Bank's capital is expressed in dollars of 1944, U.S. dollars, yeah, at the rate of finance of 1944. Well, that was the same as gold at the time, by definition. Then came the first devaluation of the dollar after the Smithsonian Agreement . .

LEWIS: '71.

BROCHES: '71, and there was no problem. The dollar was devalued by about 10 percent. We went to Congress and got more money. Fine. So then the dollar of '44 was \$1.10. Second, then it became \$1.20365. And then the entire value system was abolished. So what do you do? You couldn't translate the dollar of '44 into anything, not into gold, not into--that was a problem for interpretation. And I said, "Well, it's clear what the interpretation must be. It's the SDR, the successor to the dollar of '44 is the SDR because when the SDR was first introduced"--in '69, I think--"the SDR was stated to be a gold dollar. You go on from that and then you have the package because it always added up to the same amount."

And this was becoming a matter of interest since the Fund had been working with the second coming of the Fund Articles of Agreement--had been working for years, but this was coming closer--and then the gold value of the dollar would be both by U.S.

legislation as well as in the international agreement. So what do you do? So I suggested we had to do that. I'm not the only one, but it was my task to draft the view.

The U.S. was opposed. They said, "No, you cannot do that because that's not an interpretation; that's an amendment."

I said, "What do you mean, an amendment?"

Well, the interpretation--they would accept the last par value, that is \$1.20365, as the SDR basis but nothing else. There was a vast majority against that, and when I left it was still pending and footnotes, notes in the financial statements that the Bank is still studying what its capital is worth. *[Laughter]* In the meantime all accounts are settled at \$1.20365.

Then after I left, one of the directors said, "Well, we have to do something about that. Let's settle this." He proposed that they vote.

And the U.S. said, "No, we don't want to vote because we're going to lose it." Just—"because therefore we don't want to vote. It will affect us very badly and will erode support for this or that or the other thing." And so there was no vote.

And then finally, not so long ago, they did something like what the U.S. wanted. I think that the reservation that if situations change very much, let's look at it. But it's one thing on which a lot of energy was wasted. It's so simple. It's never been clear to me why the U.S. took that view. In part, I think it was just a feeling that, "Well, we think the dollar is the most important currency, and so to hell with it." In the beginning when it came up, they would have received money, incidentally. It wouldn't have cost them any money.

KAPUR: How come they agreed to it in the IMF because the IMF did manage to change to the SDR?

BROCHES: Oh, yes. The explanation for that is almost obscene. Of course I've said the U.S. arguments against—the U.S. argument against, say, the majority view—is that you can't, the U.S. Congress cannot appropriate in any currency except dollars. And that's fine. Then do it, but then you have a supplementary appropriation. So I call that a, well, a dishonest argument. That was a more conservative term for that. Why wasn't it a problem in the Fund? Very simply because Fund things don't go to Congress; it's foreign exchange transactions. It's crazy, you know! To have--you could say, "Well, how important is the issue in actual dollars and cents or in SDR?" But that an issue of this kind is being decided speciously, is the word I'd use, because of these circumstances. In the country, you're quite right, there was no--there was for a while a problem because they didn't want to pay, but then the rates changed and you could receive and since that time I understand it's been no problem in the Fund. But this is another deviation from the main track.

Well, McNamara did—well, let's first take Woods. When Woods came he decided to open up, among other places, to the U.N. because we'd been very, we'd been keeping

away from the U.N. and the relationship agreement with the U.N., which was negotiated in '47--have you talked to [*Richard H.*] Demuth?

LEWIS: Yes, we did talk to Demuth.

BROCHES: Well, Demuth was handling that at the time, was very much, "U.N., don't mix in our business. You do your work, and we'll do our work. Don't comment on loans, et cetera." The U.N. didn't like it very much, but the General Assembly approved the agreement. And Woods said, "Now we have to come closer to the U.N." and Dick also. He became known to the U.N. as John XXIII.

LEWIS: Who, Dick?

BROCHES: No, no, not Dick, Woods.

LEWIS: Woods did.

BROCHES: John XXIII. He was so called by that term by the Protestants, Assistant Secretary General for Economic Affairs, Philippe de Seynes.

LEWIS: Oh, Philippe! Yes, I know Philippe, yeah, yeah, yeah.

BROCHES: John XXIII--liberal, open--and that went along and that helped all sorts of agreements with them, like IDA and others and so.

Then Woods got through the Board the principle of turning over a portion of the profits of the Bank to IDA. That was politically and as a policy matter important because it opened the possibility of saying, "Well, you siphoned off funds; you've mixed these two institutions even though the charters say they must be kept separate." So the decision, which was also a legal question whether shareholders had the right instead of taking a dividend to turn it over to another institution--the trouble with the dividend is that once it's in, in most countries you have to vote it out again. So that had to be avoided. But the decision was surrounded by safeguards. It said it could only be on profits of the past year--because some people wanted to "de-reserve" about two billion; the Germans were interested in that, always more--only the current year, and the amount that was not necessary for addition to reserves or to be kept in the business for other reasons, for instance, to get more funds for lending or [*inaudible*]

So surrounded by these safeguards--this was done in September of '64--the system was started. For a while it was about half, as you can see if you go through the books, but then that's where Woods got into trouble in the sense of relations with directors. One year he said, "Now, we'll do ten million."

LEWIS: Ten?

BROCHES: Ten million.

LEWIS: Million, huh?

BROCHES: Yeah, ten million. I think the profits were 250 million. Ten million. And that was because he felt that funds should really be kept in the Bank, and somebody said, "Well, if the funds should be kept in the Bank, then it should be kept in the Bank, but don't do the ten million." It really became a shouting match between him and the Australian director in that case: "What you say is personally offensive to me." And that started the unraveling of his relationships, you know. This was just one example.

Everything was taken to be an issue. I was asked to give legal opinions on things that didn't involve legal issues or could. Later, McNamara, if a director said, "This is a legal issue. We'd like to hear what the general counsel has to say," McNamara would say, "I'm sure that Ronnie [Broches] would agree with you. Aren't you?" And in one case I said, "No," and he laughed, "Fine." In fact, McNamara didn't even want the real legal issues to be *[inaudible]*.

Woods would dream up legal issues in a sense which became extremely confrontational with the Board.

LEWIS: The ten million thing: it's very hard to understand what he was trying to do, isn't it? It was just a nasty kind of . . .

BROCHES: It was a nasty thing. Everybody was trying to talk him out of it: "No, but it had to be done." I've forgotten the details now, but it may even be in the Mason-Asher book; although I'm not sure. But it was a totally unnecessary . . .

Now so he had—of course, his country was India. Each director—each president is entitled to a country. McNamara took Indonesia. The president takes only one country; he can go around to others but . . . No, Woods had been on missions for the Bank in India, so that was his thing.

LEWIS: He knew people there very well.

BROCHES: But on India also is an example of how he, his confrontational nature. India was in trouble; I mean debt problems. And the consultative group--or the consortium, in the case of India, consortium, yeah—and we were pushing the consortium to grant debt relief. And then Woods decided that--maybe one of the countries said, "How about you fellows?" There are perfectly good reasons why the Bank should not participate in these things, but Woods said, "Now we'll do something, too." He then came with a proposal to the Board that he would take the Indian payments and then invest them in the Reserve Bank of India in interest-bearing deposits in the currencies concerned. The Board didn't like it. Some people who didn't like it said, "It's illegal." When you don't like something, it's illegal. It's illegal because there is a provision in the Articles that says that a country may, if it has acute exchange problems, may ask for relief and then the various forms in which relief can be given. This happened to be one of them, I think. Therefore, "Have you had a request from India?"

The Indian director said, "We don't want this at all. We are borrowers from the Bank. We pay. We haven't asked for it."

"No, no," Woods said. "You haven't asked for it, but I find it's necessary." That was the situation. And there the text--during part of it I was in France again talking to change publication dates; you can see what happened—it wouldn't have happened if the U.S. had not been there--Woods said, "You insist on the Indians swearing out a pauper's oath?" Literally. Well, in the end it was done with the votes against. That is what I . .

LEWIS: He did that? He put the process [*inaudible*]

BROCHES: Exactly. [*inaudible*]

LEWIS: I guess I knew that.

BROCHES: But the whole point was that he did something that India didn't want. India wanted to keep its relations with the Bank clean.

LEWIS: Very proper.

BROCHES: Later, of course, McNamara said, "Oh, we won't participate in any of these exercises because there's one big difference between us and the rest of you: we can't print money, you fellows can, we can't; therefore, we can—we have no way of replacing these funds." So that is the—it was later that it has become a problem now, I'm certain, the last ten years [*inaudible*] the question of the debt problems have become very serious.

So Woods had that first open mind, very development-oriented. He was in favor of—that should make me an admirer of his—in favor of the idea of arbitration, which he handled in a very intelligent way. This had started under Black. Black said, "I think the idea's okay, but I'll tell George when he comes to take it up."

Woods called me and said, "Look, I know this is one of the things, but there are so many things to get acquainted with. I'll take six months and then I'll talk to you about it." When he had read the document, he said, "Just examine me to see whether I'm [*inaudible*] He said, "Now we're going to have lunch or breakfast before we start meeting. We'll start with the not-so-important ones"--there were three lunches--"and I explain the thing, and you sit there and unless I say something awful, you keep your mouth shut. And then will be the questions." So he did, and he said, "How did I do?"

And I said, "Fine."

He said, "Great, because I don't know what I was saying." And then the second time he did it again, and the third time and his presentation was exactly the same. But he said, "Now I really know what to say. Okay, now we'll have meetings."

It was a very responsible way he conducted the meetings. He said, "I'm not going to conduct a meeting if I don't know the subject." He still let me do 90 percent of the talking. That's okay because the questions were also--so sometimes he could be so rational and other times, well . . .

LEWIS: This was on the arbitration business?

BROCHES: Yeah, yeah, which came through in '65, while he was president.

McNamara—well, McNamara was entirely different. McNamara--we had expanded considerably to the point where Woods had instructed the financial vice president to see how we could reduce our borrowing program to something very conservative. We shouldn't expand too fast. But McNamara came in, and I was a member of the team that came with the contract that he was to sign. We went to the Pentagon and there he was. And there were two directors who were the *[inaudible]* but the two directors were a Cuban, who was the dean, but the main speech was made by a Dutchman, the very conservative Lieftinck.

LEWIS: Lieftinck. Pakistan . .

BROCHES: Yeah. And Lieftinck said, "Mr. Secretary"—he talked like a parson, a sermon—"you know even though you are not yet our employee, it would be most unfortunate if there was an escalation in Vietnam."

And McNamara laughed and said, "Well, I'm not sure that I'm at liberty to reveal the strategic plan of the United States." That was one thing, there won't be any *[inaudible]* Happily, he was wrong. The escalation came from the other side. He had hardly left when the Tet offensive began and all that.

But that was one thing. The second remark by Lieftinck, he said, "You know, your Mr. Woods is a very dynamic person. He's a very good president." He said, "We expanded our operations considerably. Now we all know of your great administrative capacities," which McNamara strangely enough doesn't have; he has many, many very good qualities *[inaudible]* "and we are looking forward to your stabilization." *[Laughter]*

Those eyes went dead. He took a deep breath and said, "Luckily *[inaudible]* is out of the country." He said, "The World Bank has a great," but then he started laying out the first five-year program.

And so quickly all the staff work that was being done, the direction had to be changed from reverse to full forward. And this was done. He said, "I want"—well, when he came he said, "I want a report in three months, and a plan that you get in three months is a lousy plan, but it's something to look at." So he was quite realistic in his statements. Nevertheless, he felt driven to do certain work. So his was--there had been, there had been expansion; there had been progress; but it was vague, there was not a structure. And what he did was say, "Okay, we'll do this." And a plan is something that puts you on the defensive. You know, making it doesn't mean you have to do it. You have to give a reason why you don't do it. Sometimes no reason was good enough, but that's the practice. But it helped a great deal because it was more focused. He said, "Agriculture do this, *[inaudible]* do that."

Then he started on—I think it was his first--in his first annual meeting speech he—yeah, in '68--he talked about population programs. And he got a telex from Ethel Kennedy, sent to the hotel during the meeting, "Dear Bob, now you're telling me

that." (She had eleven children.) [*Laughter*] He told me that himself. They were always kidding, you know.

So that's one of the--agriculture and all these things were laid out in a systematic manner. So that's--in that sense that is a moot point.

Then there is the issue—I don't know how you look at those—the question of so-called loans, project loans.

LEWIS: Yes, yes, yes.

BROCHES: The same thing has been going on since 1947. The Articles of Agreement say that the loans will be for specific projects or programs, but in extraordinary circumstances, exceptional circumstances, they may be for—I've forgotten the language now. But this was a provision which was much debated at Bretton Woods. What the British wanted was that the Bank would have power to make balance of payments loans, and the Americans said, "No. No." The--so the language was rather restrictive.

There are very poor records because there was no proper staff, there were no tapes, nothing. And the minutes. . .

LEWIS: They didn't keep some transcripts?

BROCHES: The transcripts were so bad that some of them were destroyed because they were more dangerous than that they could be of any benefit. On the Fund, though, some of them apparently were kept, but maybe for two meetings. The rest, if you look at the printed volumes, these two-volume on the history of Bretton Woods, you find there is a report; this is approved; there is an amendment; this is approved; but the background, the discussion, is not reported. In some cases--I was the delegation's secretary, nevertheless, and I wrote a delegation report and so I gave an explanation about members of the delegation where I knew the reasons, but there is no--I don't think there is any full discussion of the meetings. But in any event, that provision was there.

Then the Fund was under heavy attack in Congress because of the fear that it would be used for balance of payments support and they would lose all their purpose. Then the U.S. suddenly changed course, and one of my earlier bosses, Ansel Luxford, said, "What do you mean? No danger of that at all. It can be done through the Bank. Look at these words. If there is a need for general purpose loans, it can be done through the Bank, the loan can be done through the Bank." So the first four loans of the Bank were exactly in that category. They were not project loans. It was program: French, Dutch, Luxembourg (Luxembourg was [*inaudible*]) and then Denmark.

The general counsel at the Bank wrote an opinion, and he said, "No, in extraordinary circumstances it could be done." So the funny thing is that the first loans of the Bank in the ultra-conservative period were non-project loans and they were--then later you had program loans at points. And as you find in the [*inaudible*] there were endless discussions about what kind are the conditions for program loans. One of the conditions that was mostly objected to was that there should be a program—and yet I

think that's the only real condition. All the rest is literature. So they said under--sometimes it's called an import program. You can do it under very many names.

There again, Woods got into difficulties because one thing that he wanted to do for India he called a program loan, and the Board didn't want to call it a program loan. And it was in fact an import loan, and you had capital *[inaudible]* You didn't need to call it. He insisted on calling it that. And of course if you call it structural adjustment loans, which are something of the last ten years, again, another form of the same thing. They are not loans for specific projects or programs.

Now how, whether one takes a subject and follows it through for—what is it—forty years?

LEWIS: Yeah, it going to be fifty years, almost.

KAPUR: Well, forty-five years.

LEWIS: Forty-five.

BROCHES: Forty-five, yeah. Or--that's one way, or cut it this way, or by subject. I don't know. Frankly, I haven't thought about it.

Governance is also a subject of interest that changed a great deal over the years.

LEWIS: You mean governance within the organization?

BROCHES: Yeah, because it's really a question of international relations, the governments also--well, within the organization, but including the Board and the influence of governments.

LEWIS: Do you think the influence of the United States has declined significantly in terms of the government of the organization?

BROCHES: Yes and no. It has declined in the sense that in many cases on controversial issues--and I'm now talking about years ago *[inaudible]* it could be Chile, it could be--that votes were taken that the United States was outvoted. And one of the reasons, of course, is the United States often leading with its chin or forced to lead with its chin by Congress: "You must make this representation. You must do that and on that." And sometimes the U.S. doesn't mind being voted down because it's rather *[inaudible]* So that happens.

On the other hand, if they think something is important--and this is based on what I hear from directors--the U.S., as in the case of the vote, "We don't want to vote because we're going to lose." That seems to happen very often. And some call it "terrorizing." It's a strong term, but certainly the U.S. has a lot of small change, as I said to you while we were talking about this film business. "We'd like you to think about our position and for you to say something else." But it--because the U.S. is, regardless of its exact rank or whether overall power's receded somewhat, on a comparative basis *[inaudible]* but it is in so many fields preeminent that it can wield an influence which is not related to the votes. I think that at all times the question of

the voting percentage has been over estimated by all parties to the . . . And to the extent that the U.S. exercises influence which is regarded as going beyond what it should have, it is done because of collateral relations, which I think is not abnormal but it makes the picture less clear.

LEWIS: I have one special, almost technical question that I--you were talking about the perceptions of Black when they shifted from just a, the IBRD function to the IDA and the difficulties of raising resources from parliaments for beginning appropriations, and I'm one of those development proponents who have always been interested in possibilities for getting taxpayers' money surreptitiously, that is without having to go through parliamentary votes. And of course the SDR link is everybody's favorite kind of--but it occurred to me that one source of such resources in due course becomes the reflows of IDA loans. I just wondered whether you remember any discussions of that. It would have been pretty far in the future. If you're making 50-year loans, it's going to be a while before they're paid back.

BROCHES: But they're beginning to be substantial.

LEWIS: They might be, yeah, yeah, yeah. Was that ever an issue or discussed at all? I suppose that another related question, of course, is whether there was any real discussion of IDA giving out grants rather than loans.

BROCHES: Yeah, let me take first the first question. Yes, I think there was some *[inaudible]* at that time far in the future, and it becomes, I'm sure, an issue in discussions about IDA replenishment. Somebody will say, "Well, you know, we get this much back, so if we say 12 billion, in fact it's more because money's coming back."

Now the question of grants: that was a sort of theological question. I'm not—it became very close to it because there was a 3/4 percent service charge. No, but it was regarded as dangerous to use that word. But no, there was no great--I don't think there was any great debate about it.

LEWIS: Right, right, right. And the term, there wasn't great debate about the--you could argue that you'd make a very low interest loan, but you didn't need to make it for fifty years. You could have made it for thirty years or something, and then the Koreas and so on would be--the success stories would begin to, to . . .

BROCHES: Yeah, I don't know if we have them—no, there was no option of prepayment, well, no option on IDA to ask for prepayment after a certain number of years if the situation had changed. I think you *[inaudible]* I don't think it was ever *[inaudible]* Yeah, fifty years is a very long time. Some people say it's much, much better than a grant. No, that was not a big issue.

Now the other issue, I suppose, by now is can the Bank be all things to all people? And the relation of the Fund.

LEWIS: Yes. It's gotten quite confused, the relation with the Fund.

BROCHES: Yeah, [*inaudible*] Each does things that it says are really the other's or that the other says we should be doing. On the structural adjustment—you know, often the controversial things like program loans (or whatever they're called) are, when you look at how many have been done, it's much less than was feared, for instance, at the time when the dangers of program loans were discussed. It turned out it was less than ten percent. It was really—it was marginal. But now, I don't know what the figures are now.

LEWIS: It's all over the place. It depends on what you're counting, in fact. The SDRs and the . . .

[End Tape 1, Side B]
[Begin Tape 2, Side A]

BROCHES: . . . recognized by a lot of neighbors or by important countries, then the risks are deemed to be smaller. Also, if you make loans which are objectively justified and not serving the particular interest of the new dictator or whatever it is, then your chances are also better, even on the theory of quantum value, you know, how much it was worth to the country.

I know that we had a--this is an analogy; it's not a precise case—but we had a request for an education loan, I think in Guyana. Venezuela claimed that territory, and the Bank said, "Well, now, we don't need to resolve that. The school is as good there as anywhere else." We did the same thing between Morocco and Algiers once where we said, "We were not going to try and get involved in that. For the region, it's a useful project, and we'll do it." But--and we've never had, we've never had a claim by a government that the loan was illegal or [*inaudible*]

We might have had that in Cuba in 19—well, before [*Fidel*] Castro. Before Castro Cuba wanted a loan for railways, but they didn't want to give us a government guarantee. They said that [*inaudible*] the central bank was under legislation as the fiscal agent of the government. Well, it's one thing to be a fiscal agent and another thing to guarantee. But we had a very good young Cuban lawyer, but it was painful. It was a bit dangerous for him to go--this was under [*Fulgencio*] Batista. So I was sent, and I talked to the central bank, but I also talked to some lawyers. The reason why they didn't want to go to Congress was somewhat disquieting because they said Congress would never approve it.

I said, "Oh!"

They said, "Yeah, you know, it's very useful, but it's for the western half of the island, and the eastern would never get through the Congress."

I said, "I'll make a little note." Then I—and of course there was nothing--again the project was a useful project.

Then I talked to a law firm, all of whose partners quickly had to emigrate when Castro came in, and they said, "Now, it's very dangerous here because in--we are a country in which these things are taken very literally. There was a loan by the Chase to Cuba,

and there were some technical”—well, maybe a bit more than technical—“gaps in the documentation and they didn’t pay because they were not bound.”

But there are very few countries that do that. I would think it may be a bit--there are more in the legal field, I think that Latin Americans tend to be very fundamentalist, which is also part of the opposition to arbitration, their own ideas about sovereignty. They are more formal than--and that comes from Spain, actually. It is very much a Spanish, Spanish [*inaudible*]

Yeah, it’s a very—well, we have to wait, I think, we have to wait to see what happens. And if they're not overthrown, then we start lending. It was always a bit embarrassing and difficult while you had to do it, but later nobody--it was completely forgotten. It was not a festering sore in which you dip in. Not that.

LEWIS: We didn't ask you about your sort of particular thing, this investment arbitration business. Does that go back, did that go back to the dispute settling that the Bank did like the Indus [*River negotiations*]?

BROCHES: Well, this was used as an argument that could it be useful, that sometimes disputes could be settled if there was just a place to go to, and the right place to go to would be one that was neutral and certainly we mentioned Indus and we mentioned the Suez Canal and the later expropriations by Egypt. And there was one more.

KAPUR: The oil assets in Iran?

BROCHES: Well, that was a failure--something horrible. That was early and disastrous. That could have been disastrous if we had not lost it because we were supposed to run the Abadan refinery as a trustee. Can you imagine? And at the same time we had just made a loan to KLM for three planes, I think, on which we had a mortgage, an aircraft mortgage, and under American law--no, no, in general if you are the owner and it's under New York mortgage law in which the mortgagee is the owner--it's not somebody who has a right but is the owner, and the other has the right to take it back—now, in that case, for any damage on the ground, the owner is unlimitedly liable. Now, let it fall down on the refinery in Abadan. That was impossible!

No, that never worked. It would have been absolutely awful. But in fact Black in a speech to the Board in '62 said, "There have been cases in which countries came to us and asked us, and so I had the idea that maybe it is the lack of a place to talk that may prevent some disputes from being settled." Yeah, that was our selling point, that’s right. And, well, I worked on it, and I liked it. And it’s innovative, and you can say--even I can say all sorts of good things about it, but I never thought it could solve the ills of the world.

One of the problems that I had with the whole, everything in the development field is that a new thing is talked about and sold as the solution. And since it can't be the solution, then people are disillusioned. And Congress in [*inaudible*] says, "Now don't come. We've heard it before. 'If you do this, then we've solved all the problems.' Now you come with a new thing." So when we had this ICSID convention, as it's

known for short, so the Board, I said to George Woods—and that's another thing I appreciated about him—I said, "George, maybe this will fly and maybe it won't fly. Let's not do"—exactly not do what Conable in his innocence, or Clausen, did with MIGA—"it's useful like the service we offer and maybe it'll be, but--and say it may be useful, but let's not say that this is the fate of the world's [*inaudible*]." And Woods was very good; he did that several times. Then you can say, "Okay." Because in the first years there was not a single case. I know why; it was perfectly normal because there couldn't be a case unless countries had agreed to, countries in the West had agreed to submit. They could only do it when the convention was created and their country became a party. So it was—but, you know, it was not very good for journalists: "They said this was a great thing, and nothing has happened."

And I remember I was at the Institute of –what is it called? International affairs in London? House?

KAPUR: Chatham House?

BROCHES: Chatham House, Chatham House. And it was a small group, and I said, "You know, even if there is never a case doesn't mean that the convention isn't useful because, you know, the existence of an agreement to arbitrate may inhibit people from going to arbitration [*inaudible*]" While I was saying that, then the chairman of that committee, Sir John Foster, said, "Well, Broches, stop using that line because I've just been appointed to the first arbitration yesterday." But that was four years. And gradually it's more. It's all very normal. That's certainly not world-shaking, but it's certainly an interesting thing. And I hope that MIGA will be the same, but you have to be patient.

LEWIS: Where is that thing hooked into the rest of the organization, is it . . .

KAPUR: Sort of under the legal . .

BROCHES: What? ICSID? The arbitration? Slightly different. ICSID is, well, separate like all the others--separate international institution. It has an administrative council which consists of one member of each contracting state and a chairman without a vote, not even a casting vote, is the president of the World Bank. But it's an administrative council not a management council. What they do is they adopt regulations and they have an annual meeting and things of that kind. Then the manager is the secretary general, which I was for thirteen years, without separate pay. It says in the resolution, "Permitted to remain an officer of the World Bank. While so employed will not draw." Same thing for Shihata now. So he is the, he's the chief executive officer of what is essentially a secretariat. It runs arbitrations; it doesn't arbitrate. It administers.

LEWIS: I see. I see. It recruits arbitrators, then?

BROCHES: In some cases. Basically the arbitrators should be selected by the parties. If they can't, then they can appeal to the Center and then it's nominally the chairman, who is the president of the World Bank, who appoints arbitrators. In fact, of course, it's the secretary general because the president can't know these people.

And there's a lot of work. I've been quite busy when I was managing these sessions. Since then I've been a consumer. I've been an arbitrator and a member of annulment committees and so forth, so I'm now on the other side. Working with the same people, sometimes I have to wonder is this my staff or are they on the other side. And that is very small with three people.

The expenses are paid by the Bank—I mean, the overhead is paid by the Bank, space, a big bill from Price-Waterhouse. I don't know why they always send a big bill, Price-Waterhouse; it's all peanuts. I think the fund has about--income and outgo—it's less than half a million a year. And the accounting license, a fascinating form of *[inaudible]* They do it a bit like the sort of--the accounts now look like the accounts at the Ford Foundation. They've got six or nine zeroes with no fund balances. First you have to have income and outgo *[inaudible]* so that's fine. So that's very small.

MIGA is different because it's an operating institution. You see, ICSID is not an operating institution. There is a different structure, and the Board of Directors has absolutely nothing to do with ICSID, whereas they do with MIGA as they do with IFC and with IDA. Except that the MIGA has its own—the board of directors of MIGA is not the board of directors of the Bank, whereas that's different for the others.

LEWIS: And that's also true of IDA, isn't it? The boards are different?

BROCHES: The boards are different, the boards are different, yeah, the boards are different. But in MIGA the whole structure is different, and mostly in order to assure sufficient voting power to developing countries--potential voting power if, depending on the number that join. There is a very complicated . . .

LEWIS: Personnel? Hire people who are residents?

BROCHES: Personnel? That is the only one where personnel is completely separate. Maybe not, maybe not the personnel department, but certainly the legal department, the treasurer, there are no dual, whereas in IDA . .

LEWIS: The members of the board of MIGA, they are resident still in Washington, in this city, are they?

BROCHES: I can't say for sure that they have to be. Well, even in the Bank they don't have to be. Some of them are Bank Directors.

LEWIS: I suppose some could be economic officers in embassies.

BROCHES: Yeah, or they could be from home countries.

KAPUR: Isn't there—because I know there is a considerable dispute now between IFC and MIGA on the status of institutional or financial advisory services . .

BROCHES: I think so, yeah.

KAPUR: . . which, because MIGA doesn't have as much work and wanted that to be and IFC wants it.

BROCHES: That's one of the things that MIGA was going to be the big thing, and that is really what I criticized in my book review. It was said to be the only institution that would be able to give financial advice, the only institution--not such children like OPIC, the World Bank, and people who didn't know anything--they were the only ones who would be in constant touch with investors and governments.

KAPUR: That's silly.

BROCHES: It is silly. That--although their primary task was to insure--they call it guarantee, which is also wrong; it's really insured but don't guarantee anything--that the additional activities in finance, in advisory services might well be even more important than the financial [*inaudible*] Well, what happened is with the two and a half years of delay caused by the delay in ratification and entry into force of the agreement, IFC started doing things, and then in order to avoid open conflict the IFC part was put into MIGA as a joint venture which is administered not by MIGA but within MIGA, if I have the language correct. So it's a . . .

LEWIS: So it's a joint venture between the two, administered within . . .

BROCHES: Yeah. But in fact, what it means is, well, everybody is trying to do the same thing. And the question is whether it should be in MIGA or in IFC, but according to the charter it should be in MIGA. And to have two--of course it doesn't mean that IFC couldn't do it, but to have the two working parallel would create a very, a lot of confusion in the outside world and among potential . . .

The annual reports of MIGA look a little bit--since there's a strong private sector, private sector orientation--they look a bit like the annual reports of, I don't know, General Foods with portraits of every officer, looking bad or . . . I know the first annual report, all these guys are in there. It's very easy to become a vice-president there. They found it necessary to have a number of vice-presidents.

Then the mistake that they insisted the Japanese could not be head of the organization, that it had to be an American, under Conable, that didn't help. They took an endless time to find a general counsel, I don't know why. He's a Spaniard. I think he's . . .

LEWIS: This is IFC?

BROCHES: This is MIGA.

LEWIS: Yeah, yeah.

BROCHES: No, IFC--IFC is all right. But IFC was for a long time treated as an idiot child by the Bank, and that still rankles. And a friend of mine, a former staff member of mine, moved from the Bank to IFC and was regarded with great suspicion. He had come from a super race, you know.

LEWIS: Well, this "idiot child" was during the McNamara period, wasn't it?

BROCHES: It was always difficult. What happened is that IFC, which I think was intended to keep the Inter-American Bank away--at least that's what my daughter tells me; she was then eight and interviewed me on the way to school. She said, "Daddy . . ."

When IFC was created, the head of it was Garner. Now, Garner came from General Foods. That's maybe why I mentioned General Foods. Garner had been the true general manager of the Bank because Black was traveling and--not that he wasn't a worker, but Garner was there. But he wanted to be number one of something finally, and this was written for him. So he became the head of IFC, was supposed to become the head of IFC, but he was disliked by the directors because he was too conservative and they said--they didn't like him. Well, then a strange structure was devised that in IFC you have a chairman of the board and a president, while in the Bank there is a chairman of the board--the president is chairman of the Board; that means he presides over the Board meetings. Now, in the IFC they were different. And why was that done? In order to protect Garner and to protect the Board. The chairman of the Board, Black, would nominate the president, Garner. And he, Garner could not be dismissed without the concurrence of the chairman of the board--nor the opposite. Well, of course, and it is very wrong to draft the charter to take care—you know, which is forever--to take care of very peculiar personal circumstances.

Well, then, Garner was about to leave—I've forgotten exactly when it was--Black called me and said, "Say, how about me becoming president of IFC?" [*inaudible*] big cigar and leaning back and winking.

I said, "Well, Gene, you look like somebody who has a great deal of confidence in himself. Is it enough for you to recommend yourself for the job?"

He said, "Sure. I'll do that." So as chairman of the Board he recommended himself as president.

Of course, the IFC side was very unhappy, and the general counsel of IFC was very annoyed and said, "How can you give such an opinion?"

I said, "Well, I can give it. This is my client. You have another client, but there is no reason why it can't be done, especially since there is nothing real about this whole structure. It's strictly to take care of a personal situation." So that is why IFC looks a bit different from . . .

But they had very little business in the beginning because just when they came about, private companies did go into foreign investment. And so their first customers were people who had to be coaxed into it--Siemens was the first one, and there was a big American company--were really doing IFC a favor which didn't mean that the--which meant that the deals were not very tight because there were negotiating positions. "I know what to do about it. I could do it with my own money; I don't need you." And so there was a very slow development; the amounts were small. But now, now it's all . . .

We didn't let them borrow, but that was not because we didn't trust them but because it was regarded as wrong that two World Bank-related pieces of paper would be in the

market at the same time. We said, “We can lend money to them,” and we did. Not but then later, I think, after I left, they started borrowing in their own name and they did become quite large. Still, they had the feeling that they are still being regarded by the Bank as “idiot children.”

LEWIS: Doesn't the market sometimes say that their rating is better than it otherwise would be because of their relations with the World Bank?

BROCHES: Although legally they can't--it doesn't help. However, I think they, that reputation--of course, they have had some losses which the Bank--well, now the Bank has had some losses, too, but the Bank is not supposed to; they're supposed to. I mean if you're an investment institution you can't say you can only have gains. They've had losses, and they've had lawsuits. And that's fine. It's--in that respect, although it is a public international institution, they are mimicking the life of a private institution.

LEWIS: There's no president now, is there? An executive vice-president, isn't that right?

BROCHES: Let's see—how is it? Oh wait, so after—well, when Black became president, so that was collapsed--chairman of the board for president--but he was not going to run it. Then they created the position of executive vice-president. Bill [William S.] Gaud was the first, Ladislaus von Hoffman was one, and another German was one, a Pakistani, the one who is now senior vice-president operations, Moeen Quereshi . . .

LEWIS: And now the Englishman, [William] Ryrie.

BROCHES: Ryrie, yeah. Ryrie is very popular, apparently. But Ryrie comes entirely out of the public sector and is a great private man.

And he works, he's been in touch with [Jacques] Attali. That's another thing, this European bank, which is for me more or less a bit of a *bête noire*; it's a strange institution. But he has been very much working with Attali. And one of my--the same good friend who was regarded with suspicion at IFC because he came from the Bank, not by Ryrie, but by the IFC staff, is now going to the European bank to handle corporate finance and joint ventures.

LEWIS: The newspapers say Ernie [Ernest] Stern is going there, too.

BROCHES: Yeah, Ernie is. I think the moment the institution's in being—I've seen enough of the world to know it's not so good to make an agreement with a person who's not yet born--and he wants 300,000 dollars salary.

LEWIS: Who, Ernie?

BROCHES: Yeah. That's what I heard from what I consider a pretty good source, which would be more than double of what he's getting now. Plus a few other things, I understand.

LEWIS: That's as good as going in downtown New York, isn't it?

BROCHES: I don't know, and this will be tax-free, of course. No, they have a different system.

In any case, yeah, Ernie is--well, you see, the whole, this whole European bank has a very strange history. It was an idea that came up in December in the Council of Europe and it was a French initiative. But then I heard about it--I spent the whole month of December in Holland last year on vacation with my daughter and my granddaughter--and heard about it and called the Dutch treasury and said, "What is all this about?"

"Oh," they say, "It was a French idea. They've already circulated a draft, and that was the Asian Development Bank charter with changes inked in."

I said, "Oh, interesting."

And it was then supposed to be only European countries; that would make sense for a European bank. Then they said, "Well, we want some more money."

And then they talked to the Japanese and the U.S. And then the U.S. immediately said, "Well, then, we want to have a say in this--and a big say." That led to all sorts of fights.

And one of the things, of course, the U.S. didn't like Attali who nominally--although he is now the greatest private enterprise man in the world--nominally is socialist. Of course, "socialist" in France is a very broad term, not what a Congress, a member of Congress would call "socialist." It comprises a bit more. And so they didn't want him.

And my countryman [*H.O. Ch.R. (Onno)*] Ruding was the Dutch minister of finance and a candidate. And he may be a bit too, may be a bit too rigid, but he certainly knew the subject. And the Americans were in favor of him. They had only one objection to him, that he sometimes spoke out critically at an annual meeting about American deficits. They didn't like that particularly. And Maggie [*Margaret*] Thatcher signed in--not in blood in ink—but she signed a written statement that she was supporting Ruding. But then trading started and apparently the U.S. would support Attali provided they could get an executive vice-president.

And Attali seems to be a real engine of super, super energy. I thought he would be an absentee president and maybe he'll still develop into that, and then of course the executive vice-president runs the shop. I'm told the U.S.--I don't know. I don't know that the U.S. was particularly interested in Ernie because they have been critical of Ernie, yeah? They have been critical of Ernie that he was too much, that he lent too much at the World Bank, and he was supposed to go out, and it is all very unclear in the reorganization, then he ended up as senior vice-president of finance. But anyway, if it had to be an American, you'd better take someone who knows that particular field. There were, of course, others. But the story is that it's Ernie.

Then Thatcher was wooed by offering the seat in London, which is a ridiculous decision because London is so terribly expensive, the most expensive of all the

countries. Also, you wonder whether it is really Europe! She said it *[inaudible]* We don't need to. *[Laughter]*

WEBB: For her there's no question.

BROCHES: So she was delighted to have it there. And they have a temporary office somewhere and a temporary office in Paris with 15 people or 16 people--sort of a core group that is trying to start it. Of course they're not in existence.

Then on the charter there were all sorts of fights on how much could be private and how much public. The U.S. didn't want, didn't want any, any public sector financing. And people said, you know, "How can you have a private industry if there's no infrastructure at all?" Well, these were all long, long debates. One participant tells me that after awhile, first it was Europe vs. U.S. The Europeans were more flexible, though they were not disagreeing on the objectives, but then later it became a debate between the Russians and the U.S. *[inaudible]* a ping-pong game. The Russians were very soft, very soft. They wanted to get in, and . . .

Well, so then there is a provision in the charter that the recipient countries can only, are only entitled to assistance in the amount that they have put up as capital, which is sort of a silly--paid-in, not . . .

LEWIS: Paid-in?

BROCHES: Paid-in capital, and that provision can only be waived in 85% majority of the voting power. The U.S. has ten and France five, somewhere around. Now it was intended only against the Soviets, so presumably there will immediately be a vote to waive it for everybody except the Soviet Union. Now, there's also a letter from the Soviet Union to the organizers, to the "dear colleagues," in which they say, "We understand that there is concern on the part of the other prospective shareholders that because of the size of our country and the size of our problem that all the money might disappear into the Soviet Union, which we think is a very legitimate concern. Therefore, we undertake that within the first so many years we won't ask for anything more than or ask for anything more." But that's a humiliation . . .

LEWIS: That's like India and China did with the ADB *[Asian Development Bank]*.

BROCHES: India did it with the ADB in the beginning. But that was done in a gentlemanly manner. You say, "Look, you know, this makes no sense." Of course, India in that case got the executive vice-president. But in this case everything--I have the feeling that some of the people in the *[George H.W.]* Bush administration were so sore that they might have lost an enemy that they were recreating *[Laughter]* under the—any, no, a fair number of things like that.

Then there's one, the ECU. The U.S. has an account in ECU, so you can now pay either in ECU or in yen or in dollars—yeah, I think that's it. But then the value has to be fixed, and that's a game. But the value--now it is—now that the value of the ECU in terms of actual currencies during the five months or a certain period, which will be passed on the side, so I don't know what this will mean. It may mean an immediate

reduction of the—so a number of these wrinkles which—I've wanted to write an article about it.

LEWIS: You should do it.

BROCHES: Yeah, but I'm also, you know, a bit--I guess it's too late now. I would also like to work for that bank, but age is enough of a reason to make that impossible. But I would have liked to be in on some of the basic things on the legal side now because this whole privatization thing is a separate subject and the infrastructure--but the overall structure, I think they should have asked people like me and then some others of the other four or five institutions who've really worked with institutions when they were new and know what teething problems will occur. But I also heard that Attali feels that there should be no lawyers at all in the bank.

LEWIS: What is he? Is he an economist?

BROCHES: He's a genius. No, he's--unfortunately he is a genius. He is, I think he's ENA [*ecole nationale d'administration*], so the national administration. If he has a law degree--many of these people have a law degree, but I don't think he--he is an economist, and he is also I think of that other famous school that Giscard [*d'Estaing*] is also from, Polytechnique. Everything. He has written six novels and a biography of Sigmund Warburg, the banker. And from what I hear, he talks as if he knows everything, and maybe he does know what he wants. He's very, very confrontational. At one meeting he came with a document a little bit like the document that McCloy gave to the Board, and it said, "The Board--Powers of the Board: On the recommendation of the president . . . On the recommendation of the president. . . ." He got very angry, and then he said, "Well, you know, I don't want to talk to bureaucrats. I don't want to waste my time. I'll talk to prime ministers. Goodbye." And he got up and left.

LEWIS: I heard about that. Yes.

BROCHES: That's literally true. Then he has a deputy or a chief of staff or chef de cabinet coming there with him who seems to be quite all right, but he has to [*inaudible*] I don't know. He is fluent in English, that's . . .

LEWIS: He's fairly young, is he?

BROCHES: Middle forties, I think.

LEWIS: That's pretty young for me.

BROCHES: He has a younger, a kid brother, who is the head of Air France. You know, it's a bright family, a bright family. I've heard in France, but that's the only place I've heard it, that part of his being supported by [*Francois*] Mitterand so heavily, also personally, is that Mitterand would like to get rid of him. He is Mitterand's personal advisor, but he is very gung-ho and apparently on one or two occasions pushed or led Mitterand to positions that he didn't want to take, not consulting him and putting him [*inaudible*] but . . .

The other rumor is that after a year he will resign and that then the Frenchman from the Fund, [*Michel*] Camdessus, will succeed. And then undoubtedly the French will produce another Frenchman and it will become a French fief.

Now, but then they hope to open and go into operation April 5th. Of course, for a bank was supposed to deal with such an urgent matter—and it is urgent--that's pretty long, you know, pretty long.

LEWIS: Yes, it is. Well, this is so totally fascinating. We'll gonna have to try to . .

WEBB: It is marvelous.

LEWIS: . . get back to you.

BROCHES: Now you want something that you can do something with. I don't think I've been as bad as a man I admired very much at the time, [*Jan Willem*] Beijen, who was sort of an infant prodigy. He was the joint general manager of the Rotterdam Bank—the “RO” of AMRO—the bank which was then the second-largest bank in Holland at age 29, and the next one was 54, and it went up from there. Then he was head of the BIS [*Bank for International Settlements*] at 36 with a tax-free salary during the depression of 10,000 gold pounds. I'm telling you he is a very bright gentleman. But then he wanted, he ran for the managing director of the IMF and failed. The U.S. and others—well, not just the U.S. but the U.S. in particular didn't like him because he, well, he was a bit--he sounded flippant. He was not flippant; he was a bit of a showman. Somebody said—I think I heard this from the Bank of England—“You know what got Wim down? Well, when some poor central banker goes to him with all his troubles and this and that and the other, and he spends an hour there and he tells him all sorts of amusing stories and analogies and then leaves him. Outside he says, ‘By God, I still have all my problems!’” [*Laughter*]

LEWIS: Well, we still have our problems.

BROCHES: Although sometimes--I think some of the anecdotes are relevant.

LEWIS: Oh, they're marvelous.

WEBB: Enormously.

[End Tape 2, Side A]

[End of interview]