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GEORGE WOODS AND THE WORLD BANK

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PREFACE

George David Woods became the fourth president of the World Bank on January 1, 1963.

John F. Kennedy, personally, urged Woods to accept. In August, 1962, Eugene Black invited Woods to the White House where Kennedy told Woods, in effect: Everything we in the United States have done since the end of the war, including the Marshall Plan, to try to build a peaceful and stable world is threatened by the growing gap between the poor and the rich countries. If that is not solved, it is going to cause the collapse of all our policies, including American foreign policy. We have to do something about this, and I think the World Bank, of the institutions available, is the most promising. This is our chosen instrument, and I want you, George Woods, to be the one to make the Bank a bridge between the poor and the rich countries.[1]

Born in poverty, raised in Brooklyn by his adoring mother after the early death of his father, John Woods, and lacking a college education, George Woods, nonetheless, brought an impressive background to the task. At age 17, he became a messenger boy for Harris, Forbes and Company; at age 50, he was Chairman of the Board of the First Boston Corporation, an investment-banking firm which "was raising more money for more corporations than any other investment-banking house in the world."[2]

As a young man in his twenties, accompanied by the young Arthur Dean who later served as chief negotiator to end the Korean War and, incidentally, was Woods's "best man", Woods won the account of the Nippon Light and Power Company. As a Broadway Angel, he made a small fortune in the theater by backing *Sailor Beware*, *Dead End* and *Outward Bound*. During the dark days of the depression, Woods successfully marketed the bonds of the Southern California Edison Company. He "saved" Ringling Brothers, Barnum and Bailey and the *New York Times*. He had a distinguished career in Washington during World War II as a Colonel in the General Staff Corp under Generals Somervell and Clay. Through a merger with Mellon Securities Corporation after World War II, George Woods made First Boston, at that time, the largest publicly-owned investment banking firm in the United States.

In 1952, First Boston, together with Morgan Stanley, began to manage the new World Bank bonds. That same year, Woods headed a World Bank mission to investigate the possibility of expanding and amalgamating two steel companies in India. Later, he helped to organize development banks in India, Pakistan and the Philippines. He played an important role in settling the compensation for the previous shareholders of the Suez Canal Company after its nationalization. Woods, in New York, was in almost daily contact with Black, in Washington. Woods knew more about the World Bank than anyone nominated to be president, with the possible exception of Eugene Black himself, who had already been the United States Executive Director for two years before becoming president.

Woods was a banker. In the words of Woods's wife, Louise, "He never suffered fools gladly." He was very bright, however; his was probably the keenest intellect of any president of the World Bank, and he presided over a significant transition in the Bank's history: from Eugene Black, who firmly established the Bank and sold its bonds to the world, to Robert McNamara, who greatly expanded the Bank and increased its lending, perhaps excessively.

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1. Robert W. Oliver, "A Conversation with Irving Friedman, I," Conversations About George Woods and the World Bank, Washington, D.C., March 1974, pp. 26-7.

2. "The Biggest Underwriter Finds the Big Money." *Business Week*, March 6, 1971, p. 64.

Woods emphasized education and agriculture. He expanded the economics staff. He looked outward to the international organizations which could assist development. He took in the newly independent nations of Africa. He tried greatly to increase the lending of the International Development Association.

In 1935, Woods married the vivacious Louise Teraldson. They were a marvelous team. Louise accompanied George as he flew hither and yon on missions for the World Bank. She didn't seek entry to Woods's world of finance, nor he to her world of assisting young people from the Institute for International Education or the World Bank's Young Professional's Program. They had no children, but they were together in the evening dining, more likely than not, at the Twenty One Club in New York or entertaining in Washington.

This is the story of a remarkable man who rose from the Brooklyn Navy Yard to a position of preeminence in the investment banking business. From the pinnacle of that vantage point, he was able increasingly to turn his attention to public affairs until, in 1963, he became President of the World Bank. He succeeded because of hard work, a brilliant mind, and attention to detail. His path was not without pitfalls, but he persevered; he left the Bank with the dream of greatly increased economic assistance based on "a Grand Assize." He was the right man in the right place for his time.

CHAPTER I

George Woods was not born to wealth. He was born to a life of long hours and hard work. Business was his life. He wasn't a golfer. He wasn't athletic. He didn't sing or dance. He had no real outside interests unless it was the theater and dining well. His favorite subject in school was history, though he was an indifferent student. He was a registered Republican but took no great interest in politics. The *New York Times* wrote about him in 1964, "Sometimes they call him 'the radical from Wall Street,' but George Woods is no radical. He is an innovator."[1] He was an innovative banker.

George was born in Boston on July 27, 1901, to John and Laura (Rhodes) Woods. John Woods was a worker in the Boston Navy yard when Laura married him, but he soon moved to Brooklyn, in part to be closer to Laura's parents. It was there that George's only sibling, a younger sister, Grace Woods Johnson, was born in 1904. That same year this short and unhappy marriage ended in John's death from heart disease and cirrhosis of the liver.

Little is known about John Woods except that he was probably born in Scotland. A fair amount is known about Laura and her family, however. Her parents, William and Elizabeth (Paige) Rhodes, were born in England, as were two of their three children. Laura, herself, was born in Newark, New Jersey, soon after their parents had emigrated to the United States. Ada died of diphtheria in her childhood; only Will, the oldest, and Laura remained. Ada's death was a deep family tragedy.

William was a diamond cutter by trade. In due course, he made a small fortune and decided to retire in England. Laura was 12 years old by then, her education had been interrupted, and she found it difficult to pick up the threads in England. When William decided that he was too young to retire, he started a jewelry business and invested a lot of money in samples. These he sent out on the road, but the salesman did not come back. William lost a lot of money, so he decided he would return to America to recoup his fortune. He left Elizabeth and Laura behind with relatives and set out with his son, young Will, promising to send for his wife and daughter when he could afford to bring them back "First Class."

When he did send for them, Laura was glad to be back in America, but shortly thereafter Will decided he would join the American navy. When he started to drink too much, William complained that he was a disgrace to the family, and Will decided he wasn't going to come home anymore at all. Will continued to send his mother Christmas cards and presents for awhile, but even these stopped. Elizabeth assumed that Will had died, which was particularly sad for Laura who loved her brother dearly.

Laura, the surviving child, was the pride and joy of her parents, but she disappointed them by marrying John Woods, another person who drank too much. After John died, William and Elizabeth came to live with Laura. They both died in 1923 in Brooklyn when Elizabeth was 91 and William was 89.[2]

Never affluent, the Woods were desperately poor after John Woods died. George was three and Grace, not yet one. George's mother hadn't inherited anything. She worked at sewing, making things for people, repairing things. When Grace was old enough, she earned money by baby sitting. George worked after school. As Grace Woods

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1. The New York Times, September 6, 1964.

2. William's brother is the "George" after whom George Woods was named. William's brother, George, married Louise. They had three children, one of whom, Stella, married George Hanson. They had a son named George. Young George married Irene, and they had a son named George. The name "George" was high on the list of male descendents in the Rhodes family tree.

Johnson has observed, "Our whole life was just the three of us. We were a nucleus."

> We were never affluent, but my mother was a very happy woman. She adored her children and that kept us from being underprivileged. We were certainly underprivileged with our contemporaries, our peers. We weren't wholly accepted. But at home we could do no wrong. . . . Mother loved George unbelievably. I always felt she favored him. Maybe she did, maybe she didn't. She just thought George was perfect, and I sort of went along with that too.[3]

When George was a little boy in Brooklyn, he used to sweep the sidewalk and clean the brass of a Doctor Treadwell who lived in the neighborhood. Once Treadwell commented to George's mother, "That little fellow is going to grow up to be President of the United States." It must have been something in his attitude in performing that menial duty before he went to school. Everything George did he did thoroughly.

George was sober, even as a child. He had large, black eyes and very dark eyebrows which almost grew together. He was tiny when he was in high school. George kept "small" signs on his desk such as "Never cross a small man." Though younger, Grace was taller and more athletic than George. It was she who taught George to rollerskate and ride a bicycle. When George did grow, however he became almost six feet tall.

George joined the Boy Scouts but gave them up when he discovered camping was required. If he could ride, he wouldn't walk; if he could sit, he wouldn't stand. He was mentally alert but physically lazy. After a long article about him appeared in Fortune Magazine in 1959, a friend wrote to him playfully, "What's that bunk about your being opposed to physical exercise of any kind? Hell, I remember once you walked up a whole flight of stairs to a speak-easy on 56th Street."

He participated in Y.M.C.A. activities. He *did* learn to swim at the Y, though he preferred to float. He would stand beside the piano at high school sorority and fraternity dances, fascinated by the music, though he was a lazy dancer. He loved the theater, but he refused well into the twenties to wear a tuxedo -- even when the other men in his party wore tuxedos and his date, an evening gown. If George couldn't do something well, he didn't attempt it. He was not agile. He was not good at languages, so he didn't bother to learn. He seemed to know his own capabilities. He was not competitive except in banking, and he was very, very good at that.

Until her mother suffered a stroke in 1950, Grace regularly attended the Lafayette Avenue Presbyterian Church with her mother. After he was grown, George dropped out of church, but he followed his mother's teachings. She taught the children that they had to do certain things, that there was a right way and a wrong way. She explained very simply her philosophy of life. The children listened.

It was his mother's idea that George should go to Boy's Commercial High School in Brooklyn rather than, say, Brooklyn Prep or Erasmus Hall High School. Neither George nor Grace could afford college; neither could qualify for a scholarship. Because he flunked his secretarial courses, George had to stay an additional term in high school. That's when he started to work in the school's bank and attracted the attention of Gilbert J. Raynor, the assistant principal, who recommended George for a position as office boy at Harris, Forbes & Co. George had been employed after school for five months by a local apron manufacturer at $6 a week and he sought "to improve his position."

On June 17, 1918, George began his career with Harris, Forbes in Manhattan. George kept a small photograph of the headlines in the *New York Times* (two cents a paper) that first day. The Austrian army had penetrated across the Piave River in northeastern Italy, while the Americans had fired 7,000 gas shells during the preceding forty-eight

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3. Robert W. Oliver, "A Conversation with Grace Woods Johnson," *Conversations About George Woods and the World Bank*, New York City, March 16, 1986, p. 6.

hours and had inflicted heavy casualties upon the Kaiser's favorite divisions. The armistice was still five months away, war was increasingly fierce, and office boys of the dependable caliber of George Woods, not yet seventeen, were in short supply.

A few years after he started work, George came home joyfully to announce that he had been offered the opportunity to go to Canada as a bond salesman, but his mother exclaimed, "George, you can't go to Canada and leave Grace and me. What would we do?" George didn't go. A year later he went to Japan for the first time, but it was not a permanent separation from his family.

After George went to work for Harris, Forbes, the family fortune began to improve. Two years later, at the age of 17, Grace also became employed by the Prudential Insurance Company in Brooklyn. In 1929, the family moved to Scarsdale in fashionable Westchester County. George was doing very well. Presently, they moved to 277 Park Avenue in Manhattan, to a house where the Chemical Bank Building is now located. Grace stopped work when they moved to Scarsdale, but she resumed her employment as manager of the Prudential office in Columbus Circle when the family moved to Manhattan. George asked Grace to stop work and care for their mother when she had a heart attack in 1934. In 1935, George married. The following year, Grace married too.

Sometime during the twenties, George moved to a hotel in Manhattan. When he wasn't travelling, however, he would usually come home to be with his family on Friday nights. Grace would often drive George back to his hotel for a Saturday night date. George bought his first car in 1920, a Model T Ford. Later he bought a Chrysler convertible and then a Cadillac, but he almost never drove in Manhattan. He kept his car in Brooklyn or Scarsdale. When he was in his early twenties, George called upon Arthur Deane, whom he had recently met and had come to respect, and announced, "I have acquired a fair knowledge about stocks and bonds and that sort of thing. You have a lot of knowledge about the law, why don't we just exchange information?"

In 1950, George's mother suffered a debilitating stroke. She spent three years in a nursing home where she recognized no one, not even Grace. She would say to her daughter, "I haven't seen Grace for a long time. Have you seen her?" One time when she seemed to be alert, Grace called George to say her mother recognized a picture of him and said she'd like to see him. George flew from Washington on the next plane only to realize that his mother didn't recognize him after all. She said to George, "I'd like you to meet my son. This is his picture." He never went to see her again.

When George's mother died in 1954, George had a sudden heart attack (aneurism) and he couldn't attend his mother's funeral. Grace called George to tell him she had taken their mother to the hospital, and the next day he was in the hospital himself. His wife, Louise, was apprehensive about George's recuperation. She wanted to whisk him away to Florida, but Grace said, "You can take George anywhere you want, but unless I see him and talk to him and we get this thing straightened out in his mind, he is not going to get well."[4] George and Grace sat down and had a long talk. He seemed to feel he had neglected his mother. He was traveling a great deal. He was in India; he was here, there and everywhere. Grace assured him that their mother was extremely proud of him and loved him very dearly. George put his arm around Grace and said, "Thanks, Pieface." (He hadn't called her that since she was a little girl.) He smiled and began immediately to recover.

Louise and her doctor attributed his heart attack to excessive smoking and to drinking coffee in addition to the turmoil he must have felt when his mother died. "If you smoke and drink coffee, I won't be responsible for you beyond five years. If you stop both, you'll live your normal life," the doctor said. George never smoked nor drank coffee again. He had been smoking two or three packs of cigarettes a day, and he just quit cold. But one supposes it

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4. "The Reminiscences of Grace Johnson," George David Woods Oral History Project, Oral History Research Office, Columbia University, 1983, p. 24.

was more than coincidence that George had a heart attack the day after his mother died.

George liked to be with people who were interesting, but he was not naturally gregarious. As a child, he never participated in group play. Nor did he relish confrontations. He would listen to various points of view, and then choose amongst them. He was not a debater. He would delve into all aspects of a problem before he made a decision. He had little patience with someone who made a decision off the top of his head, but once he had made up his mind, the issue was settled. He didn't choose to argue. Once when Grace's husband was baiting George by criticizing President Franklin Roosevelt, George simply said, "He is a very difficult man to understand," and that was the end of that.

George was a listener rather than a talker. He would pick other people's brains. He had many, good friends. He had friends in grammar school who still contacted him when he was 65 or 70 years old, and the volume of congratulatory correspondence, to most of which he replied with a personal note, was extraordinary. But he was usually careful about what he said.

He was sensitive, particularly if he felt he was being slighted. He was sensitive about the fact that he hadn't gone to college. He spoke with a bit of a nasal twang, rather than with Oxford English. What someone else might take as a joke, he would take seriously. He didn't have a notable sense of humor, but he was a honorable and caring person. George helped many friends for a period of years after the stock market crash.

After he had retired from the World Bank, Woods would talk with Irving Friedman (who had directed the Bank's economic work) about education in New York City. He was a great advocate of free education, making the point that the strength of New York lay in its education of one generation after another of immigrants -- the English, then the Irish, the Germans, the Jews, the Italians, and the Puerto Ricans. Through higher education, these immigrants had made their way into American society. He loved to illustrate his point with people he would meet. "See that guy? He came over from Italy. He went to N.Y.U. (or City College, or wherever) and you can see where he is. He is the head of Manufacturers Hanover," or something like that.[5]

Years later, in speaking about banking, Woods once said, "It's a shame; it used to be such fun. I would never hire someone from another firm without calling the head of the firm and saying, 'I'd like to hire your Mr. So-and-So'. If he'd say no, I'd forget it. Nowadays the poor guy who hired Mr. So-and-So in the first place finds out about it later." Woods integrity as a banker was unquestioned.[6]

George was always fond of the ladies. In high school, he was fond of Helen Jersey and Ruth Haidrich. He went with Ruth for a long time. In 1929 he squired Agnes Ayres, who was Rudolph Valentino's leading lady. In the early thirties, he was much in love with Louise Achilles, but that was before he met Louise Teraldson, whom he called Louie to distinguish her from the other Louise, and asked her to marry him.

Louise Taraldson met George Woods at a dinner party early in 1934. She had recently returned from three years in London and the continent and was on the way back, more or less, to Long Beach, California, where she had grown up. She had set out for New York and London shortly after her mother had died and her younger sister had married. "You go and have fun," her sister advised, and Louie set out to do just that. Louie had graduated from Long Beach Polytechnic High School and had attended Long Beach City College for a year.

Louie was born October 11, 1907, in Grafton, North Dakota. Her father was born in Lion Springs, Iowa, and her

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5. Robert W. Oliver, "A Conversation With Irving Friedman, I," *Conversations About George Woods and the World Bank*, July 23, 1985, p. 39.

6. As President of the World Bank, however, Woods arranged a deal between the government of Ghana and Kaiser Aluminum, the propriety of which has been questioned.

mother, in Edmonton, Canada. They were of Scotch-Irish and Norwegian lineage. Louie's father died in 1913 when Louie was six. The family had just moved to Minneapolis when her father developed multiplesclerosis. He was in the insurance business. After his death, her mother and the children moved to Long Beach where Mrs. Taraldson[7] occupied herself by buying and selling apartment houses. She must have done rather well, because she was able to leave Louie a fair nest egg to afford a life in New York and London for the five years before she married George -- "Woodsie," as Louie affectionately called him. "I always had an adventurous spirit," Louie acknowledged. "I always wanted to know what was around the corner."[8]

Louie was living at the Waldorf when she met George. He asked if he could take her home from a dinner party. She hadn't wanted to leave so early, but she thought, "He can take me home if he'd like." He was a young thirty-three, attractive, a well- known banker. On the way home, George whispered to the friend with whom he was riding, "You mightn't realize it, but I'm going to marry that girl."[9]

Before they were married, George frequently worked on Saturdays and Sundays. They dined out in splendor two or three evenings a week until George said, "I can't go out every night. I have business in the morning. I can't stay out at all these nightclubs. I have to be at my desk."[10] Still Louise liked him because he was quick and she couldn't push him around.

After a few months of going out in the evenings, Woodsie proposed and Louie accepted, but he set out almost immediately for California where he was involved in financing for the Southern California Edison Company. Louie stayed behind in New York. After several weeks, she wrote to him to complain that he wasn't writing, to which he replied by mail, "Dear Louise, mine is a silent love."[11]

Louie was patient, and when George invited her to set a wedding date, she suggested that they be married on April 29, 1935, in Long Beach at the Virginia Country Club by the Episcopal minister who had baptized her. When she was asked what she'd like to do for a honeymoon, she suggested sailing home through the Panama Canal. When they arrived in New York, they found an apartment at 60th and Park before George returned briefly to southern California to finish his work. They stayed two years and then moved to 54th and Park, where they stayed for sixteen. They then moved to Fifth Avenue.

At one point when they began to entertain, George asked, "Don't you think it would be a good idea to get a chair or two?"[12] "Yes," Louie replied, and they began their collection of lovely things, largely antiques. George did none of the buying, however; he never shopped for anything other than men's apparel.

When George and Louise were first married, they went from time to time, to Framington, Massachusetts, to visit John Macomber, who was Chairman of the Board of First Boston Corporation. He had a magnificent home with stables. Once Macomber put Louie on a horse without asking if she could ride. The horse started to go and Louie

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7. The family name is unclear. Louise called herself Taralton until 1931.Her sister seems to have had the surname "Tarbella."

8. John T. Mason, Jr., "Interview with Mrs. David George Woods," Oral History Office, Columbia University, January 14, 1983, p. 12. "A friend of mine who had lived here in New York talked me into going to Paris and London." According to Louise's passport, she arrived in London on September 23, 1930. While there, she was married briefly (on January 24, 1931) to Montford Swan Steele.

9. *Ibid.*, p. 2.

10. *Ibid.*, p. 4

11. *Ibid.*, p. 4.

12. *Ibid*, p. 7

couldn't stop him. The horse wandered all over Macomber's golf course while Macomber kept shouting, "Louie, get off the greens with that horse." Louie kept shouting, "He won't stop. He won't stop. He won't stop." Later, after dinner, Macomber whispered to Louie, "Your husband is going to be chairman of this company some day. He will make it the top investment banking company in the world."[13]

Early in their married life, they used to go to the country for weekends but would come home exhausted. They'd have cocktail parties before lunch and cocktail parties before dinner, and people would say, "Come to us next weekend." Finally, George put his foot down. "This is the last time we are going any place for a weekend. Maybe people will be annoyed, but they'll get over it."[14] From that time on, they never went to any one for a weekend. Instead, on Sunday, they stayed in New York and enjoyed the *New York Times* and the London *Economist*, which George said was the best news magazine ever published, and went for a walk about eleven in the morning. George would tell Louise about the different buildings, when they were built, and why business was moving slowly uptown.[15]

Early in their marriage, Louie would tease, "If you don't tell me anything about your business, I won't advise you," to which George would reply sternly, "I am not about to tell you anything about my business."[16] Once, only once, Louie went to George's office. When she walked in, George looked up startled and asked, "What do you want *here*?" Louie backed out in a hurry and never returned. After that, she did not seek to "advise" him about his business. His business and hers were as separate as though there had been a wall between them. As Louie expressed it, "I made the friends; he did the business."

In the twenties and early thirties, George had good luck in backing stage plays: *Sailor Beware*, *Dead End*, and *Outward Bound*. He said it was a great relaxation for him. He didn't care for opera. He supported the Metropolitan, but Louie was always looking around at the last minute for someone to go with her. George could make little sense of the plot, and he couldn't understand the words. The theater was diverting, however, and it always needed financial help. Woods would go and sit in the theater before it opened and watch rehearsals. His friends would say "Oh yes, the Woodses backed that show."[17] Maybe they had one percent of the total, but George enjoyed the theater.

He also enjoyed the circus. Louie had known John Ringling North before she married George, and George became treasurer of the circus for several years after the historic Hartford fire of 1944, during which a stampede in the main tent killed 168 people and injured 487. Woods worked out a plan for compensating the families of the victims and later reorganized the circus to keep it from collapsing. He enjoyed having the run of the circus. He enjoyed going backstage and being with the owner who came with a long cigarette holder, a fedora hat and a cane. George enjoyed the animals. It was similar to the excitement he enjoyed watching the theater.

He read books by leafing through them. If it was a book that Louie particularly wanted him to read, he'd sit for an hour or so leafing through it. Louie would say, "You can't read a book that fast." He'd say, "Ask me a question,"

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13. Robert W. Oliver, "A Conversation with Louise Woods, *Conversations About George Wood and the World Bank*, New York, November 8, 1985, p. 1

14. *Ibid.*, p. 153

15. *Ibid.*, p. 70

16. *Ibid.*, p.

17. *Ibid.*, p. 70

and Louie was unable to ask a question he couldn't answer.[18] If Louie expressed herself too violently about what she was reading at breakfast, George would say, "Calm down, calm down. Don't read the paper if you're going to get yourself in an uproar."[19]

In many respects, Louie was the antithesis of George. She was as outgoing and enthusiastic as he was sober and reserved. In her youth, Louie had been a surfer. She loved to swim and dance. She had a penchant for foreign languages. "My whole life has been an interest in people."[20] Before World War II, she worked in the New York State Adoption Bureau. When a close woman friend would announce her pregnancy, Louie would be green with envy. George and Louie had no children. Louie acknowledged, moreover, that she had never learned to cook. "I can't boil water without burning it," she would say.[21] They almost always went out for dinner, and Louie grieved for the children she didn't have.

Their lifestyle changed abruptly when George entered in the United States Army as a major. They moved to Washington where they lived for a time in one ancient room in Stoneleigh Court on Farragut Square. George slept on a cot in the hallway, and Louie slept on another cot in the bedroom with her toy dachshund. George would go off to work in the morning at 7, and he would return after General Somervell dismissed them in the evening at 7. George and Louie usually ate at Sholl's Cafeteria on Connecticut Avenue. Finally, two rooms became available at Shoreham Hotel where they lived for the duration of the war in relative luxury. Louie worked in the blood bank five days a week, but George worked six days, and Louie was bored to tears on Saturdays. Their social life consisted of having dinner at someone's house; they would arrive at 8 p.m. and leave by 9:30.

During World War II, Louie worked in hospitals so long and hard that she lost 15 pounds and was ordered by her doctor to stop. After the war, but before George became president of the World Bank, Louie devoted herself to the young people from abroad who were sponsored by the Institute for International Education. She hired such entertainers as Chubby Checkers, who performed a new dance called the "Twist," and Teddy Wilson, who had played a marvelous piano for the Benny Goodman band -- and after. Sometimes she took the students to the Institute. Sometimes she entertained them in her apartment. Sometimes she arranged picnics at the Stanford estate of her close friend, Mrs. Arthur Ochs Sulzberger of the *New York Times*. Louie took the students shopping. She took them to medical and dental appointments. If they were homesick, she would bring them to her apartment and feed them or introduce them to daughters of friends of hers. Later, in the World Bank, when she travelled, she frequently came across young people she had known. She saw them in France, in London, in Tokyo, in Morocco, in Ethiopia, in Uganda,. . . .

Louie may have been a bit possessive. She travelled everywhere with George and tended to shield him even from his family. Early in their marriage, George advised Louie not to have lunch with his mother frequently. "You will become tired of it, and then, if you stop, you'll hurt her feelings."[22] But every other Sunday when they were in New York and before her stroke in 1950, his mother would come to have dinner and spend the night with George and Louie. Relations with George's sister, Grace, and her husband were cordial, but they were all together only once or

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18. *Ibid.*, p. 95

19. *Ibid*, p. 174

20. *Ibid.*, p. 64

21. *Ibid.*, p. 34

22. *Ibid.*, p. 67.

twice a year. Louie would talk to Grace frequently on the telephone, and George would have lunch with Grace from time to time. When they did have lunch, George would stay until all the customers had left. They would still be talking. George was fond of his sister and he revered his mother.

He didn't involve himself in politics. He felt that he could express opinions to which others might pay no attention, and that would be a waste. The closest he came to a political opinion was when he said, "If the time ever comes when 48% of the people are working to support the other 52%, there's liable to be trouble."[23]

He had little patience with idiots or small talk or cocktail parties. In the World Bank, he limited his nights out to three; he never went to receptions, and he came home early because he wanted to be at his desk in the morning. "He was not a social man in any way."[24] When they travelled and were met by the president, the finance minister, or the governor of the central bank, each would want to put on a banquet for the Woodses, but George would say, "My wife isn't very strong and we can't have all these dinners. Can't you get together and have one dinner where we all are together?"[25] Of course they were just as delighted as the Woodses were.

There was another reason why George preferred not to be too friendly with his associates in the World Bank. As Woods explained to Louie, "If one of his friends did a poor job and Woods wanted to let him go or change his assignment, it would be difficult."[26] Woods always kept his business life separate from his social life, and yet he seemed to know everything that went on in the Bank. According to Louie, he ran the Bank like a corner drug store.[27]

Also, according to Louie, Woods was a marvelous diplomat. He never stayed in embassies, for example, because, he would say, "I'm not an American business man, I'm an international civil servant."[28] He had a very simple approach of equality so that nobody ever thought he was talking to "somebody up there." Woods *did* have a definite idea on handing out money. He did not expect the Bank's money to be spent on Cadillacs or Mercedes. He would send in teams to teach the people *how* to plant. He tried to induce them to learn to help themselves.[29]

For her part in the World Bank, Louie drew on her earlier experience with the foreign students she had mothered. She brought people together, particularly the wives. She had many teas. She was good at remembering names and with introductions. If she missed a name, Marjorie Billings, the Bank's social secretary, was at her side to prompt her.

Once, when George Woods was president of the World Bank, Louie was treated to an unusual story about her husband's prowess. "We had a team of men here for two years trying to solve a problem we've had in Guinea," Ambassador Bangoura began. "We couldn't solve it, and we were preparing to go home. We stopped by George Woods's office to say goodbye. When he asked if we were satisfied with the time we had spent here, we shook our heads negatively. Woods asked, 'What is the problem?' When we told him, he put his head back and looked at the

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23. *Ibid.*, p. 176

24. *Ibid.*, p. 111

25. *Ibid.*, p. 23

26. *Ibid.*, p. 42

27. *Ibid.*, p. 105

28. *Ibid.*, p. 147

29. *Ibid.*, p. 41

ceiling. He didn't say anything for fifteen minutes. When he spoke, he gave us the answer. It was the correct answer to a problem we'd been working on for two years."[30]

Perhaps the most important thing Louie was able to do for George was to find a home in Portugal where he could relax in intimate surroundings. Louie said to George one day, "We have always liked to travel. Why don't we buy a little house in Europe so that when we semi-retire, we can travel all over and still have this to come back to within an hour or two?"

"Okay" Woodsie replied, "It's not a bad idea."[31]

With the help of Carlo Bombieri, second in command at the Banca Commerciale of Italy, Louie started looking in Pisa. She searched down the coast as far as San Felice. George and Louie had always loved Italy. She wanted to be on the water, but she found nothing.

She tried Spain next. She moved into the Soto Grande for a week. Joe McKicking said, "You and George ought to have a house here."

"Why," Louie replied. "We don't play golf and the swimming is horrible.
What would we do? It's a long way from Madrid. It's a long way from Seville."

"I'll show you a location," Joe said, and he took Louie up to the top of a hill where she could see oceans on two sides. He said, "I'll build you a house here. You can buy it if you want to." But Louie replied, "Don't do it, I'm giving up the idea."

She went to see George Anderson, the Ambassador in Portugal. "I was in Italy looking for a house to buy. I looked in Spain, and I thought I'd see you on my way out."

"What about Portugal?"

"I don't know anything about Portugal. I've never been here." But Louie thought, "I'll be nice, I'll explore." So she telephoned Henry Abicassi, who offered to show Louie around. He only took her to friends who recommended mansions for ten kids, however. "I haven't any kids," Louie said, "and I don't want any. I want something nice and smart and available."

Finally he suggested a house that had been built by a Spaniard for his wife. It was rented temporarily to an American couple. Louie fell in love with it immediately.

"Henry," Louie said, "It's my house. This house I'm going to own. Find out."

The owner was a man named Moreno who lived in Portugal. They made a date for the following day, but the conclusion was the same, Moreno didn't want to sell.

Henry and Moreno conversed in Portuguese back and forth for at least twenty minutes. Louie became impatient. "How much?" she asked.

"He is asking too much money. I'm embarrassed to tell you."

"Henry, please tell me what he wants."

Henry relented, and Louie said, "I'll take it. I'll pay that."

That night she called Woods at midnight in Washington to say, "I found a house." George said, "You'd better give them a deposit before they change their minds," to which Louie replied, "I already have."

The house consisted of a double guest room and bath; a single guest room and bath; master quarters -- two rooms and a double bath and shower; a dining room with pink marble; a living room with a slate floor; an open kitchen and pantry; a basement with a shower; a maid's room with bath; a powder room; and a double garage with a shower and

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30. *Ibid.*, p. 25

31. *Ibid.*, p. 76.

toilet. Louie immediately raised the wall around the acre lot so as to have complete privacy, and she put heavy iron gates at the entrance. She furnished it with antiques and paintings. Later, they added a swimming pool.

Over the next three years before they retired from the World Bank, George and Louie spent many a week there, two weeks in the summer. When George left the Bank, they went there for two or three months every summer. Sometimes they would go to Paris for two or three days, sometimes to London for four or five, but increasingly they just stayed in their home in Portugal. People would come to them.

When Louie knew she had to leave New York for Washington (they kept their Fifth Avenue apartment and returned on weekends when they could), she wept. (The Woods moved into the famous Wardman-Park Hotel, Suite G-400, where Lyndon Johnson had lived.) When she left Washington to return to New York, she wept. Instead of there being a wall between Woods's business life and his life with Louie, she became a partner. She was in her element; she was with people who were on the team. She was, in her words, "fantastic."[32] The Bank years were years of "absolute joy" for Louie.[33]

She loved sitting at the head table at the annual meeting in Vienna in 1961 when she felt Gene Black was observing her to see if she could adapt to the social whirl of Washington life. She loved being at receptions with the Kennedys (and later with the Johnsons). Jack was handsome, and Jackie was beautiful. There was an air of elegance which Louie liked, even though she was a Republican. She felt proud of the President. For his part, Kennedy liked George Woods very much; he had a wholesome regard for his opinion and wanted to talk with him, consult with him.

George and Louie were a perfect pair. Within reason, George tried to give Louie everything she wanted. For her part, she worshipped him and tried to do everything he wanted. As she observed in her memoirs:

> My whole life with him was built around the fact that I wanted to keep him happy. . . . I was married with this in mind. . . . As a result, he took me every place we went. I said, "I'll make the friends; you do the business." And this is the way of our life. I *did* make the friends and he *did* do the business. And we had fun, and were happy. He would be in business all day. He never saw those countries as I did. . . . I'd be up at 6:00 in the morning and going all day for fear I might miss something.[34].

Woodsie and Louie complemented each other to perfection.

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32. *Ibid.*, p. 41

33. *Ibid.*, p. 109

34. *Ibid.*, p. 152

CHAPTER II

FIRST BOSTON

The firm George Woods joined as an office boy in August, 1918, was Harris, Forbes and Company, a leading underwriter of municipal and utility bonds. Woods was given a desk in the buying, or underwriting, department. His responsibility was to help clients put together a bond package which could be marketed. He was an adviser to business; he helped with long-range corporate planning so that if and when firms needed to raise capital, they could do so with expedition and on favorable terms. Investment banks also trade or sell bonds; they "make a market" for the securities they have sold: they "buy" securities if the price seems to be falling "too fast" and "sell" if the price seems to be rising inappropriately. Woods was always associated with the buying or underwriting side, with advising clients on planning for the future.

N. W. (Norman Wait) Harris and Company opened its doors for business in Chicago on May 1, 1882.[1] Born in Massachusetts in 1846, Harris had earlier been employed as Treasurer of the Union Central Life Insurance Company of Cincinnati, Ohio, where he acquired a knowledge of real estate mortgages and railroad bonds. With the encouragement of S.M. Nickerson, president of the First National Bank of Chicago, Harris became determined to start his own business. He began to buy municipal bonds directly after conducting a thorough economic and legal investigation of the municipality. He sought customers to whom he might sell his bonds rather than waiting for bond buyers to knock on his door. Municipals led to utilities and, by 1916, utility bonds surpassed municipals as a vehicle for his investments. Harris established an office in Boston in 1886, and in New York in 1890. In 1896, Albert W. Harris, son of Norman, became a partner. He operated out of Chicago and journeyed as far away as Los Angeles.

In 1891, Allen Boyd Forbes, a twenty-five year old lawyer, was induced to leave the legal department of Swift and Company for N. W. Harris & Company, Chicago. In 1901, he moved to New York where he became a partner. In 1911, the New York office was incorporated as Harris, Forbes and Company, and, in 1916, the Boston office also changed its name to Harris, Forbes, as Norman Harris sold his majority interest to the New York and Boston partners.[2] John R. Macomber was hired by Norman Harris in 1894 after he had finished one year at M.I.T. He was employed in the Boston office of Harris, Forbes. Eventually, he became Chairman of the Board of Harris, Forbes and of First Boston. Harry M. Addinsell, a high school graduate, who had worked for two years for the *New York Times* selling financial advertising, was employed in 1904 as a buying department assistant in the New York office. He would become Chairman of the Executive Committee of Harris, Forbes and later President of First Boston. Forbes, Macomber and Addinsell were crucial to the success of Harris, Forbes. So was George Woods.

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1. The following account is condensed from Roderick J. Kirkpatrick, *The First Boston Log*, unpublished manuscript, 1984. "The investment banking field of that day was largely dominated by the Yankee Bankers -- J.P. Morgan & Company, Lee Higginson & Co., and Kidder Peabody & Co., and to a lesser degree, the firms of German Emigre origin such as Kuhn, Loeb & Com., J. & W. Seligman & Co., Speyer & Co., and Goldman Sachs & Co. Investment banking efforts at that time were directed primarily to railroad financing, and secondarily, to the developing industrial complex." *Ibid.*, p. 4

2. The Chicago branch is still known as Harris Trust Savings Bank. John T. Mason, Jr., "Interview with Mr. Roderick J. Kirkpatrick," New York, N.Y., March 17, 1983. Allen Forbes served during World War I as chairman of a committee of the Investment Bankers Association of America to consider ways and means to conserve capital, and as chairman of a committee of three appointed by the Secretary of the Treasury to advise the Federal Reserve Bank of New York on the necessity for all new capital issues. George Woods once said that Allen Forbes was "the man who made Harris, Forbes." But Forbes relinquished the presidency in 1921 and died two years later.

When Woods joined Harris, Forbes he began to do statistical work, to write prospectuses and contracts.[3] When Harry Addinsell returned in 1918 from World War I, he found a new office boy looking up at him with large, black eyes from behind the reception desk. Phillip Krauthoff, a vice president, induced Woods to go to the American Institute for Banking and New York University at night. Krauthoff would confront Woods in the mornings and question him about what he had learned the night before. Woods frequently claimed that Addinsell and Krauthoff had brought him up. "He brought himself up," Addinsell would reply.[4]

During his first decade with Harris, Forbes, George traveled in Germany, France, Italy, Argentina and Brazil. Unfortunately, there is no record of his accomplishments. In 1927, however, at the age of twenty six, George became a vice president and, in 1928, he was entrusted with the task of opening Japan by marketing $9,000,000 of 6 1/2% First Mortgage Bonds for the Nippon Electric Company, Ltd. He secured the able assistance of the young (29) attorney, Arthur H. Dean, from the law firm of Sullivan and Cromwell. George reported to Harry Addinsell and to Charles W. Beall, the Executive Vice President of Harris, Forbes "who knew practically everything there was to know about corporate financing and bonds -- debentures and unsecured loans."[5]

In 1929, the total of all new financing of stocks, bonds and notes in the United States was over $6 billion. Harris, Forbes and Co. headed a syndicate selling over $370 million. During the first six months of 1930, Harris, Forbes managed a total of over $238 million, principally public utilities issues, but after that syndications declined precipitously as the economy went rapidly downhill.

The financial community was startled on July 1, 1930, when it was announced that the Chase National Bank of New York, the largest commercial banking institution in the world, was going to acquire Harris, Forbes, the largest securities distributing organization in the country. The Harris, Forbes senior management, conjectured George Woods, was advancing beyond middle age and buying financial security in a deteriorating economic environment. The stock of the Chase Bank, a Rockefeller bank, represented that security. John Macomber and Harry Addinsell survived the merger, as did George Woods along with seventeen other vice presidents. This merger was short lived, however, for in 1933, with the passage of the Glass-Steagall Act, banks belonging to the Federal Reserve System were required to separate themselves from their securities affiliates, so another reorganization was needed.

In 1903, a former bank examiner, Daniel Wing, had acquired, through a series of mergers, the name and assets of the First National Bank of Boston, formerly the Massachusetts Bank, whose securities affiliate was called the First National Corporation of Boston. In 1921, a branch of the First National Corporation of Boston was established in New York under the direction of Colonel Allan Melville Pope, who had recently resigned from the United States Army after a seventeen year tour of duty. A graduate of West Point, Pope had become by 1928 President and Chief Executive officer. James Coggeshall, Jr., in charge of sales, was second in command. On June 27, 1932, the name of the First National Corporation of Boston was simplified to the First of Boston.

On April 18, 1934, it was announced that stockholders of the Chase National Bank *and* the First National Bank of Boston would receive rights to purchase at $18 a share the stock of a new First Boston Corporation. Through a series of mergers and because of the Glass-Steagall Act, First Boston thereby became the largest publicly owned investment banking firm in its day. Macomber became Chairman of the Board; Pope, president; and

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3. See Robert Sheehan, "First Man at First Boston," Fortune, pp. 144 ff.

4. Ibid., p. 146.

5. John T. Mason, Jr., "Interview with Arthur H. Dean," New York City, January 25, 1983, p. 1.

Addinsell, Chairman of the Executive Committee. George Woods and James Coggeshall, Jr. became members of the eleven man board of directors.

On July 2, 1934, First Boston undertook its first public offering following its separation from the Chase Bank and the First National Bank of Boston. In October, the firm managed offerings of Edison Electric and Northern States Power, but the biggest and most successful offering was to occur in 1935 and was heavily to involve George Woods. In 1910, Albert Harris had visited the forerunner of the Los Angeles Department of Water and Power and had made a hit with a startling prediction that the Edison Company would have five or six years before it had to relinquish some of its properties to the City of Los Angeles. He had subsequently been elected to the board of directors of Southern California Edison. Harris, Forbes had arranged most of the financing for Edison after that. Nevertheless, it was by no means a foregone conclusion that the team of John Macomber, George Ramsey, a vice president, and George Woods, together with Arthur Dean as legal counsel, would win the competition for Edison financing.[6]

Harry Bauer, the new president of Southern California Edison, was a tough bargainer. He sought terms for refinancing 5% bonds no worse than those enjoyed by Pacific Gas and Electric, which served northern California at a time when the world of banking and insurance had a higher opinion of the stability of San Francisco than of Los Angeles. In the end, George Woods prevailed. He broke the 4% barrier in April, 1935, obtaining an interest rate of 3 3/4% for a total issue of $73,000,000 thus saving Edison $450,000 in annual interest charges, and earning Harry Bauer's admiration as a lifetime friend.

This was much the largest securities offering since the Glass-Steagal Act. First Boston itself guaranteed the sale of $18,250,000 worth of bonds, roughly twice the size of its own capital. Significantly, the original First of Boston under Allen Pope had built an unrivaled reputation in United States Government securities, and Harry Bauer had insisted that the firm financing Edison "be ace high in administration circles in Washington." The component parts of First Boston were fitting together nicely. Except for his honeymoon, George Woods remained in southern California until September, 1935, to negotiate three additional bond offerings totalling $91,500,000. Then he returned to New York by way of Germany in triumph.

In 1935, the first full calendar year of operations, First Boston, earned a net income of $3,308,370; in 1936, $3,172,351.19. In 1937, however, First Boston suffered a loss of $2,484,004.57, the only loss in the firm's history. Industrial offerings to Bethlehem Steel and Puroil were disasters as the price of Puroil declined from $100 to $70 a share. First Boston had undertaken to market 40,000 shares. One of the results was the expansion of the Executive Committee from three to eight: Addinsell, chairman; and Pope, Coggeshall, Cowall, Ford, Linsley, Potter and Woods. Macomber, located in Boston and reluctant to make frequent trips to New York, resigned. The new Executive Committee would hold regular bi-weekly meetings to approve all underwriting commitments and trading limits, with all action taken by the Committee to be presented to the Board of Directors for approval.

In 1938, net operating profit amounted to $1,242,148.40, though a "write down" of $665,821.24 in connection with the unsold Puroil stock was subtracted, resulting in a net income of only $576,327.14. Utility bond offerings (Southern California Edison again led the list) were by far the most important. Net income for 1939 was a respectable $1,166,658. Income climbed in 1940 to $1,360,701, but declined in 1941 to only $491,256, as government securities became relatively more important than commercial offerings. In 1940, a new issue of 115,270 shares of the common stock of Standard Accident Insurance Company was accepted. The decision to undertake the

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6. Dean was to serve as the best man at the wedding of George Woods in Long Beach, California, on April 29, 1935. Ramsey would resign in May to become a partner of Lazard Freres. Macomber would remain only briefly to lend authority to the discussions. Woods was obliged to continue on his own.

financing of the common stock of an insurance company was attributed largely to George Woods. It was to adumbrate the merger of Mellon Securities and First Boston after the war.

On November 18, 1942, George Woods was commissioned a major in the Army's Ordnance Department. He was to work with Colonel Frank Denton, who was on leave from the Mellon Securities Corporation in Pittsburgh, as Denton's executive officer. It was a relationship which, through yet another merger, would modify the public utility and government bond orientation of First Boston and increase significantly its capital.

In 1931, the Mellon Securities Corporation was organized to oversee the bond portfolios of Richard K. Mellon and Sarah Mellon Scaife, son and daughter of Richard B. Mellon.[7] Shortly thereafter, Frank Denton, a former bank examiner, was brought in to run the firm, and, in 1935, Mellon Securities entered the investment banking business. Its holdings included an awesome list of industrial concerns reflecting the Mellon family interests: Aluminum Company of America, Gulf Oil, Koppers Corporation, Westinghouse Air Brake, Jones and Laughlin Steel, Crucible Steel and others. Meanwhile, Richard Mellon decided to combine Pittsburgh's two largest banks, Mellon National Bank and the Union Trust Company, and to install Frank Denton as his chief executive officer in the merged bank. For his part Denton was anxious to move to his new post. He suggested George Woods as his successor at Mellon Securities.

Woods and Denton had known each other since Denton's days as a bank examiner. Now Mellon Securities had a branch office in the building next door to First Boston at 100 Broadway in New York.[8] First Boston on occasion loaned Mellon Securities its specialists. In 1936, Harry Addinsell had even proposed a merger of the firms, but that was then premature.

Denton entered the army as a Lieutenant Colonel early in 1942. Woods followed as a Major in November. Denton had been urging Woods to come to Washington. "Let's get this war over with," pleaded Denton. So Woods enlisted. Denton and Woods had adjoining rooms in the Pentagon and adjacent rooms with their wives where they lived in the Shoreham Hotel. Denton and Woods served on the Requirements Committee as well as on the Sub-committee for Critical Components representing the American armed forces. Together with other boards and agencies, they reported ultimately to the Chairman of the War Production Board, Donald Nelson. Their immediate superiors were Generals Somervell, Clay and Minton, and Howard Bruce, a civilian. Woods participated with others in allocating scarce resources. Amongst other things, he was a sort of trouble shooter: he visited plants having

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7. Thomas Mellon came to Western Pennsylvania with his father from Ulster at the age of five. He entered the Western University of Pennsylvania, now the University of Pittsburgh, at the age of twenty-one, where he studied law. In due course he became a judge and, in 1870 at the age of fifty-six, a banker. After successful ventures in lumber, Thomas' son, Andrew, became, in 1882, sole proprietor of his father's bank. He was joined five years later by his brother, Richard B. Mellon, as a partner in T. Mellon and Sons. In 1903, the brothers decided to incorporate their bank with a capital of $2 million. By 1947, capital had grown to over $167 million, deposits to $1,131 million. The Mellon fortune grew as a kind of revolving fund for the promotion of enterprises and the employment of workers. The fund was managed by the Mellons, but used by other people in all kinds of enterprises. It was a phenomenal family success story. See Frank R. Denton, *The Mellons of Pittsburgh* (The Newcomer Society of England, American Branch, 1948, printed for the Newcomer Society by the Princeton University Press.) Andrew Mellon served as Secretary of the Treasury from 1921 to 1932 and as Ambassador to Great Britain in 1932 and 1933. He gave to the American people in 1930 the National Gallery of Art in Washington, D.C. In his book, *Taxation: The People's Business*, he suggested that high rates of taxation do not necessarily mean larger revenue to the government. Ibid., p. 21. More revenue may be obtained from lower rates -- a principle attributed in recent years to Arthur Laffer amongst others.

8. The corporate headquarters of First Boston have been located at various places in New York City: 100 Broadway, 15 Broad Street, 20 Exchange Place, and the Park Avenue Plaza. Annual meetings of the stockholders were held in Boston (at 1 Federal Street, 75 Federal Street, and 225 Franklin) until, in 1981, the corporate headquarters were moved to the Park Avenue Plaza in New York. Until 1965, one year after Paul Miller became president, the annual reports were issued in the name of the president--in Boston.

labor-management problems and got them back to full production.[9]

Almost immediately after V-J day, Woods got wind of the fact that General Clay wanted him to go to Germany to serve in the army of occupation. George didn't want that, so he worked feverishly for several days until he was granted "Leave" on August 15, 1945. (He was actually mustered out of the army on November 9, 1945.) Meanwhile, as Louie returned to New York, he rented a yacht and sailed off the coast of New England pondering his experiences before he returned to private life and First Boston. His horizon had been expanded beyond the world of utility financing and government bonds. It would never be the same.

Woods's short-term interest was sparked by the prospects of a merger with Mellon Securities, however. Woods and Denton had talked about this on many occasions. It would bring major industrial financing to First Boston and Woods's expertise to Mellon securities. When the merger was consummated after the war, Richard Mellon and his sister took a 20 percent interest in First Boston in the form of non-voting stock. The capital of First Boston was increased from roughly $14 to $25 million. To integrate the two organizations, a coordinating committee was established consisting of Woods (Chairman) and Coggeshall and Lanston representing First Boston and Hugh MacBain, Mellon Securities.

Macomber and Pope, aged 71 and 67, were induced to remain in service for another year beyond January 1, 1947, but Woods and Coggeshall, who had served as Pope's deputy in overseeing corporate sales and trading, were elevated to the newly created posts of Executive Vice Presidents. Addinsell remained Chairman of the Executive Committee until, in 1948, he became Chairman of the Board. In 1948, Woods became Chairman of the Executive Committee and Coggeshall became President. In 1951, Woods was elevated to be Chairman of the Board. The team of Coggeshall and Woods lasted until Coggeshall retired in May, 1962, and Woods became President of the World Bank on January 1, 1963.[10]

As noted earlier, George Woods spent his entire career on the buying or underwriting side of Harris, Forbes and First Boston. James Coggeshall, Jr., who came to First Boston from the First of Boston branch of the 1933 merger, was on the selling or trading side. Of course, when Woods became Chairman of the Executive Committee and Coggeshall became President in 1948, they shared, with Harry Addinsell, overall leadership responsibilities, but the emphasis for Woods was always on buying and for Coggeshall, selling.[11]

Even when George Woods became Chairman of the Board, he didn't "run" the company on a day to day basis. It was Coggeshall who more nearly acted as the Chief Executive Officer.[12] Woods and Coggeshall had a remarkable

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9. Mr. Michael Deutch, who served as a consultant to the War Production Board, once commented, "If I were an employee of a Civil Service Commission and someone asked me for a list of twenty or thirty names who had a proven spark of judgement, a temperament, a judicial handling of statistics, and determination, I would give the name of George Woods without knowing whether he was a plumbing contractor or the Chief Executive Officer of the First Boston Corporation." -- Robert W. Oliver, "A Conversation with Michael Deutch," *Conversations about George Woods and the World Bank*, Washington, D.C., July 19, 1986, p. 2.

10. Emil Pattberg, who succeeded Coggeshall in May 1962, also became Chairman of the Board when Woods left. In 1964, Paul Miller, one of Woods's proteges, became President.

11. The significance of Woods' abilities in long-run corporate finance was prominently mentioned in "A Conversation with Simon Aldewereld," *Conversations About George Woods and the World Bank*, New York City, November 2, 1985. In 1946, George Woods was the senior person in the buying department. Dunc Linsley was second in command. Then came Adolph (Dad) Wenzell and Nevil Ford, all members of the board of directors. The entire staff of First Boston was about 600.

12. Sheehan, *op cit.*, p. 244.

division of responsibilities which was "one of the most remarkable I've ever run into in the business world,"[13] recalled Edward Townsend, who worked intimately with Woods for sixteen years. "Two more dissimilar men you couldn't very well find," but they had a happy, symbiotic relationship. Woods took care of putting the pieces together with jewel-like precision and Coggeshall did the "going out and seeing people."[14] Coggeshall was a Harvard man who contacted the bankers and insurance executives who formed the underwriting syndicate. He lined up the dealers. His judgment of the market determined the price of new issues.

It wasn't a question of dirty versus easy work. Woods did just as difficult things, but they were congenial things to him. After his heart attack in 1954, Woods said, "I've been told certain things and I'm going to do them. I'm going to diet carefully. I'm *not* going to smoke any more. They've told me to do only things I like to do, to avoid things I don't like to do."[15]

When Woods became President of the World Bank, he missed Jim Coggeshall's support and attentive personality. Woods, alone, was less than Woods and Coggeshall as a team. Woods probably depended on Coggeshall more than he realized. He was obliged to do some of the things at the World Bank he didn't really want to do.

There were things that Woods was very impatient with. He didn't want to hear other people's personal problems, for example. When Bernadette Schmitt, Wood's regular secretary, was sick for a couple of weeks, Woods borrowed a male secretary. The first morning Woods said, "Now, Bray, I know you have a lot of personal problems, but I don't want to hear anything about them. I've got personal problems, but I'm not going to burden you with mine. Here's my first letter."[16]

If there was a question of going down to Washington to talk to the Secretary of the Treasury, Woods would ask Coggeshall to do it, or Emil Pattberg, who succeeded Woods as Chairman of the Board. Several times Townsend went down to Washington with either Coggeshall or Pattberg to talk to the Secretary of the Treasury. *Woods didn't really want to do that.* He didn't want to pull wires. He agreed that it ought to be done, but he didn't want to do it. He wasn't one to ask for favors.

In long-run corporate planning, Woods was brilliant, and when he *did* choose to negotiate, he could be superb. After the Chase and Manhattan Banks had merged, for example, and John J. McCloy, who had been President of the World Bank, became Chairman of the Board, a high level meeting was called in McCloy's office. Stewart Baker, who had been the head of the Bank of Manhattan, was present. Several others were there, including Edward Townsend and George Woods. It was quite apparent that McCloy and Baker weren't seeing things the same way.

At one point in the negotiations, McCloy said, "That'll be all right George. We'll do that." Townsend was startled to see Woods jump out of his chair, go over to McCloy's desk, shake his hand, and say, "Thank you very much, Jack. We'll do the best we can for you." Woods passed Townsend's chair and said, "Ed, do the necessary now," and he was out the door. After another hour or two of working out details, Townsend returned to his office to report to Woods. "You were probably a little startled to see me depart so quickly," Woods said, "but the moral of that is, if you have a deal don't hang around until it comes unstuck." If Woods had waited another moment, Stewart

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13. "The Reminiscences of Edward Townsend," *George D. Woods Oral History Project.*, Oral History Research Office, Columbia University, 1984.

14. Sheehan, *op cit.*, p. 244.

15. Townsend, *op cit.*, p. 55.

16. *Ibid*, p. 54.

Baker might have uttered a demurrer of some kind, and they would have had to reopen the whole discussion.[17]

On another occasion, when Woods was obliged to appear in a courtroom for cross-examination, he was confronted by a hostile attorney. The attorney asked Woods a complicated question which lasted about ten minutes and involved relationships and numbers. Woods listened patiently and then said to the attorney, "That's a pretty complicated question. I guess I need a slide rule to answer it." The attorney replied, "Well, I've got one right here as a matter of fact. I'll let you have it." Woods said, "As a matter of fact, I don't know how to use it. I've never used one." That raised quite a guffaw in the courtroom, but by the time the guffaw had died down, Woods had answered the question in precise detail. He had such a quick mind and was so good with arithmetic that he had worked it all out in his head. The courtroom broke out in applause, and the smartalecky attorney never opened his mouth again.[18]

George Woods had a knack for gaining people's confidence that was compounded not only by integrity but by a brilliant mind. He had a remarkable gift for seeing the broad picture as well as an ability to do the detailed work to support his visions. He had a prodigious capacity for work. He would call subordinates into his office and touch on one after the other of half a dozen deals. "Have you thought about this?" he would say. "Have you given sufficient consideration to that?" "You'd think to yourself, he's absolutely right," observed Edward Townsend. "That is a bit of a soft spot."[19] "There is no one who had the sweep from the time . . . or the breadth point of view of the financial life of this country that [George Woods] had."[20]

Perhaps the pinnacle of George Woods's eminence was reached in the financing of Henry Kaiser "when nobody else in Wall Street would touch him."[21] Over a period of ten years [beginning in 1945] Woods raised an astonishing $1.5 billion of private financing for the Kaiser empire.[22] Kaiser interests took more of Woods' time than any other one enterprise for over thirty years.

In 1947, George Woods appeared before the Reconstruction Finance Corporation to testify that Kaiser's Fontana, California, steel plant could not expand so long as interest charges were onerous. Woods proposed that the RFC take second position to a group of private bondholders with whom he thought he could place $25 million. The R. F. C. turned him down, but Claude A. Williams, who was looking for steel for the Continental Gas Pipe Lines Corporation, agreed to give Kaiser a $53 million order, including a $10,560,000 advance in cash. This enabled Kaiser, through additional private financing, to pay off the remaining $91 million owed to the government and to buy another blast furnace.

Henry J. Kaiser began with heavy construction. He got into dams, then shipbuilding. During the second World War, he built ships at an incredible rate. For awhile after the war, he built automobiles. Kaiser-Frazier cars were

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17. *Ibid.*, p. 15.

18. *Ibid.*, p. 10.

19. Townsend, *op cit.*, p. 23 Woods had a negotiating technique when he was trying to talk someone into buying bonds. He would offer a proposal, and the person in question would object to one thing or another. Woods would say, "your're absolutely right. I agree." In the end, he had been so nice and agreed to everything that it was nearly impossile to say no to the financing. See "The Reminiscences of Martin Rosen," *George D. Woods Oral History Project* Oral History Research Office, Columbia University, 1985, p. 14.

20. *Ibid.*, p. 52.

21. Sheehan, *op cit.*, p. 145.

22. *Ibid.*

ahead of their time: they used front-wheel drives and aluminum engines. They were bulky, however, and Edgar Kaiser could never get enough steel. The Kaiser-Frazier car folded in 1954 after losing over $100 million in nine years.[23]

George Woods entered the Kaiser-Frazier picture when Cyrus Eaton of Otis and Co., Cleveland, had to give up on Kaiser-Frazier stock. Woods never backed the Kaiser-Frazier automobile, but, in response to a suggestion from A.P. Giannini of the Bank of America which had a financial stake in Kaiser-Frazier, Woods took on the job of restructuring the company. He avoided bankruptcy for Kaiser-Frazier by merging the ailing automobile company with Kaiser Industries.[24] After that, Woods was regarded as a financial genius. He advised Henry Kaiser, Sr., and Edgar Kaiser constantly on finance and a great deal more. Woods was particularly close to Edgar Kaiser socially and professionally until Edgar died in 1981.[25]

It was partly because of his interest in automobiles that Henry Kaiser bought various aluminum plants of the Aluminum Company of America when, in 1946, Alcoa was forced by anti-trust action to sell off some of its monopoly in aluminum. Kaiser, who wanted to duplicate the achievement of Henry Ford, Sr., by flooding the market with a cheap, light weight, people's cars got into aluminum thinking it might be a substitute for steel in automobiles, but made a fortune in aluminum products other than automobiles. In July, 1948, together with Dean Witter, First Boston went to the public for the first time. They sold 600,000 shares of the Common stock of Kaiser Aluminum at $15 a share. As of July 1, 1956, the value of the stock had increased ten fold.[26]

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23. Robert Sheehan, "Kaiser Aluminium-Henry J.'s Marvelous Mistake" *Fortune*, July, 1956, p. 82. See also "Kaiser Frazier 'The Roughest Thing We Tackled," *Fortune*, July, 1951.

24. Kaiser-Frazier was "the first publically owned company in the Kaiser empire. Over 60 percent of the stock was held by the public. The balance, 37.7 per cent, was owned by the family-held Henry J. Kaiser Co., which in turn controlled the eight Kaiser enterprises-aluminum, steel, cement, etc.

The decision was to avoid bankruptcy if possible. None of the Kaiser companies--except the family company--would have suffered any direct loss from bankruptcy, but the prestige of the Kaiser name was at stake. It was imperative to pay the company's creditors, and it was certainly desirable to give the public stockholders *something*, at least.

With Eugene Trefethen, Kaiser's executive vice president, George Woods worked out a plan with the following basic features:

1. The common stock of Kaiser Motors was reclassified (the number of outstanding shares being reduced by three-fourths) and was then exchanged, on a seven-for-one basis, for the common stock of the Henry J. Kaiser Co. In this exchange, the former stockholders of the H.J.K. Co. wound up with 94.97 per cent of Kaiser Motors common; the balance is held by the public.

2. The exchange of reclassified stock left Kaiser Motors the owner of all the stock of the Henry J. Kaiser Co., which in turn controls the operating companies. The name of Kaiser Motors was therefore changed to Kaiser Industries Corp., in order to reflect its new character. But first, with the shares of Kaiser's operating companies as security, some $90 million was borrowed to pay off Kaiser Motors' debts, including the last penny owned by any Kaiser enterprise to the RFC. The plan also preserved the Willys jeep operation, and provided it with additional working capital. There were many other benefits from the reorganization.

There was, for example, a $76 million tax-loss carryover, which could doubtless be applied against the profits of Henry J. Kaiser Co., and all the companies in which it owns 80 percent or more of the stock. These included Willys Motors, Kaiser Metal Products, and Kaiser Steel.

25. Edgar Kaiser left the University of California in 1929 at the age of nineteen to help run a natural gas pipeline in Kansas, at twenty-five he supervised the construction of the Bonneville main spillway dam. During World War II, he managed three shipyards, one of which, Oregon Shipbuilding in Portland, was called the world's finest by Admiral Vickary. Edgar was general manager of Kaiser-Frazier from early 1946. He became president in 1949.

A second son, Henry Kaiser, Jr., fell prey to multiple sclerosis. See "Kaiser-Frazier," *op cit.*, p. 75

26. Sheehan, "Kaiser Aluminum" *op cit.*, p. 82.

Woods "had the confidence of the principal New York bankers to an extraordinary degree,"[27] but the first big breakthrough in banking didn't come until 1951 when National City Bank floated the largest bank equity offering up to that time. It was for $40 million. Morgan Stanley, Goldman Sachs, Lehman and Kuhn Loeb were just under First Boston, and the next tier of ten or so firms were under them. City Bank had said that they wouldn't undertake the financing unless they were absolutely confident it was going to be concluded, so all the underwriting had to be negotiated in secret. In fact, when William Brady of City Bank called Harry Addinsell, who would retire as Chairman of the Board later that year, he asked, "Would you walk down the street and see me?" Addinsell, who had known Brady through the Episcopal Church, replied that he would be delighted. When he returned from his walk, he immediately called in George Woods who masterminded the negotiations after that.

Largely because of the Mellon Merger, George Woods directed the stock offerings of the Aluminum Company of Canada. He was offered a directorship on the board of Alcan. He became a board member of Schenley Distillers, the American Water Works, Campbell Soup, Pittsburgh Plate Glass, Chase International Investment, Commonwealth Oil, the Kaiser Steel Corporation and Notre Dame University. He became the vice chairman of a Transoceanic Development Corp., Ltd., a Canadian firm devoted to the equity financing of activities which would supplement the efforts of the World Bank.[28] He was involved with the stock offerings of Haloid, which became Xerox. On May 18, 1959, it was announced that George Woods would become the first person not a member of the Ochs and Sulzberger families to become a board member of the New York Times. Arthur Ochs Sulzberger said of Woods:

> He was almost like a second father. If there was a problem we all went down to talk to George. He had a good sense of humor and a wonderful head on his shoulders. . . . I suppose that the single most important contribution that he made [in 1968] was the whole business of taking the *New York Times* from a private company to a public company, the creation of the two classes of stock, B and the A, which entitled and permitted the family to sell enough stock so that the company could, in effect, go public and at the same time retain control of the institution through the B shares. The stock was split 10 for 1. Every shareholder who had a original share of New York Times Company stock received nine shares of A and one share of B. And then the family--the trust, I should say, of which George was one of the three trustees--sold a substantial number of A shares and that was enough to move onto the American Stock Exchange, create the market place for the shares of the New York Times Company, and, at the same time, very importantly, keep the control and protect us from corporate raiders.[29]

He stumbled momentarily when, in 1954, he took on the job of reforming the Commonwealth Oil Refining Company, Inc. First Boston arranged $24 million in bank loans, sold $16 million in debentures and purchased $500,000 of common stock for its own account. By the end of 1956, however, Commonwealth was losing $600,000 a month. "We looked at it as a sort of pipe line business," Woods said. We thought "it was like a slow machine: you put something in, pull a handle, and things started happening. We were stupidly wrong. We were in the chemical business and we didn't know a damn thing about it."[30]

Woods made himself Chairman of the Finance Committee, scoured the country for a new president, brought in a

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27. Townsend, *op cit*, p. 12.

28. "Private 'World Bank' is organized," *The New York Times*, April 10, 1955.

29. Interview with Arthur Ochs Sulzberger by John T. Mason, Jr., New York City, May 1, 1986, p. 4.

30. Sheehan, "First Man at First Boston," *op cit.*, p. 246.

firm of engineers to review the bidding and rectify the construction mistakes. For more than a year he devoted about 80% of his time to the renovation of Commonwealth. Finally, in the first quarter of 1959, it began to operate profitably.

Woods also stumbled earlier when First Boston became involved in the so-called Dixon Yates controversy, but that involved politics at the highest levels and prepared him, at least somewhat, for the ways of Washington and the presidency of the World Bank.

The Tennessee Valley Authority began in 1933 in the early days of the New Deal. The major objective was to provide inexpensive hydro-electric power for the people of the Tennessee Valley, particularly the farmers in rural areas who were without electricity. At that time, private utilities were unlikely to provide it. In 1939, virtually all TVA power was hydroelectric; by 1956, however, 70% of TVA power came from coal-burning steam plants.[31] Some new plants had been built and many existing private plants had been bought out. TVA had expanded enormously, but it continued to produce low-cost power successfully on a regional basis. The Atomic Energy Commission installations, built since 1939 at Oak Ridge and Paducah, alone used more power than many states. For awhile, it appeared that the TVA might even grow beyond the boundaries of Tennessee, an eventuality fearful to contemplate by private power advocates.

TVA and private power forces locked horns over a proposed TVA expansion at Fulton, Tennessee, some thirty miles above Memphis on the Mississippi River. In his budget message of January 9, 1953, President Harry S. Truman had included $30 million to begin work on the Fulton Plant, but President Eisenhower subsequently cut the plant out of his budget. Eisenhower, who wanted to get the government out of business, favored a partnership between public and private power in the Tennessee Valley, but he wanted private companies exclusively to manage expansion outside the region.

Edgar H. Dixon was the president of Middle South Utilities, a holding company with private utility companies located on the western border of T.V.A. Eugene A. Yates was Chairman of the Board of the Southern Company, a utility holding company with subsidiaries bordering on the southwestern side of T.V.A. They supported private power. Gordon Clapp was the Chairman of the TVA. He supported public power, at least within the Tennessee Valley. At issue was the question not only of who would supply power to Memphis, Tennessee, but also of who would supply additional power to the Atomic Energy Commission.

The specific Dixon-Yates proposal was that the Atomic Energy Commission contract for private power to be supplied to Memphis, Tennessee, and the AEC from West Memphis, Arkansas, just across the Mississippi River. The Atomic Energy Commission, with the strong insistence of its Republican Chairman, Lewis Strauss, sought to purchase additional power (at higher prices) from private sources rather than from TVA.

TVA support came from Democrats generally; from both Republicans and Democrats in the seven Valley states, with the notable exception of Virginia; and from Republicans from the Northwest public power states. Opposition to TVA came from Republican private power advocates centered in New England and the Midwest together with a few Southern Democrats. In the 1954 Congressional campaign, Adlai Stevenson and Harry Truman attacked the

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31. Aaron Wildavsky, *Dixon-Yates: A Study in Power Politics* (New Haven, Conn.: Yale University Press, 1962), p. 10.

Dixon-Yates private-plant proposal. President Eisenhower's support was not strong.[32] The Democrats took control of both houses of Congress in 1954 as two crucial Senate seats (from Kentucky and Oregon) shifted into the Democrat column.

Into this potential hornets nest marched the intrepid George Woods. He called the director of the Bureau of the Budget, Joseph M. Dodge, several times during the week of May 6, 1953, he later testified, to congratulate the director on President Eisenhower's commitment to get the government out of business. "God bless you, Joe. I agree with [Eisenhower's policy] 100 percent, and . . . I want to help you."[33] Woods thought "it would be fine if there were untold millions or billions of dollars of securities sold on the market at a profit to security dealers."[34] For his part, he felt that he was sufficiently honest not to recommend an unsound proposal just to sell securities.

Dodge expressed a desire to obtain the services of an expert on utility financing who could give him a memorandum on whether TVA's projected power demands and costs were reasonable. "I've got just the man for you," Woods replied. He was referring to Adolphe H. (Dad) Wenzell, a vice president and director who had been with Harris, Forbes and First Boston since 1922. Woods cleared the project with the top officers of First Boston, and Dodge decided to hire Wenzell as a ten-dollar-a-day consultant. Wenzell continued to receive his regular salary from First Boston.

Wenzell later testified that he did not think TVA should be characterized as "creeping socialism," to use former President Herbert Hoover's phrase. "It was galloping socialism."[35] Dodge, himself, was a past president of the American Bankers Association. His deputy, Rowland Hughes, was also a New York banker. They were not unsympathetic to Wenzell's and Woods's points of view. They had to be careful, however. *Dodge gave strict orders that no one in the Budget Bureau should talk to anyone about Wenzell's assignment.* Wenzell never met with anyone from the TVA. When Wenzell needed material from TVA, Bureau of the Budget staff members went over to get it without letting it be known for whom they were working.

Wenzell handed in his report on September 15, 1952. He included some policy recommendations as *obiter dicta*, including the recommendation that the entire TVA power system be sold to a new private corporation. A few days after receiving the report, Dodge personally handed copies to President Eisenhower and former President Hoover. On October 19, 1953, Dodge wrote to Wenzell, *inter alia*: "It has been examined by two important individuals [Eisenhower and Hoover] whose reaction to your work equaled my own."[36] Wenzell, however, continued to sit in (through April, 1954) on meetings at which the specific Dixon-Yates proposal was discussed by the Bureau of the Budget, the Atomic Energy Commission and, of course, the First Boston Corporation.

In February, 1954, Wenzell drafted a letter to Edgar Dixon from the First Boston Corporation setting forth his opinion as to the probable rate of interest which would be charged and whether the requisite capital could be raised.

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32. On October 27 President Eisenhower stated that "The TVA authorities have gone over [the proposed Dixon-Yates contract] and said, after incorporation of certain changes they wanted, that it was perfectly satisfactory." *Ibid.*, p. 145. In the meantime, however, Eisenhower had replaced Gordon Clapp with General Herbert Vogel, a professional from the Corps of Engineers, beholden, of course, to Eisenhower. Vogel was confirmed by the Senate on August 11, 1954. He could still be outvoted by the three-person board, however. Clapp had predicted that an appointee who shared Eisenhower's power philosophy would "tear the TVA Board apart." *Ibid.*, p. 143.

33. *Ibid.*, p. 24.

34. *Ibid.*

35. New York Times (July 9, 1955), p. 1,7; cited in *Ibid.*, p. 25.

36. Quoted in *Ibid.*, p. 27.

In March and again in April, Duncan Linsley of First Boston wrote that he concurred. At the subsequent trial about Dixon-Yates's right to compensation for termination costs, George Woods stated, "We were doing everything we could to encourage the idea that we were good people to do this job." He added, probably with a grin, "I expect that everybody in the United States with the sense to run a business corporation should do business with First Boston."[37]

Edgar Dixon generally agreed with George Woods, but Lehman Brothers discovered that Middle South Utilities might have a project across the river from Memphis and sought to associate itself with that project. At first Woods opposed sharing the business with Lehman. At one point he suggested that First Boston might drop out of the bidding if Lehman persisted, but he relented. The one thing upon which Woods insisted was that the name, First Boston, should appear in the upper left-hand corner of any advertisements. But all this was contingent upon Dixon-Yates getting the contract and was not widely publicized.

Woods testified that as early as May, 1954, First Boston had decided that it would take no fee for its services. He communicated this conclusion to the Executive Committee of First Boston, *but not to Edgar Dixon.* First Boston had never before refused a fee. "I hope it will never happen again," testified Woods before the Senate Judiciary Subcommittee on Anti-Trust and Monopoly in 1955. Senator Joseph O'Mahoney, Democrat of Wyoming, characterized Woods testimony at those hearings by saying, "Nobody could testify any more fully and frankly than you have done."

After much acrimonious debate on the floor of the Senate and within the walls of the TVA boardroom, the Dixon-Yates contract was signed by President Eisenhower on November 11, 1954, without concurrence by the TVA Board. The matter seemed to be officially settled until February 18, 1955, when Senator Lister Hill of Alabama rose on the floor of the Senate to announce that Adolphe Wenzell, an officer of the First Boston Corporation, had been advising the Bureau of the Budget on the same Dixon Yates deal for which First Boston was arranging the financing.[38] Joseph Volpe, Jr., Attorney for Tennessee, had been doing some sleuthing. He had had a girl in his office call a personnel clerk at the Bureau of the Budget to ask about Wenzell's service with that agency. The admonition not to mention Wenzell had not reached the lower echelons. The cat was out of the bag.[39]

When newspaper headlines announced on February 19, 1955, Wenzell's participation in these meetings, Arthur Dean of Sullivan and Cromwell, representing the First Boston Corporation, expressed astonishment that Wenzell's name had been omitted from the official chronologies of the Bureau of the Budget or that Senator Hill should have thought there was a secret about it. Nevertheless, there was an aura of a cover-up. As the Wenzell affair made headlines, Mayor Frank Toby reversed his earlier position and announced that, with financial help of Walter von Tresckow, Memphis would build its own power plant rather than rely on Dixon-Yates. On July 11, 1955, President Eisenhower ordered the Dixon-Yates contract cancelled. On January 9, 1961, by a six to three majority, the Supreme Court of the United States held that the Dixon-Yates contract was unenforceable because of a conflict of interest involving Adolphe Wenzell. Thus, the $1.87 million out-of-pocket expenses incurred at the unfinished West Memphis, Arkansas, plant were uncollectable.

Aaron Wildavsky has summarized the results as follows:

> An important consideration in favor of termination of Dixon-Yates. . . was widespread preference for local construction of a power plant. For Dixon it had the advantage of removing fear of the Fulton plant

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37. *Ibid.*, p. 188.

38. *Ibid.*, pp. 230-31.

39. See *Ibid.*, p. 229. To try to quiet the controversy, Wenzell transferred out of First Boston and joined the World Bank. Martin Rosen (*op cit*, p. 12) said of Wenzell. "He was a fine person. A man, I think, of high integrity.

> and striking a blow at TVA expansion. For the Administration and anti-TVA Congressmen, municipal construction meant an end to demands on the federal budget and an acceptable ideological outcome in the form of local action. For anti- Dixon-Yates congressmen and TVA, it put an end to private utility invasion of the Memphis area and the unwise involvement of the AEC. For Von Tresckow this solution represented final victory. Construction by Memphis was by no means an optimum solution for all; but supporters and opponents of Dixon-Yates agreed on one thing: they regarded this final outcome as preferable to victory for the other side.

It appears clear that George Woods and others at First Boston were unaware that Budget Directors Joseph Dodge and Rowland Hughes had sought to conceal Adolphe Wenzell's role as advisor to the Budget Bureau. It probably didn't matter to First Boston that Wenzell had offered gratuitous policy advice to the Budget Bureau or the Atomic Energy Commission, they simply wanted to support the President of the United States in any way they could. They certainly did not intend nor want to get involved in politics at the highest level and were probably astonished at the outcome of the Dixon-Yates fiasco. As Senator Kefauver of Tennessee would remind Woods in 1961, however, Kefauver's memory was long and not without influence.

George Woods, describing on the witness stand how he had come to Washington in 1953 to help get the government out of the power business, said, "I came down here as a good Republican." Off the record," interposed Mr. Dixon's attorney with a grin, "Have you changed?" "On the record," bellowed Mr. Woods, "I have changed."[40]

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40. *The New York Times*, October 27, 1957.

CHAPTER THREE

BLACK'S BANK

Eugene Black, a banker, was the third president of the World Bank. He became the Executive Director for the United States in March, 1947, and President two years later.[1] He was President for thirteen years, during which time the Bank came to be referred to as "Black's Bank."

The World Bank opened its doors for business on June 25, 1946, under the elderly Eugene Meyer, former chairman of the Federal Reserve Board and publisher of the *Washington Post*, as President. Meyer made a number of significant staff appointments, including that of Chester McLain to be his chief legal counsel, but he arranged no loans. A battle for control of the Bank developed between Meyer and his Executive Directors, primarily Emilio Collado, Director for the United States, and Sir James Grigg, Director for the United Kingdom. In December, 1946, Meyer suddenly resigned suggesting that he and his staff lacked the authority to manage the Bank. For over two months, President Truman and Secretary of the Treasury, Fred Vinson, looked in vain for a replacement. Finally, former Assistant Secretary of War, John J. McCloy, a member of the law firm in New York of which McLain was a partner and who were attorneys for the Chase Bank, was persuaded to take the job. McCloy won the assurance that he, rather than the Executive Directors, would manage the Bank. As a guarantee, he was allowed to choose his own candidate as Executive Director for the United States. He chose Eugene Black, and he also brought in as his top manager and vice president, Robert Garner. But McCloy resigned in March, 1949, to become High Commissioner to Germany, and Black succeeded him.[2]

Eugene Black was born in Atlanta, Georgia, on May 1, 1898, graduated from the University of Georgia in 1917, and was employed in the Atlanta office of Harris, Forbes and Company from 1931 to 1933, having become assistant vice president.[3] In 1933, he moved to New York City where he was employed by Chase National Bank as a financial adviser to the bank and its clients. In 1937, he became a vice president of Chase Bank where he remained until, at the invitation of McCloy, he became the Executive Director for the United States to the World Bank.

Black was a southern gentleman in the best sense of the word. He was genial, gracious and thoughtful. He could tell marvelous stories. He chatted with whoever was in the elevator as he ascended to his office in the mornings. He

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1. See Robert W. Oliver, *International Economic Corporation and the World Bank* (London: The MacMillan Press, Ltd., 1975), pp. 237-241. For a detailed account of the early history of the World Bank, see *Ibid*, particularly chapters V - IX. See also Robert W. Oliver, "Early Plans for a World Bank" *Princeton Studies in International Finance No. 29*, International Finance Section, Department of Economics, Princeton University, 1971; and Robert W. Oliver, "Bretton Woods: A Retrospective Essay" *Discussion Paper no. 105*, California Seminar on International Security and Foreign Policy, Santa Monica, California, June 1985.

2. Black returned briefly to the Chase Bank after his two-year stint before McCloy announced his intention to become High Commissioner to Germany. McCloy said he was not going to leave the World Bank, however, until he was satisfied with his successor. Black was in Europe at the time. When he returned, pressure was put on the Chase Bank to release him so he could accept the presidency of the World Bank. "I didn't want it. I wanted to make a career in Chase Bank. I tried every way in the world not to take it. Then after I got it, I came down here and became very interested in what I was doing. I found that there was more inner satisfaction in doing this than there was in making money." "Transcript of interview with Mr. Eugene R. Black, President, by Prof. Robert Oliver, Brookings Institution, August 6, 1961," *The World Bank/IFC Archives, Oral History Program*, p. 50.

3. It may be noted that George Woods, though younger, was Eugene Black's superior at Harris, Forbes.

bowled and played golf with his staff. He took members of his staff as well as Executive Directors to baseball games. He charmed Congressional Committees. He was a particular friend of Senators Richard Russell of Georgia and William Fulbright of Arkansas, but he was not unpopular with anyone in Congress. Of course, Black was president during the period when the dollar was scarce and strong and the United States "enjoyed" a surplus balance of trade.

Black led the Bank from success to success. Black had the prestige of the Bank of Salmon P. Chase, Abraham Lincoln's Secretary of the Treasury, now Chase-Manhattan, a Rockefeller bank, behind him. He was the grandson of Henry Grady, the widely known orator and editor of the *Atlanta Constitution* in the Reconstruction Era and the son of the former head of the Federal Reserve Bank of Atlanta. Black made an enormous hit when he was interviewed by *Fortune* magazine at a Fortune lunch in 1956; he was on the cover of *Time* and *Newsweek* magazines in the same week, largely because he was awarded honorary degrees by Harvard, Yale and Princeton at the same time. Black's intended retirement was announced in an article entitled, "Another Georgia Peach Slides Home" in which Black was compared to Tyrus Cobb, the great baseball player -- another Georgia Peach who slid home more than once.[4]

Black was a superb bond salesman. He knew the market; he knew how to convince institutional investors to buy bonds. This was essential *because an important part of the Bank's resources is raised by the sale of its bonds in the open market.* All member countries subscribe to the Bank in varying amounts, which determines the number of votes to which each is entitled,[5] but very little is actually paid into the Bank directly by governments. Much the greater portion is raised by selling bonds backed by the guarantees of the unpaid subscriptions.[6] This was the innovative feature of World Bank financing which caught the eye of Lord (John Maynard) Keynes, one of the British experts who worked on the Bretton Woods agreements: *the Bank could be truly international because all member nations would subscribe, but the great bulk of the loanable funds would actually be put up by the citizens of the wealthy countries who bought the bonds.*

For awhile in 1947, McCloy, Garner, and Black lived in a house owned by Nelson Rockefeller. They spent most of their time working at the Bank during the day and establishing policies for the Bank at night. One of the first things they had to decide was how loans to foreign governments could be made with safety. In the 1930s, there had been many defaults on foreign loans, and they set about to try to see that they didn't make the same mistakes again.

They agreed that the Bank should not make loans to governments in default on past loans. They didn't insist that the countries pay in full, but that they would seek a settlement with the Bondholders' Protective Committee which the committee would accept as representing the capacity of the countries to pay. That might mean that there would be a reduction in interest rates or a lengthening of maturities or both.

McCloy, Garner and Black had to publicize the fact that the dollar bonds the Bank might sell were backed by the

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4. The New York Times, June , 1962.

5. At the conference at Bretton Woods, New Hampshire, in 1944, the formula for ascribing voting power was based, roughly, on a formula which took into account the size of each nation's gross national product *and* the value of its foreign trade.

6. Since the *Articles of Agreement* for the World Bank specify that the borrowing authority of the Bank is limited to 100% of the subscriptions, paid and unpaid, the Bank has been obliged to raise the total of its subscription from time to time. Each such increase has required legislative action.

unpaid but guaranteed subscriptions to the Bank of the United States government.[7] Before the Bank could even sell Bank bonds to insurance companies, savings banks, and pension or fiduciary funds in the United States, moreover, specific legislation had to be passed by the state governments to make the bonds legal investments. It was a big selling job.

Speeches were made all over the country. "Information Conferences" were convened where people would come to Washington for a day or two at Bank expense to learn about the Bank. William Bennett, Bank Editor of the New York *Herald Tribune*, was "loaned" to the Bank in January, 1949, for a year (he stayed for twenty-nine years) in part to arrange the conferences and to acquaint investment bankers with the way the Bank operated. He also wrote an information booklet about the Bank, "which was one of the most frustrating jobs I have ever undertaken."[8] Bennett also set about to convince the rating services (Moodys, Fitch, *et al*) that they should give the Bank's bonds as high a rating as possible. Moodys finally relented, agreeing that the Bank was not an ordinary financial institution. They assigned an "A" rating because the United States government, in effect, guaranteed the bonds.

On July 15, 1947, the Bank's first bond issue was sold. Questionnaires had been sent to 2,650 dealers asking if they would care to handle the sale; 1,725 replied favorably. Dealer interest was encouraged by a guaranteed commission of over twice that being paid for the sale of comparable corporate bonds.[9] The issue was heavily over subscribed. McCloy, Garner, Black, and E. Fleetwood Dunstan, Director of Marketing, did their job well. Nevertheless, as Robert Garner once commented, when he, McCloy and Black came down to Washington, "there wasn't a Wall Street man who would touch the bonds with a ten-foot pole." No loans had been made; no bonds had been sold.

Soon after Black became president, Morgan Stanley and the First Boston Corporation were chosen to manage the syndicates of dealers. Morgan Stanley had a high standing in financial circles everywhere, and First Boston had a fine system for retail distribution in the United States, established in large part during the Harris, Forbes days. Black, of course, was well aware of the capabilities of First Boston and of the newly appointed Chairman of the Board of First Boston, George Woods, who assisted Black by speaking several times at Information Conferences and was in telephonic communication with Black almost daily.

Black also turned his attention to getting currencies other than dollars released for use by European countries and to selling bonds in Europe. In May, 1951, the Bank sold bonds in the United Kingdom and, shortly thereafter, in Switzerland, even though Switzerland was not a member of the Bank. He did this in part because Swiss francs were fully convertible and in part because he wanted to lend Swiss francs to Yugoslavia knowing it would be easier for the Yugoslavs to repay Swiss francs than dollars regardless of the country actually doing the exporting.[10] He kept emphasizing the importance of making the Bank international rather than merely a "dollar bank," an initiative in which he was eminently successful.

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7. In theory, the obligations of the Bank are guaranteed by the unpaid but guaranteed subscriptions of all countries, but in the early days of the Bank the dollar guarantees of the United States Government were stressed. Each government has a veto power over the right of the Bank to sell bonds denominated in its particular currency. For a period of several years, only dollar bonds could be sold by the Bank: other governments refused permission for the Bank to sell bonds in their markets, largely because they needed to earn hard currencies with their exports.

8. William Bennett, "A Conversation with William Bennett," *Conversations About George Woods and the World Bank*, Washington, D.C., January 20, 1988, p. 2.

9. The issue consisted of $100 million of ten-year bonds paying 2 1/4% and $150 million of twenty-five year bonds paying 3%.

10. International competitive bidding is normally required by the Bank regardless of the currencies loaned.

The Bank provides in its *Articles of Agreement* that the servicing of loans must be guaranteed by the relevant national government. Each loan can be extended only after a careful study and a written report by a Loan Committee which may presume that the loan will serve directly or indirectly to raise the real gross national product of the borrowing country, that is that the benefit-cost ratio is greater than one. A loan should be extended at favorable interest rates and on repayment terms consistent with the nature of the project. It is difficult to see what more could be specified as general instructions for arranging productive loans.[11] Of course, the world as a whole has not followed these prescriptions, particularly in the years since 1973 when the oil crisis burst upon the world, and commercial banks, attracted by high and too-often too-short-term interest rates, plunged into re-cycling, the effects of which have not yet worked themselves out.

With prescience, Black warned of the dangers of suppliers credits such as Export-Import Bank loans geared to the needs of exporters rather than importers and to the requirements of developed rather than developing countries. Black sensed that there is some theoretically maximum rate at which regions (countries) can usefully absorb capital (borrowed funds). If they exceed this rate, they become less creditworthy. If they have an improper mixture of projects and repayment terms, they also become less creditworthy. Brazil and Turkey, for example, were becoming less creditworthy, though supplier credits obscured this fact, at least temporarily. Black made the point that a government must be aware of its basic creditworthiness, and it is up to the World Bank to offer advice on that subject.

It is also important, Black said in an interview in 1961, to help a country put together a proper investment program or plan, to establish proper priorities, to ascertain how many projects and what total expenditures can be undertaken at one time, to make proper engineering studies of proposed projects, and to see to it that projects are properly carried out. George Martin of the Bank's marking department, Black said, had been sent to several countries to instruct people in how to establish bond markets. The Bank had established an Economic Development Institute where "we bring in senior officials and give them training in principals of economic development."

When Black was asked in 1961 if he felt the Bank would be more successful if it was the only lending institution, he replied, "Yes. Yes, I think so. The strength of the World Bank is our ability to speak frankly to these countries and to insist upon their carrying out their proper policies. . . ."

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

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11. Professor Paul N. Rosenstein-Rodan, who was teaching in London in 1942, spent three years with the Royal Institute for International Affairs (Chatham House) studying the problems of "underdeveloped countries," a term which he coined. He came to the World Bank in 1947 and served six years as Assistant Director of the Economics Department before he went on to the Massachusetts Institute of Technology. In this capacity, he objected to the McCloy-Black-Garner project approach as too simple. A loan which seemed to finance a water irrigation project might actually finance something entirely different if the irrigation project would have been financed anyway. The real issue was whether or not the net investment of the entire country was increased by more than a World Bank loan. Of course, this is very difficult to determine. Professor Rodan believed that a free market in equilibrium was needed to direct investment properly, for which reason he sought to rely on "shadow" prices and interest rates -- prices and interest rates which would prevail in a free market in equilibrium. He wanted to take account of "external" economies and diseconomies -- costs which are either lower or higher because of the presence or absence of other firms in the market. Above all, he wanted to promote a "Big Push" for new investment on the grounds that individual projects, particularly small projects relative to the total investment of a country, would be wasted: they wouldn't generate enough total income to allow the project to operate at anything like full capacity. Over time, these concerns were taken into account insofar as practical, but the simple project approach continued to be followed by the Bank by and large, at least until lending to encourage the alteration of investment policy began to dominate Bank thinking.

business.

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That's why I think that if all the emphasis were put on the quality of the money and not the quantity, the quantity would be forthcoming. The best example I can tell you is that when the World Bank started we had a capital of ten billion dollars and if anybody'd ever told me a few years ago that we could double that capital, I wouldn't have believed it. But when we went to the United States Congress, it just went right through, no question at all; we just doubled our capital. We never could have done that if we hadn't made effective use of the money we had before. I never dreamed we could double our capital. In my wildest fantasy I never believed that could happen. But there wasn't any trouble about it at all, no objection in the slightest. . . .

. . . *We've never turned down a loan for lack of money.* Not only have we not turned them down, we've gone out and tried to find loans, tried to make suggestions to countries as to what they might borrow money for. We've gone out and tried to create projects and make suggestions to people.[12]

As Black and development scholars generally thought about the problem of Bank financing for the lowest-per-capita-income countries, however, they perceived two dilemmas. First, the domestic savings (and, therefore, the domestic investment) rate was so low (because of widespread poverty and the need for consumption) that the poor nations could not grow at all rapidly; they could not take off into self-sustained economic growth. Second, many productive projects such as education and some forms of infrastructure could increase output only slowly and indirectly, so growth in the capacity to repay ordinary World Bank loans even at subsidized interest rates was correspondingly slow. It was not enough to say that no sound project would be denied Bank financing when the credit worthiness of the poor countries was predicated on their ability to repay in hard currency.

A U. S. Presidential Commission headed by Nelson Rockefeller had suggested an approach to this problem in 1951. The commission had proposed the establishment of an International Development Authority to make grants or low-cost loans for the development of poor countries. In a formal speech to the Economic and Social Council of the United Nations, Black, as president of the Bank, give cautious and qualified approval to the idea. In private, he felt that such an authority would tend to undermine the efforts of the Bank. The availability of cheap or free money would dilute the Bank's influence and might result in the financing of projects or programs that had not been properly appraised for suitability and feasibility. Nevertheless, though the Rockefeller proposal was not adopted, the idea persisted. Indeed, in October 1957, the United Nations established the Special United Nations Fund for Economic Development (SUNFED), to finance preinvestment studies of development undertakings. There was in the Bank at this opportune moment, a man named David Gordon[13] who sought to cure his boredom as he travelled to and fro between Washington and his post as economic advisor to Ethiopia by speculating on what more might be done to increase the rate of development in poor countries. In June 1957 he wrote a memorandum arguing that *multilateral aid, rather than bilateral aid, greatly increased and made available on softer, more flexible terms, was needed if significant overseas development were to occur.*

The case for a multinational framework to administer development assistance rests essentially on its value in minimizing political and psychological barriers to understanding and collaboration, in deflating the issue of 'intervention,' in permitting basic development problems to be considered, and in working out between the developing countries and ourselves in reasonably objective fashion. . . . A number of American [staff]

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12. "Transcript of interview with Mr. Eugene Black, *op. cit*, pp. 37-39. Italics added.

13. Gordon had been educated at Princeton University before the war and had worked for the United States government in Washington during the war and with the Kuominatong Government in China on post-war reconstruction and supply problems. After a brief stint with Robert Garner in the World Bank, Gordon resigned and took a job with the Marshall Plan. He returned to the Bank in 1953 and was sent to Nicaragua and Guatemala as an economic advisor for a year and a half to each country.

> members of the World Bank, for instance, have found that . . . international sponsorship permits them to gain positions of trust and influence with the local government that they could never achieve working out of the embassy of the ICA mission.[14]

Gordon circulated his memo to various U. S. Government agencies such as the State Department and the Treasury and within the Bank to key people. The reaction initially was skeptical. The United States government would never agree, it was said. But Black told Gordon, "Let me keep this on my desk and I'll see what I can do with it."[15]

In October of 1957, the Russians sent up Sputnik. There was a concern in Washington about the kind of political waves which that event would create throughout the world. A meeting of NATO was scheduled in Paris, and Black called Gordon to say, "I think I've found a use for your memorandum. I've sent it over to Secretary Anderson of the Treasury and told him to read it on his way to the NATO meeting. That may give him some ideas."

Early in 1958, Black called again to say that he had had a call from Secretary Anderson who had some ideas for the new United States aid bill that was going to Congress shortly. Anderson felt that some sort of a dramatic breakthrough was needed to counter the Soviet's success. He had several suggestions that he wanted to try out. Black told him that they were all nonsense, that they wouldn't have the proper impact. Anderson asked Black what he would suggest, and Black asked whether he had read Gordon's memorandum. "No, I haven't got around to it, but I will!" The next day he called Black and asked if he and Douglas Dillon, the Undersecretary of State, could come over to see Black. "I invited them for lunch. We talked for two hours at the end of which they said that they were prepared to support the thrust of Gordon's argument." Anderson also said, "There's a man up on the Hill named Mike Monroney who has all sorts of wild-eyed schemes. Would you be willing to talk with him?" Black said he would; he wouldn't take the initiative, but he said that if Monroney wanted to come to the Bank, "I'd be delighted to see him."

The next day Black had a call from Senator Monroney who came to the Bank. They talked for awhile. Monroney agreed that Gordon's memorandum made sense; he asked Black to draw up a brief resume of the kind of scheme that would be required. A small committee from the Bank, including Gordon, worked on the proposal at Black's house on a Sunday morning.[16] The Monroney resolution sat around for a few weeks and then it passed in February, 1958.[17] The general view in Washington was that it didn't have much chance of passing, but it passed overwhelmingly. As soon as the Congress and the Administration endorsed it, there was an almost immediate, favorable reaction in Europe, so the scheme was off and running.

At first, Senator Monroney thought it could be made to work by making use of the non-convertible, local-

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14. David Gordon, "The Case for International Administration of Development Assistance Programs," June 4, 1957 (Mimeo), pp. 5-6. There is, of course, a long history behind the grant type assistance which eventually was codified as the International Development Association (IDA) in 1960 as an arm of the World Bank. *See IDA in Retrospect*, published for the World Bank by Oxford University Press, 1982. See also Edward S. Mason and Robert E. Asher, *The World Bank Since Bretton Woods* (Washington, D. C.: The Brookings Institution, 1973, pp. 380-89, and James H. Weaver, *The International Development Association: A New Approach to Foreign Aid* (New York: Praeger, 1965). The United Nations had been supporting multilateral, grant-type lending at least since March 1949. It was primarily the United States which was dragging its feet.

15. An interview with David Gordon, July 24, 1986, by Professor Robert Oliver, *The World Bank Archives, Oral History Program.*

16. The others included Burke Knapp, Davidson Sommers, Richard Demuth and Simon Aldewereld. Gordon, as he was able, and various members of the Senior Staff of the Bank continued to work on these ideas.

17. For a statement by Eugene Black, see the *New York Times*, February 24, 1958, p. 1.

currency funds which had been paid to the United States government under Public Law 480 in exchange for "surplus" agricultural products. Being from Oklahoma, Senator Monroney was a strong supporter of Public Law 480.[18] In his memorandum, David Gordon had also recommended using available and future local currencies for repayment. That would have obviated the repayment-by-exporting problem, though it might have raised other problems if the local currency revenues generated by a given project were inadequate to cover real costs.

Eugene Black objected. "That's not a loan. I won't be a party to anything which is as phony an obligation as that." Black insisted that it be a genuine obligation in foreign exchange. The "softness" of the obligation had to be introduced in other ways. They explored all sorts of ways before coming up with the existing formula: foreign currency lending for 50 years *at zero interest*, but with a three quarters of one percent service charge.

Much revised, the International Development Association (IDA), with a charter adopted by Bank member governments, came into existence in 1960 as a ward of the Bank, which was to administer its funds. To the Bank and its marketing partners, the existence of the new organization was considered to be a serious problem. How could the Bank associate with this new, open-handed agency and yet preserve its own reputation as a prudent and meticulous lender? The dilemma was well picture in a European financial journal: it showed the World Bank as a demure young lady taking a stroll with a cigarette-smoking floozy called IDA; the caption read "A Sister for the World Bank?"

Of course this "grant-type lending" can only be done at the instigation of the World Bank through the International Development Association. The funds still have to be "rationed," not only because the total of the IDA lending is limited but also because each project, except for education and health projects, must pass the same rate-of-return test as does World Bank lending. Nevertheless, through the "invention" of IDA financing, the time when the repayment of interest and principal on World Bank loans would equal the new loans being made by the World Bank was postponed until the 1980s. Other things being equal, it could have been postponed even longer if IDA financing had been greater relative to standard World Bank financing. It was George Woods who recognized that creditworthiness and absorptive capacity might be reduced if standard World Bank terms were applied indefinitely and too rapidly.

When Davidson Sommers, General Counsel of the World Bank, called upon George Woods to argue in favor of "soft lending," Woods was initially skeptical. Sommers said to Woods, "George, if you were a banker who had two branches, one of which was making regular loans on the basis of creditworthiness and the other of which had grant money which you could make available to borrowers who were in trouble, don't you think that would improve the quality of your regular loans?" "I certainly do," replied Woods, "and I am now an IDA supporter."[19]

George Woods was a major advisor to Eugene Black on the marketing of World Bank bonds. He also assisted the Bank in complex and high-level tasks where his negotiating skill and his knowledge of corporate finance were highly valuable. As Marie Linahan, secretary to McCloy, Black, and Woods, said, "Mr. Woods seemed to be very interested in going on missions abroad, and Mr. Black was very interested in having him go."[20]

The first of these occasions occurred in 1952, when Woods went to India to advise the Bank on assisting

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18. For a time, other Senators thought that agricultural exports could be further enhanced by the additional contributions of governments other than the United States. Neither Bank nor IDA lending can be "tied" to the country making the loan, but the comparative advantage of the United States in agriculture in the 1960s was so great that there was a real possibility that the agricultural exports of the United States might have been greater than the dollar contribution of the United States.

19. Robert W. Oliver, "A Conversation with Davidson Sommers, Washington, D.C., July 18, 1985" *Conversations about George Woods and the World Bank*, p. 13.

20. Interview with Marie Linahan, July 19, 1986, by Robert Oliver, *World Bank Archives, Oral History Program.*

the private steel industry there. Woods concurred in the recommendation of a Bank mission, actually headed by Black to lend $31.5 million to expand private steel capacity from 350,000 to 700,000 tons -- the first World Bank loan to be made directly to a private manufacturing company. Repayment was, of course, guaranteed by the Indian government.[21]

The Indian government was in the early stages of its first five-year plan which emphasized heavy industry, rather on the model of the Soviet Union. The United States was anxious to help, partly because India was a democracy and partly because of India's geopolitical position relative to China and the Soviet Union. Woods was interested in seeing the world as well as assisting the World Bank. It was a happy conjunction of interests.

In 1957, the World Bank loaned the Tata Iron and Steel Co., Ltd, $17,500,000, and nine American commercial banks loaned an additional $15,000,000. The loans of the bankers were arranged by George Woods, who attended the dedication ceremonies in Jamshedpur. The expansion program was carried out by Kaiser Engineers division of Henry J. Kaiser Company. It covered designing, engineering, construction and procurement of equipment and machinery. Tata's expanded output of ingot steel (2 million tons) equaled the combined production of the Russian built plant in Bhilai in Central India and the West German plan in Rourkela, India.

In February, 1954, Woods, as a consultant, led a World Bank mission to India to explore the possibilities of establishing a privately owned and operated development bank to finance the expansion of private industry.[22] A steering committee of prominent Indian businessmen was selected by Woods to draft a charter for the corporation--the Industrial Credit and Investment Corporation of India.[23] When the charter was drafted, the World Bank loaned ICICI $10 million; another $10 million was raised from private investors in India (70%), England (20%) and the United States (10%); and $15 million was paid in counterpart funds (the local currency raised from sales of "surplus" American agricultural products under Public Law 480). The ICICI was the third development bank promoted by the World Bank. Woods did a similar thing in Pakistan two years later, and repeated the process in the Philippines.

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21. The largest plant was operated by the Tata Iron and Steel Company (75% of total production). The Steel Company of Benegal and the Indian Iron and Steel Company operated as separate companies but were managed jointly by one agent, Martin Burns, and accounted for almost all of the remaining 25% of production. George Woods took a brief leave of absence from First Boston. He was in India during the month of June. Discussions of possible steel expansion through financing by the government of India began as early as 1949. Woods was introduced to Sir Benegal Rama Rau, Governor of the Reserve Bank of India and of the World Bank, by Shri Chintaman Deshmukla, Joint Secretary for Economic Affairs.

22. He travelled with the Sulzbergers of the *New York Times* and with Louise Woods. See "The Reminiscences of Mrs. Iphigene Ochs Sulzberger," *George David Woods Oral History Project*, Oral History Research Office, Columbia University, 1983.

A Development Bank (or a Development Finance Institution) borrows from the World Bank (or the International Finance Corporation), from the local government, and, perhaps, from private shareholders and re-lends to smaller, innovative enterprises. The original model was the Latin American "Fomentos" and was suggested for Ethiopia by Orvis Schmidt. The first development bank (in Ethiopia) was owned by the government and was designed to encourage agriculture. The second (in Turkey) was designed to finance private enterprise. William Diamond has long been associated with the creation and supervision of development banks. He has written many articles about development banks, the first among them *Development Banks* (Baltimore, Maryland: The Johns Hopkins Press, 1957). Diamond has a Ph.D. in history at Johns Hopkins. He worked in Washington and Ankara, Turkey, for the Board of Economic Warfare. He was with UNRRA in London and Paris before, in 1947, coming to the World Bank. In 1962, he became director of development banks for the International Finance Corporation.

23. The Steering Committee (subsequently the Board) consisted of A.D. Shroff, a director of Tata and Sons, Bombay; G. D. Birla, Managing Director of Birla, Calcutta; Sir Birenda Nath Mookerjee, Chairman of the Indian Iron and Steel Company, Ltd., Calcutta; Kasturbhai Lalbhai, Chairman of several cotton mill companies, Ahmedahad; and Sir A. Ramaswami Mudaliar, Chairman of Indo Commercial Bank, Bangalore. (Six others were added to the Board of Directors.) Unfortunately, by 1958 such a difference of opinion had developed between A.D. Shroff of Tata and C. D. Birla that the Board of Director of ICICI had to be reconstituted.

In his column "Close up," Harold R. Bunce noted "George Woods has been to India several times since that first visit in 1952 and has come to be recognized as an authority on the economics of that country."[24] Ellsworth Bunker, Ambassador to India, wrote to Woods in 1959 [in part]: "Yours has been a major share in helping to change the psychology of the American businessman and investor toward India, and for this all of us who have anything to do with our objectives here are most grateful to you."[25]

When Edward Townsend of First Boston arrived at his hotel in New Delhi in 1960, he was greeted at the front door by the general manager who wanted "to show you to your suite." Townsend hadn't ordered a suite, he had ordered a room with a bath. The suite was on the ground floor. It had a garden. It had a breakfast room. It had an enormous living room and a twenty-by-twenty bathroom, all in marble. It was the most palatial suite Townsend had ever seen. Townsend immediately began to worry about how he was going to pay for it, but he reminded himself that George Woods told him to stay there. "I've just got to accept whatever they offer." After a week in the hotel, he asked for his check, and the desk clerk said, "Oh no, Mr. Townsend, there'll be no bill." It turned out that the owner was a great admirer of George Woods and of anyone who worked for him.[26]

It is crucial to the success of a private development bank that local promoters be chosen, at least some of whom will put up money of their own. It is also important that they be *persona grata* to their local government. Finally, it is important that debt be leveraged so that private investors are likely to make a profit. To accomplish this latter, George Woods invented a concept called "quasi-equity." In the case of ICICI and PICIC, for example, Woods suggested that the loans of the local government be subordinated to equity. As Martin Rosen expressed it, "that's the first time in history, to my knowledge, that there's ever been a loan junior to equity. . . . It's an idea no one had thought of before."[27]

At a meeting in Black's office on March 28, 1961, Vice President Burke Knapp raised the issue of talks he had had about the possibility of setting up a private development bank in the Philippines. There was already in existence a government-owned, development bank, but Knapp suggested there was a need for a private development bank on a national scale. He was concerned, for example, that commercial banks were getting into long-term lending by means of extending one-year credits renewable more or less indefinitely. Knapp reported that he had received enthusiastic responses from most people, including President Garcia when Garcia thought the bank might be established in time for the elections in November. Knapp suggested that George Woods be asked to visit the

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24. *New York World-Telegram and Sun*, March 29, 1957, p. 29.

25. Personal correspondence, Ellsworth Bunker to George Woods, October 19, 1959.

26. "The Reminiscences of Edward Townsend," George Woods Oral History Project, Oral History Research Office, Columbia University, 1984, pp. 29-30.

27. "The Reminiscences of Martin Rosen," *George Woods Oral History Project*, Oral History Research Office, Columbia University, 1985, p. 4. As William Diamond explained it (*op cit.* p. 15) if, "the true equity ... [were] one hundred, the subordinated loans from the government would amount to a hundred and fifty. Since that debt could be counted as equity, you had in effect an equity of two hundred and fifty. At a ratio of three to one, you have seven hundred and fifty. In other words, out of a total capitalization of one thousand, true debt would amount to seven hundred and fifty. In relationship to the share capital, debt would be nine hundred, so you'd have a leverage of nine to one on the original equity. Without the quasi equity; the company would have been able to borrow only three hundred. . . . This idea of quasi-equity, which was introduced by [Woods] in India, remained a key element in all the World Bank promotions of development banks for the next fifteen years or so." Gradually, the equity investment of the International Finance Corporation replaced counterpart currences of the local government in computing quasi equity. The World Bank specified that the debt of the development company should not at the start be allowed to go beyond three times the amount of its equity, a leverage of only three to one. But with the local government debt subordinated to equity upon disolution and *counted as quasi-equity*, Woods was able to get a nine-to-one leverage.

Philippines to investigate the possibilities for a private industrial development bank to raise money in the general pattern followed by the ICICI in India.[28]

George Wishart, who was to become Woods's personal assistant, took the minutes of the meeting. Subsequently, Wishart was introduced to Woods in Washington "so that he could have a look at me and see if I was the kind of a person he wouldn't mind going out to the Philippines with." Wishart, who had previously been in Dick Demuth's shop, liked Woods immediately. Woods, said Wishart, "was always easy to talk to. He was a good listener, too. Yet he was direct in everything."[29]

Woods agreed to be a consultant to the proposed Private Development Bank at the Philippines, and in July, 1961, Wishart preceded Woods to Manila. At the airport in Manila, Wishart met Woods's plane. (Woods had stopped off in Hawaii and was coming on from there.) When Wishart asked if Woods had had a good flight, Woods replied gruffly, "No." What had happened was that when Woods got to the second leg of his flight from Hawaii to Manila, he was informed that his first class flight was overbooked. He didn't have a seat. He was bumped. Finally they found him a seat in economy class.

In Manila Woods announced that he would not fly back on that airline. "Come on, we'll send some telegrams." Woods sent two long telegrams, one to the President of the offending airline explaining how he had been treated and asking if the president of that line would look into it, and one to the president of the airline they had decided they would take. He asked that president to ensure that he was not treated "like a load of hay." Later, he had the offending airline investigated because he was sure there had been bribery on the part of the booking clerks in Hawaii. When he became President of the World Bank, he arranged to change the firm which booked flights for the Bank. His experience had had repercussions.

When Woods began to work on setting up a development bank for the Philippines, he called people he already knew and people he had introductions to. Then he called on President Garcia of the Philippines. Garcia invited Woods and Wishart to stay for tea, and they found a number of people there to meet Woods. It turned out that President Garcia, who lost the subsequent elections to President Macapagal in November, had already selected a steering committee.

"I'm sorry," Woods said, "that's not the way I work. I want to choose the steering committee myself."

"But, Mr. Woods," the President remonstrated, "I've chosen the best businessmen in the Philippines."

"I'm sorry," Woods repeated, "I must choose my own." So the President gave way. "All right, Mr. Woods, you must do it your way."[30]

The man who ultimately agreed to be chairman of the steering committee was Francisco (Paquito) Ortigas, Jr., known in the Philippines for his independence. He was a successful lawyer practicing in Manila. Amongst other things, he was an original trustee of the Ramon Magsaysay Award Foundation. Four other Filipino businessmen were chosen: Jesus Cabarrus, president of the Mining association of the Philippines; Manuel J. Marquez, President of the Bankers Association of the Philippines and chief executive officer of the Commercial Bank and Trust

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28. Present were Black, Garner, Knapp, Rosen, Cargill, Lund (IFC) and Wishart. George Wishart, a Scotsman, had first joined the World Bank in 1947. He served in the secretary's department and then, for three years, in the economics department. After nine years in London, Wishart returned to the Bank in 1959 to be involved with development banks. He worked on successful development banks in Iran, Taiwan, and Central America before he was asked to accompany George Woods on his mission to the Philippines.

29. "The Reminiscences of George Wishart," *George David Woods Oral History Project*, Oral History Research Office, Columbia University, 1983, p. 9.

30. Wishart, *op cit.*, pp. 11-13.

Company; Aurelio Montinola, Sr., Chairman of the Amon Trading Corporation, the Eternit Roofing Corporation and the Republic Cement Company; and Washington Sycip of Sycip, Gorres, Velayo & Co., Certified Public Accountants. Woods had chosen two supporters of President Garcia, two supporters of candidate-for-president Macapagal, and one independent.

Sycip's father, making conversation, asked Woods at one point how old he was. "I can tell you exactly because today is my birthday. I am 60." When Woods and Wishart returned to their hotel, a huge birthday cake awaited them. Woods looked at Wishart and Wishart looked at Woods. "Could you eat any of that?" Woods asked. "Couldn't touch it," replied Wishart. So they presented the cake to the ladies in the booking office with their compliments. They were instant heroes.

Woods visited the Philippines accompanied by George Wishart twice, once, briefly, in July 1961, once with Louise Woods for longer in May 1962. Woods wrote to his new friend, Francisco (Paquito) Ortigas, in part:

> On May 23, Mr. Wishart and I met at some length with Mr. Seymour Janow, Assistant Director of AID [in Washington] and with quite a large group of his associates in the AID organization. . . .
>
> The most important -- and most difficult -- question raised at AID has to do with the availability of as much as Ps 37,500,000 [$10,000,000] for the proposed company. . . . The last Ps 7,500,000 [$2,000,000] seems to present quite a problem. I expressed the opinion that the new company would probably be satisfied with a firm commitment that the money would be loaned within a period of 12 or even 18 months. This is a matter that the AID people will have to work out in their own way and in their own good time. . . .[31]

In June, 1962, Woods submitted his final report to Eugene Black. It read, in part:

> The new corporation should be established with a sufficient equity base, and with substantial initial resources, to allow it to play a significant role in the economic development of Philippine privately-owned industry. The institution must also be a Philippine institution, that is, one in which Philippine nationals subscribe to and own a majority of the common stock. It is agreed by all that 60% to 70% of the common stock should be held by Philippine investors.
>
> The balance of the equity stock which is not subscribed by Philippine investors (Ps. 7 million to Ps. 9 million) should be subscribed by non- Philippine investors who are desirous of participating in the development of the Philippine private industrial sector.
>
> The leverage money should be available, either free of interest or at a nominal interest rate only, in order to help gear the earnings of the corporation and provide adequate income from the start of operations. In addition, the leverage money should be made available on such terms and conditions as will include certain quasi-equity features and allow the long- term loan to be treated as equity for the purpose of establishing a borrowing base.
>
> Discussions have taken place with the Government of the United States regarding the possibility of the United States making available the long-term loan required.[32]

In the minutes of the meeting of the steering committee of May 15, 1962, it was indicated that the Board of Directors of the Private Industrial Corporation of the Philippines would be selected by the steering committee in 90 days.

Much the most glittering of George Woods's performances for the World Bank, however, occurred in April, 1958, four years prior to Woods's successful negotiations in the Philippines. Woods was asked by Eugene Black to help to settle the claims of the French and British stockholders resulting from the unilateral nationalization by Egypt

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31. Personal Correspondence, Woods to Ortigas, May 31, 1962.

32. Personal correspondence, Woods to Black, June 4, 1962.

of the Suez Canal. The Bank and the governments of Britain and the United States had undertaken studies as early as 1953 to build a high dam near Aswan, shortly after King Farouk had been deposed by military officers led by Colonel Gamal Abdul Nasser. The United States and Britain would have had to make sizeable grants, however, in addition to loans from the World Bank, and the United States government would not commit itself to finish the dam once begun.

On July 26, 1956, Premier Nasser announced that the Egyptian government was seizing the property and operation's of the Suez Canal. On October 29, Israeli troops invaded Egypt and, on December 2, French and British troops followed.[33] Almost two years later, at the instigation of UN Secretary-General, Dag Hammarskjold, and after Black had reminded the Egyptian government that the settlement of claims was a requirement for World Bank lending, Black offered to help settle the stockholder claims. George Woods and William Iliff were dispatched to Rome, and then to Cairo, and then to Rome, and so on. At first the English and the French wouldn't meet with the Egyptians, and the Egyptians wouldn't meet with the English and the French. They couldn't even get the people concerned in the same town, let alone at the same table. The French and English negotiators would not get closer to Cairo than Rome, and the Egyptians would not budge from Cairo. Occasionally, Woods and Iliff had to retreat to London and Paris. They carried messages back and forth.

Abdel Galeel El Emary, Governor of the Egyptian Central Bank as well as Finance Minister, was helpful. Gradually, over a three-month period, reason prevailed; the negotiators agreed to meet together in Rome and then in Cairo. After much talk, pro and con, a price was agreed to. The Egyptians said that the price was too high, but George Woods started to scratch his back, tilted his head, and said, "This is the greatest steal since the Dutch bought Manhattan Island from the Indians." With that everyone laughed. They calmed down, and negotiated a settlement of 28,300,000 Egyptian pounds, the equivalent of more than $81,000,000.

On May 2, 1958, Woods wrote to Eugene Black, "I acknowledge with thanks the certified copy of the Resolution of your Executive Directors [commending Woods] with respect to the Suez matter. It was most thoughtful of you and your directors. For my part, I found the problem most interesting and challenging, and thoroughly enjoyed getting to know Bill Iliff and working with him."

Included with many letters and telegrams of congratulations was one from Mr. J. R. B. Tata of Tata Industries in Bombay, India, which read:

> My dear George,
>
> You may be interested to know that I have heard from a high official source that the Egyptian Government is frightfully pleased with Gene and yourself. Dr. El Emary spoke to the person in question with feeling about your fair and sympathetic attitude and helpfulness which have been much appreciated. The Egyptians must have a good case in this instance, and the fact that men of your status and influence and coming from your country are prepared to say so and to show understanding and fairness, however unpopular you are in some quarters, is of enormous value in the context of the present world struggle, and I was very happy to learn about it. It did not surprise me by the way![34]

Acclaim, honors and commendations were heaped upon Black, Woods and Iliff by the French and the British. Books were written about the historic settlement. The column "Street News," reported [in part]:

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33. See Harold N. Graves, Jr., "The Bank as International Mediator: Three Episodes," in Edward S. Mason and Robert E. Asher, *The World Bank Since Bretton Woods* (Washington, D.C.: The Brookings Institution, 1973), pp. 627-643.

34. Personal correspondence, May 17, 1958.

> In injecting himself into foreign financial affairs, [George] Woods has followed in the footsteps of Eugene R. Black. . . . At the age of 57, George Woods has given about as much talent without thought of compensation as any man in the investment banking business.[35]

Woods was indeed following in the footsteps of Eugene Black. Shortly after his narrow election to the presidency of the United States in November, 1960, John Fitzgerald Kennedy set about to alter the purpose as well as the name of the foreign aid administration. In 1948, it had been the Economic Cooperation Administration; in 1951, the Mutual Security Administration; in 1953, the Foreign Operations Administration, and in 1955, the International Cooperation Administration. Originally concerned with administering Marshall Plan assistance to European countries in need of rehabilitation, successive administrations had expanded their sphere of intended influence to other friendly nations on the perimeter of the containment of communism but concentrated heavily on military rather than economic assistance. Kennedy decided to create a new name for his aid administration, the Agency for International Development, and to reorient the agency away from military and toward economic assistance.

> The fundamental task of our foreign aid program in the 1960s is not negatively to fight communism: it's fundamental task is to help make a historical demonstration that in the twentieth century, as in the nineteenth--in the southern half of the globe as in the north--economic growth and political democracy can develop hand in hand.[36]

Henry Labouisse was appointed by Kennedy to head the I.C.A., as it was still being called. By September 1961, however, Kennedy turned openly to George Woods, only to be rebuffed by the liberal democrats in Congress, including Senator Estes Kefauver, who well remembered the Dixon-Yates affair and quickly mounted an attack on Woods.[37] Arthur Schlesinger, Jr., characterized Woods as "someone conservative enough to reassure Congress but liberal enough to carry forward the program--a business image, as it was put, without a business mentality."[38] But Woods quickly withdrew his name from consideration when opposition surfaced.[39] Fowler Hamilton, a New York lawyer eventually, became the AID Administrator; and Eugene Black was free to nominate George Woods to become President of the World Bank.

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35. Financial World, May 14, 1958, p. 29.

36. John F. Kennedy. Cited in Arthur M. Schlesinger, Jr., *A Thousand Days* (Boston: Houghton Mifflin, Co., 1965), p. 592

37. See the New York Times, September 10, 1961.

38. Schlesinger, *op cit.*, p. 594.

39. Cf. Rosen, *op cit.*, p. 13: "Woods and I talked at some length about what this would mean if he were named to the job. It would, of course, have required Senate confirmation. He wanted to go ahead with it anyway. I recollect with considerable clarity the day I met him at National Airport when he was going to the White House to meet Kennedy and some of the staff to talk about the job. We drove together into the White House grounds and talked at some length. I kept suggesting that I didn't think he ought to take it. He, I think, agreed intellectually but was impressed with the challenge and the opportunity. I saw him right after the meeting (I just dropped him off at the White House and came back to my office). He came over afterwards. He still was inclined to take the job, although he said they had talked about the political problems. Eventually he didn't take the job. I think it was because the Kennedy administration came to the conclusion that there would be too much flack arising if he were appointed."

On September 22, 1961, John F. Kennedy wrote to Woods:

> Dear Mr. Woods:
>
> I am sorry that I was unable to get in touch with you before you left for Vienna to tell you how greatly I appreciate the effort to which you went to make yourself available for Government service in the foreign aid program.
>
> While I regret the circumstances that led to your decision to withdraw your name from consideration, I fully understand why you came to the conclusion which you did.
>
> I am very hopeful that you will continue to give us the benefit of your advice and counsel both as to the program in general and on specific projects, and I would welcome personally at any time your views on our progress in this area.

Kennedy appendaged in longhand an additional note: "I am extremely sorry about all the fuss that was created. I hope it was as annoying to you as it was to me. It was *most* unfair."[40]

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40. Personal correspondence, September 22, 1961.

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